

**SCHOOL DISTRICT NUMBER 3
SHERIDAN COUNTY
WESTBY, MONTANA**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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SCHOOL DISTRICT NUMBER 3

ORGANIZATION

June 30, 2014

BOARD OF TRUSTEES

Brenda Ryals	Chairperson
Brant Cartwright	Vice-chairperson
Vance Meyer	Trustee
Jim Sundsted	Trustee
Aldon Joyes	Trustee

OFFICIALS

Tony Holecek	Superintendent
Donna Sorenson	Clerk

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

ERNEST J. OLNESS, CPA

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
School District Number 3
Westby, 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 School District Number 3, Westby, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government'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 the government, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)

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 the schedule of funding progress-other post employment benefits identified in the table of contents 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 government's basic financial statements. The extracurricular fund schedule) and schedule of school district enrollment are presented for purposes of additional analysis and are not a required part of the financial statements.

The extracurricular fund schedule and schedule of school district 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 extracurricular fund schedule and schedule of school district 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 5, 2015, on our consideration of the government'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 the government's internal control over financial reporting and compliance.

O'Hess & Associates, PC

Billings, Montana
May 5, 2015

SCHOOL DISTRICT NUMBER 3
MANAGEMENT'S DISCUSSION & ANALYSIS

Introduction

This section of the Westby 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 Westby District includes a comparison of prior year financial statements as per compliance with Governmental Accounting Standards Board Statement #34. Readers of the management's discussion and analysis are encouraged to consider the information presented in this section as well as other areas of the financial statements.

Financial Highlights

- ✦ The Westby School District assets exceeded the district liabilities at the close of FY 2014 by \$4,982,168.
- ✦ The overall revenues from all sources for the Westby School District for FY 2014 were \$2,175,781 which represented a 12.8% increase from FY 2013.
- ✦ State sources of revenue decreased 13.9% for FY 2014.
- ✦ The district did not levy any property taxes at the local level in FY 2014.
- ✦ Revenue from operating grants and contributions increased 315% or \$442,029 in FY 2014.
- ✦ Approximately 59.2% (77.5% in FY 2013) of the total Westby School District revenue was collected from state aid in FY 2014. While 26.8% (7.3% in FY 2013) of the district revenue was collected from operating grants and contributions in FY 2014.
- ✦ The Westby School District expenses for FY 2014 were \$1,918,578 which represents a 6.3% decrease from FY 2013.
- ✦ The Westby School District revenues exceeded expenses for FY 2014 by \$257,203.
- ✦ The Westby School District net position increased by 5.44% at the close of FY 2014.
- ✦ The capital assets of the district increased by 14.3% mainly due to adding a bus, suburban, and deck on a district house.
- ✦ Expenses for instruction account for about 48% of the district expenses.
- ✦ Instruction and operation & maintenance costs account for 64.1% of total district expenses.
- ✦ The district had total governmental fund balances of \$3,804,083 at the end of FY 2014 which was a 2.33% increase from FY 2013.
- ✦ The Westby District is in excellent financial condition and continued to improve in FY 2014.

SCHOOL DISTRICT NUMBER 3
MANAGEMENT'S DISCUSSION & ANALYSIS

Overview of the Westby 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 Westby 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 Westby 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 Westby School District, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Westby 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 the 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 Westby 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 Westby 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.

SCHOOL DISTRICT NUMBER 3
MANAGEMENT'S DISCUSSION & ANALYSIS

A *fund* is a group of related accounts used to maintain control over resources segregated for specific activities or objectives. The Westby 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 Westby 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 Westby 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 Westby Elementary and High School make up a K-12 district recognized by state law. 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, Miscellaneous Programs Fund, Flexibility Fund, and the Building Reserve Fund as they were considered to be the major funds in 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 Westby 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

The Westby 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 Westby School District. Student activity accounts and scholarship trusts are the most common fiduciary funds in school districts. The Westby School District has fiduciary funds in their Student Activity Account Fund and Cafeteria Flex Plan Fund for employees.

SCHOOL DISTRICT NUMBER 3
MANAGEMENT'S DISCUSSION & ANALYSIS

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. The notes to the financial statements can be found on later in this document.

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. The required and other supplementary information can found later in this document.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the financial position of the district. The Westby School District, assets exceeded liabilities by \$4,982,168 at the close of FY 2014. Net position for the district at the end of FY 2014 showed a 5.44% increase from the close of FY 2013. The increase in net position was mainly due to an increase in capital assets of 14.3% and a decrease in district liabilities of 55.8%. The increase in capital assets was the result of the district adding a 2006 Cruiser (bus) for \$225,025, adding a 2013 Suburban for \$42,000, and adding a deck on one of the district houses for \$9,220. The decrease in liabilities was mainly the result of decreasing accounts payable to vendors at the end of FY 2014. In addition, the district had \$257,203 more revenue than expenses in FY 2014 which was the result of a \$246,583 more revenue in FY 2014 than in FY 2013 along with a decrease of \$129,853 in expenses in FY 2014. The decrease in expenses was mostly due to a decrease of \$141,419 in operation and maintenance and a decrease of \$66,954 in extracurricular expenses. The general fund had slightly more revenue collected than was budgeted (\$9,663) and expenditures were \$86,142 less than was budgeted for FY 2014. The result was a positive \$30,300 difference in revenue minus expenditures for the district general fund.

Overall Financial Position of the District for FY 2014

The overall financial position of the Westby School District during FY 2014 increased 5.44% which added to the already excellent financial condition of the district. The net position of the district increased 5.44% due to a 14.3% increase in capital assets, a 2.5% decrease in current assets, and a 55.8% decrease in liabilities. The increase in capital assets was the result of the district adding a 2006 Cruiser (bus) for \$225,025, adding a 2013 Suburban for \$42,000, and adding a deck on one of the district houses for \$9,220. The decrease in liabilities was mainly the result of decreasing accounts payable to vendors at the end of FY 2014. In addition, the district had \$257,203 more revenue than expenses in FY 2014 which was the result of a \$246,583 more revenue in FY 2014 than in FY 2013 along with a decrease of \$129,853 in expenses in FY 2014.

SCHOOL DISTRICT NUMBER 3
MANAGEMENT'S DISCUSSION & ANALYSIS

The following chart presents information on the districts net position for FY 2013 and FY 2014 with the percentage change shown in the right hand column.

Net Position of the Westby School District

	GOVERNMENTAL ACTIVITIES			
	FY 2014	FY 2013	Change	% Change
Current and Other Assets	\$3,815,514	\$3,913,806	(\$98,292)	-2.51%
Capital Assets	\$1,317,674	\$1,152,445	\$165,229	14.34%
Total Assets	\$5,133,188	\$5,066,251	\$66,937	1.32%
Liabilities				
Long-term Liabilities Outstanding	\$139,589	\$144,723	(\$5,134)	-3.55%
Accounts payable-vendors	\$11,431	\$196,563	(\$185,132)	-94.18%
Total Liabilities	\$151,020	\$341,286	(\$190,266)	-55.75%
Net Position				
Net Investment in Capital Assets	\$1,317,674	\$1,152,445	\$165,229	14.34%
Restricted	\$2,073,319	\$1,910,430	\$162,889	8.53%
Unrestricted	\$1,591,175	\$1,662,090	(\$70,915)	-4.27%
Total net position	\$4,982,168	\$4,724,965	\$257,203	5.44%

At the close of FY 2014 a portion of the net position of the Westby District \$1,317,674 or 26.4 percent (24.3% in FY 2013) reflects the investment by the school district in capital assets such as land, buildings, machinery, and equipment. The capital assets of the Westby District have no related debt. The Westby School District uses these capital assets to provide educational and related services to students; and as a result, these assets are not available for future spending.

A portion of the net position of the Westby School District represents resources that are subject to external restrictions on how they may be used. These *restricted* assets represent 41.6% (40.4% in FY 2013) or \$2,073,319 of the district net position. The restricted net position increased from FY 2013 to FY 2014 by 8.5%. Another portion of the net position of the Westby School District 31.9% (35.1% in FY 2012) represents *unrestricted net position* which may be used to meet the ongoing obligations of the school district to citizens and creditors. The unrestricted funds decreased 4.27% in FY 2014. Westby 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 net position of the Westby School District increased \$257,203 during FY 2014 after showing a decrease of \$119,233 during FY 2013.

SCHOOL DISTRICT NUMBER 3
MANAGEMENT'S DISCUSSION & ANALYSIS

Governmental activities

The net position derived from governmental activities for the Westby district at the beginning of FY 2014 was \$4,724,965. The net position for the Westby School District at the end of FY 2014 was \$4,982,168 which was an increase of \$257,203.

District Wide - Statement of Activities

Governmental Activities				
	FY 2014	FY 2013	Change	% Change
Program revenues:				
Charges for Services	\$91,178	\$63,701	\$27,477	43.13%
Operating Grants & Contributions	\$582,028	\$139,999	\$442,029	315.74%
General revenues				
Property taxes	\$0	\$0	\$0	0%
Interest	\$29,025	\$46,550	(\$17,525)	-37.65%
State	\$1,288,370	\$1,496,620	(\$208,250)	-13.91%
County	\$150,000	\$150,000	\$0	0.00%
Gain on disposal of capital assets	\$26,000	\$0	\$26,000	100%
All other	\$9,180	\$32,328	(\$23,148)	-71.60%
Total Revenues	\$2,175,781	\$1,929,198	\$246,583	12.78%
Expenses:				
Instruction	\$914,701	\$881,182	\$33,519	3.80%
Support Services	\$88,577	\$82,282	\$6,295	7.65%
General Administration	\$146,682	\$154,044	(\$7,362)	-4.78%
School Administration	\$85,544	\$72,498	\$13,046	17.99%
Business Services	\$2,269	\$1,896	\$373	19.67%
Operation and Maintenance	\$315,960	\$457,379	(\$141,419)	-30.92%
Student Transportation	\$167,793	\$141,766	\$26,027	18.36%
Food Services	\$101,671	\$95,049	\$6,622	6.97%
Extracurricular	\$95,381	\$162,335	(\$66,954)	-41.24%
Total expenses	\$1,918,578	\$2,048,431	(\$129,853)	-6.34%
Increase (Decrease) in assets	\$257,203	(\$119,233)	\$376,436	-315.71%
Beginning Net Position	\$4,724,965	\$4,844,198	(\$119,233)	-2.46%
Ending Net Position	\$4,982,168	\$4,724,965	\$257,203	5.44%

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

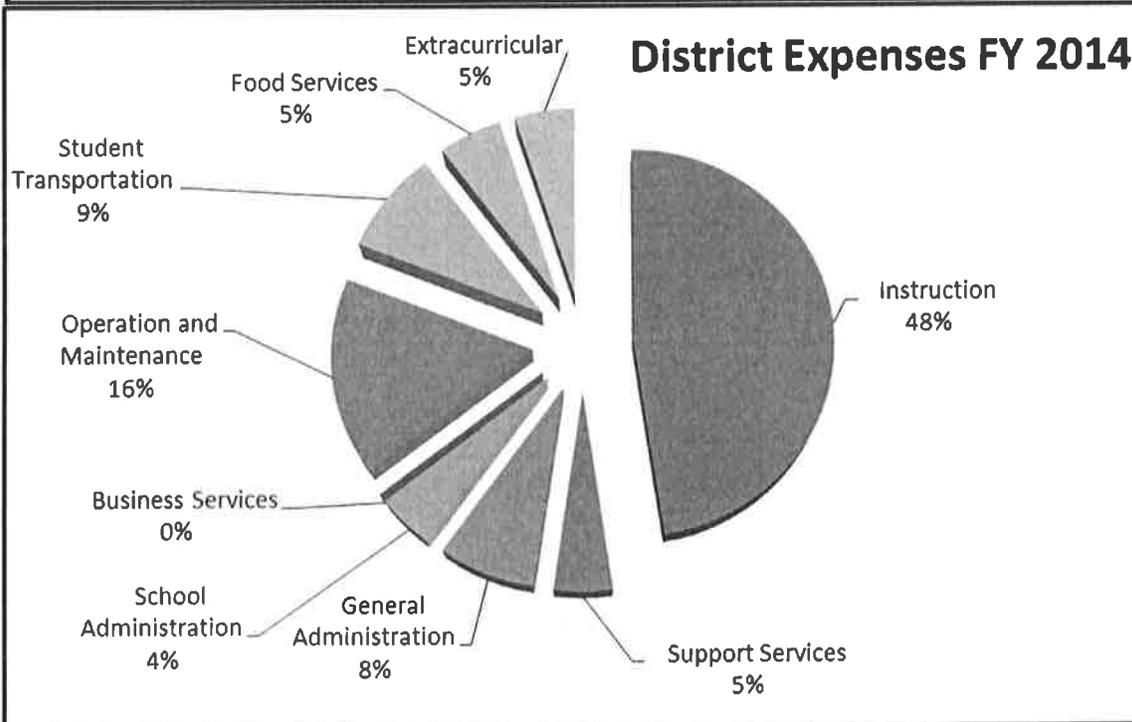
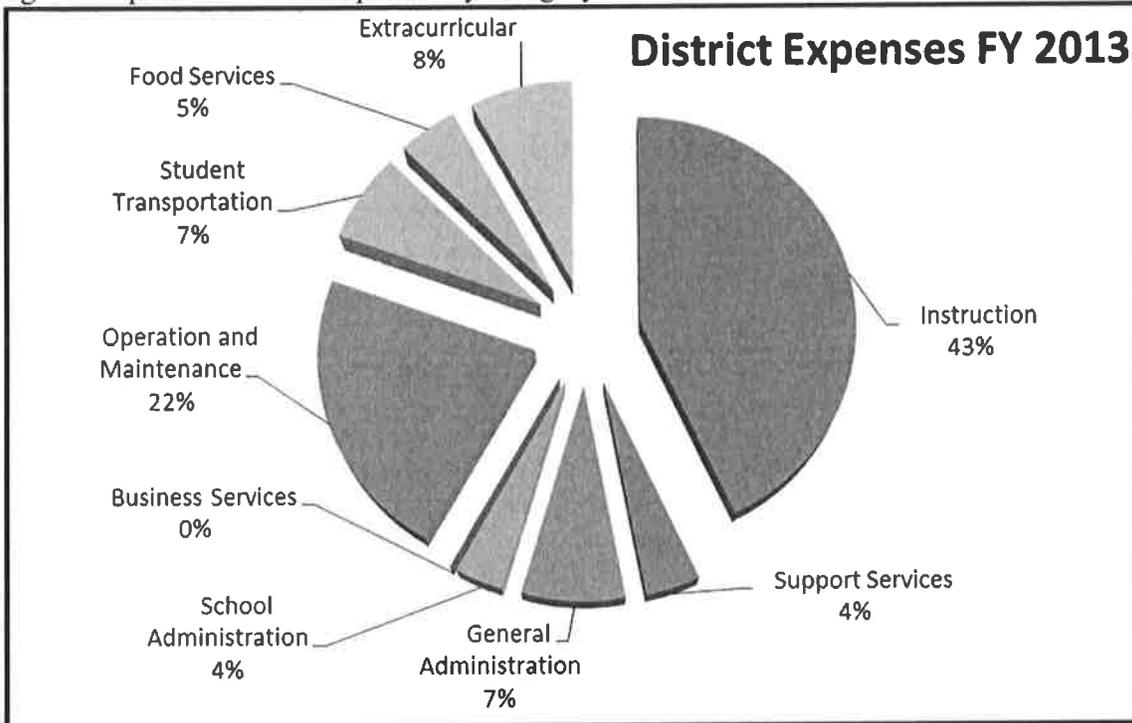
- ✚ Total revenues for the district were up 12.8% or \$246,583.
- ✚ Total expenses for the district were down 6.3% or \$129,853.
- ✚ All sources of state revenue were down 13.9% or \$208,250.
- ✚ Charges for services revenue was up 43.1% or \$27,477 in FY 2014.
- ✚ Operating grants and contributions revenue was up 315% or \$442,029.
- ✚ Interest earnings decreased by 37.6% or \$17,525.
- ✚ District instruction expenses were up 3.8% or \$33,519.
- ✚ Support services were up 7.6% or \$6,295.
- ✚ Extracurricular costs were down 41.2% or \$66,954.
- ✚ General administration expenses were down \$7,362 or 4.8%.

SCHOOL DISTRICT NUMBER 3
MANAGEMENT'S DISCUSSION & ANALYSIS

- ⬇ School administration expenses were up \$13,046 or 18%.
- ⬇ Student Transportation expenses increased by 18.3% or \$26,027.
- ⬇ Operation and maintenance costs were down by 30.9% or \$141,419.
- ⬇ Food services expenditures were up 7% or \$6,622.
- ⬇ Net position of the district increased by 5.44 % from FY 2013 to FY 2014.

District Expenses

The following charts present district expenses by category.

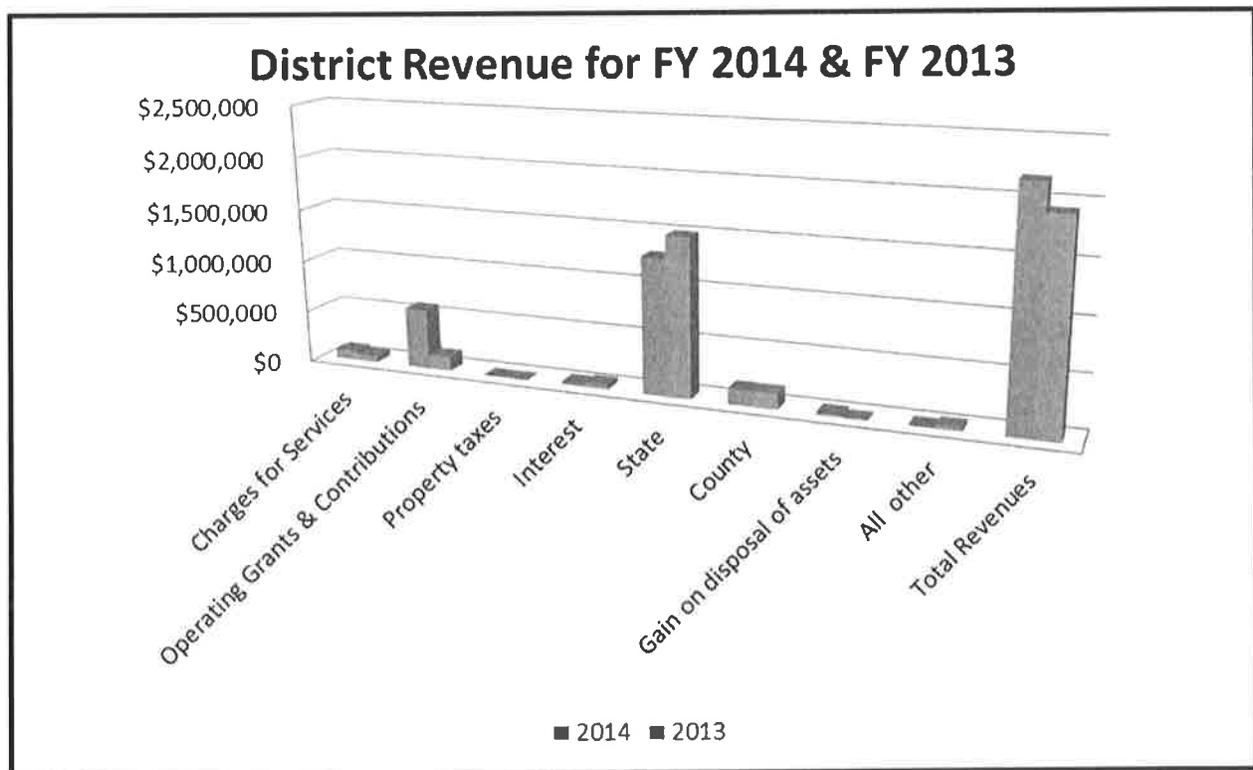


SCHOOL DISTRICT NUMBER 3
MANAGEMENT'S DISCUSSION & ANALYSIS

The pie graphs listed above for district expenses show the allocation of resources for specific purposes in the Westby Schools during FY 2013 and FY 2014. The graphs illustrates the major expenditure areas, with instruction costs accounting for 43% and 48% of the district expenses, operation & maintenance accounting for 22% and 16% of the district expenses, student transportation was 7% and 9%, extracurricular was 8% and 5%, food services 5% and 5%, school administration was 4% and 4%, and general administrative services accounting for 7% and 8% of the district expenses. Major changes for FY 2014 district expenses included instruction increasing 5% of the total, operation and maintenance costs decreasing 6% of the total, extracurricular decreasing 3% of the total, transportation increasing 2% of the total, support services was up 1%, and general administrative was up 1%. All other costs remained the same percentage of the total expenses.

Revenue by Source – Governmental Activities

The bar graph presented below shows that state sources are the largest source of revenue for the Westby District followed by operating grants & contributions and county revenue. Charges for services revenue is the fourth highest source of dollars for the district. Major changes from FY 2013 to FY 2014 were a decrease in state revenue, interest income, and other revenue along with increases in operating grants and contributions, charges for services, a gain on disposal of capital assets, and total 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 Westby School District to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the *governmental funds* of the Westby School District is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the financial requirements of the school district. In particular, *unassigned fund balance* may serve as a useful measure of the net resources available for spending at the end of the year. At the end of FY 2013, the governmental funds of the school district reported a combined ending fund balance of \$3,717,243 and at the end of FY 2014 the fund balance was \$3,804,083 which represents a 2.33% increase. Approximately 5.22% (4.5% in FY 2013) or \$198,576 of the total fund balances constitutes *unassigned fund balance*, which is available for spending at the discretion of the Board of Trustees. The general fund is the main operating fund of the Westby School District. At the end of FY 2013 the General Fund had a balance of \$168,736 at the close of FY 2014 the balance was \$198,576. The General Fund unassigned balance during that same time was \$168,736 for FY 2013 and \$198,576 for FY 2014. The total fund balances in the district increased \$86,840 from the end of FY 2013 to the end of the fiscal year 2014. The actual fund balance sheet can be found later in this report.

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 fiscal years 2013 and 2014 are comprised of major funds and all other funds. The General Fund, Misc. Program Fund, Flexibility Fund, and 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 2013 and FY 2014 demonstrates that the Westby School District is in excellent financial condition. The District has cash and investments in the general fund which makes up 5.22% (4.5% in FY 2013) of the total fund balances in FY 2014. The District has \$11,431 of liability attached to the total fund balances or about .3% of the total fund balances. The Westby District fund balances would seem to be strong enough to resolve any reasonable financial situation that might occur. The actual Fund Balance sheet can be found later in this report.

SCHOOL DISTRICT NUMBER 3
MANAGEMENT'S DISCUSSION & ANALYSIS

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 for FY 2014 were the General Fund, Misc. Program Fund, Flexibility Fund, and Building Reserve Fund. The other funds category includes all the remaining governmental funds that the district is utilizing. All sources of state revenue are the major source for the district at 81.6% (81.5% in FY 2013) of the total revenue in all funds and 93% (94.6% in FY 2013) in the general fund. The major expenditure in the general fund is instruction. Instruction expenditures make up 63.1% (62.9% in FY 2013) of the general fund total cost for FY 2014 and 43.1% of all expenditures in all funds. General fund costs for extracurricular services and general administration costs rank 2 and 3 respectively during FY 2014. Total fund balances increased 2.33% from FY 2013 to FY 2014. The statement of revenues, expenditures, and changes in fund balances can be found later in this report.

General Fund Budgetary Highlights

During FY 2014 the General Fund had a minor budget variance from the original and final budget compared with the amounts actually collected and spent. The general fund had slightly more revenue collected than was budgeted (\$9,663) and expenditures were \$86,142 less than was budgeted for FY 2014. The result was a positive \$30,300 difference in revenue minus expenditures for the district general fund. The differences in revenue and expenditures from the original and final budget to the actual amounts collected and spent is very minor when compared to a 961,000 dollar budget in the general fund. The overall increase in the general fund balance was \$29,840 in FY 2014.

Capital Asset and Debt Administration

Capital assets

The investment by the Westby School District in capital assets for governmental activities as of June 30, 2014, was \$1,317,674 after depreciation was subtracted. This investment in capital assets included land, building improvements, buildings, furniture, and equipment. The value of the capital assets for the Westby District showed a 14.3% increase for FY 2014 when compared to FY 2013 after depreciation was subtracted. The increase in capital assets was the result of the district adding a 2006 Cruiser (bus) for \$225,025, adding a 2013 Suburban for \$42,000, and adding a deck on one of the district houses for \$9,220. The capital assets of the Westby District have no related debt.

SCHOOL DISTRICT NUMBER 3
MANAGEMENT'S DISCUSSION & ANALYSIS

Capital Assets of the Westby School District

Capital assets	Governmental activities				
	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014	Percent Change
Land	\$12,470	\$7,189		\$19,659	57.7%
Land Improvements	\$118,418			\$118,418	0.0%
Buildings & Improvements	\$1,519,397	\$3,828		\$1,523,225	0.3%
Machinery & Equipment	\$834,450	\$276,879	(\$140,869)	\$970,460	16.3%
Totals at Historical Cost	\$2,484,735	\$287,896	(\$140,869)	\$2,631,762	5.9%
Less Accumulated Depreciation for:					
Land Improvements	(\$78,778)	(\$3,791)		(\$82,569)	4.8%
Buildings & Improvements	(\$729,860)	(\$36,935)		(\$766,795)	5.1%
Machinery & Equipment	(\$523,652)	(\$81,941)		(\$605,593)	15.6%
Total Accumulated Depreciation	(\$1,332,290)	(\$122,667)	\$140,869	(\$1,314,088)	-1.4%
Capital Assets net of Depreciation	\$1,152,445	\$165,229		\$1,317,674	14.3%

Long-term debt

At the end of the current fiscal year, Westby School District had no bonded debt outstanding. The district did have long-term liabilities of \$63,101 for compensated absences of employees, \$14,052 for retiree's health insurance, and \$62,436 for other post-employment benefits (OPEB).

Economic Factors and Fiscal Year Budgets for 2013 & 2014

- ⬇ The population of Sheridan County increased by 9.2% or 312 residents from April 1, 2010 to July 1, 2014. This compares to the Montana average of a 3.5% increase.
- ⬇ Residents of Sheridan County under the age of 18 made up 20.1% of the population in 2013 compared to the state at 22.1%.
- ⬇ Student enrollment numbers are converted to "Average Number (of students) Belonging" and are used to fund the district. Enrollment numbers decreased during the 2014 school year by 1 student. The overall enrollment decreased from 60 students to 59 students from the fall of 2013 to the fall of 2014. The student decrease was 1.6%.
- ⬇ The unemployment rate for Sheridan County was 2.3% in June 2014. This compares to Montana rate of 4.7% in June of 2013.
- ⬇ The poverty rate for Sheridan County was 11.8% during 2009-2013, when Montana was at 15.2%.
- ⬇ The median household income for Sheridan County during 2009-2013 was \$48,667 while Montana was at \$46,230.

SCHOOL DISTRICT NUMBER 3
MANAGEMENT'S DISCUSSION & ANALYSIS

- ✦ State funding for Montana schools increased for the FY 2014 budget year.

All of these and other factors were considered in preparing the FY 2013 and FY 2014 budgets for the Westby 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 Westby 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 Westby administration and business office located in Westby, Montana.

SCHOOL DISTRICT NUMBER 3
STATEMENT OF NET POSITION
June 30, 2014

ASSETS	
Cash and cash equivalents	\$ 3,809,369
Due from governments	128
Prepays	6,017
Capital assets:	
Capital assets not being depreciated - land	19,659
Capital assets, net of accumulated depreciation	<u>1,298,015</u>
 Total assets	 <u>5,133,188</u>
LIABILITIES	
Accounts payable-vendors	11,431
Long-term liabilities:	
Due within one year	
Retirees health insurance	14,052
Compensated absences	9,217
Due in more than one year:	
Compensated absences	53,884
Other post employment benefits (OPEB)	<u>62,436</u>
 Total liabilities	 <u>151,020</u>
NET POSITION	
Net Investment in capital assets	1,317,674
Restricted for:	
Instruction	163,603
Support services:	
General administration	7,829
Operation and maintenance	7,394
Student transportation	177,627
Food services	4,908
Capital projects	1,711,958
Unrestricted	<u>1,591,175</u>
 Total net position	 <u>\$ 4,982,168</u>

SCHOOL DISTRICT NUMBER 3
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Instruction	\$ 914,701	\$ 62,324	\$ 539,726	\$ (312,651)
Support services:				
Instructional staff	88,577	-	-	(88,577)
General administration	146,682	-	-	(146,682)
School administration	85,544	-	-	(85,544)
Business services	2,269	-	-	(2,269)
Operation and maintenance	315,960	11,375	-	(304,585)
Student transportation	167,793	-	28,916	(138,877)
Food services	101,671	17,479	13,386	(70,806)
Extracurricular	95,381	-	-	(95,381)
Total	\$ 1,918,578	\$ 91,178	\$ 582,028	(1,245,372)

General revenues:

Intergovernmental:

State aid	365,437
State other	922,933
County	150,000
Interest	29,025
Miscellaneous	9,180
Gain on disposal of capital assets	26,000

Total general revenues 1,502,575

Change in net position 257,203

Net position - beginning 4,724,965

Net position - ending \$ 4,982,168

SCHOOL DISTRICT NUMBER 3
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General	Miscellaneous Programs	Flexibility	Building Reserve	Total Nonmajor Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 198,576	\$ 578,594	\$ 947,577	\$ 1,723,389	\$ 361,233	\$ 3,809,369
Due from governments	-	-	-	-	128	128
Prepaid items	-	-	6,017	-	-	6,017
Total assets	\$ 198,576	\$ 578,594	\$ 953,594	\$ 1,723,389	\$ 361,361	\$ 3,815,514
LIABILITIES						
Accounts payable-vendors	\$ -	\$ -	\$ -	\$ 11,431	\$ -	\$ 11,431
Total liabilities	-	-	-	11,431	-	11,431
FUND BALANCES						
Nonspendable:						
Prepaid items	-	-	6,017	-	-	6,017
Restricted:						
Instruction	-	-	-	-	163,603	163,603
Support services:						
General administration	-	-	-	-	7,829	7,829
Operation and maintenance	-	-	-	-	7,394	7,394
Student transportation	-	-	-	-	177,627	177,627
Food services	-	-	-	-	4,908	4,908
Capital projects	-	-	-	1,711,958	-	1,711,958
Committed:						
Instruction	-	578,594	947,577	-	-	1,526,171
Unassigned	198,576	-	-	-	-	198,576
Total fund balances	198,576	578,594	953,594	1,711,958	361,361	3,804,083
Total liabilities and fund balances	\$ 198,576	\$ 578,594	\$ 953,594	\$ 1,723,389	\$ 361,361	\$ 3,815,514

SCHOOL DISTRICT NUMBER 3
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2014

Total fund balances, governmental funds	\$ 3,804,083
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	1,317,674
Some liabilities are not due and payable in the current period and, therefore, are not included in the funds:	
Compensated absences	(63,101)
Retirees health insurance	(14,052)
Other post employment benefits (OPEB)	<u>(62,436)</u>
Net position of governmental activities	<u>\$ 4,982,168</u>

SCHOOL DISTRICT NUMBER 3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General	Miscellaneous Programs	Flexibility	Building Reserve	Total Nonmajor Funds	Total Governmental Funds
REVENUES						
Intergovernmental:						
County	\$ -	\$ -	\$ -	\$ -	\$ 164,458	\$ 164,458
State aid	426,318	-	-	-	-	426,318
State other	493,411	-	390,000	235,390	208,028	1,326,829
Federal	3,857	29,961	-	-	13,258	47,076
Tuition	61,773	-	-	-	-	61,773
Charges for services	-	-	-	-	29,405	29,405
Interest	3,005	4,098	7,234	12,154	2,534	29,025
Miscellaneous	890	55,717	-	8,290	-	64,897
Total revenues	<u>989,254</u>	<u>89,776</u>	<u>397,234</u>	<u>255,834</u>	<u>417,683</u>	<u>2,149,781</u>
EXPENDITURES						
Current:						
Instruction	604,859	23,705	132,419	-	128,088	889,071
Support services:						
Instructional staff	64,791	2,914	11,892	-	8,980	88,577
General administration	64,844	350	55,993	-	33,528	154,715
School administration	23,970	-	52,100	-	9,141	85,211
Operation and maintenance	54,492	-	22,287	179,768	20,869	277,416
Student transportation	25,029	-	8,555	-	78,130	111,714
Food services	55,942	-	9,433	-	38,944	104,319
Extracurricular	65,027	10,000	8,544	-	6,451	90,022
Capital outlay	-	8,054	246,653	7,189	-	261,896
Total expenditures	<u>958,954</u>	<u>45,023</u>	<u>547,876</u>	<u>186,957</u>	<u>324,131</u>	<u>2,062,941</u>
Excess (deficiency) of revenues over expenditures	<u>30,300</u>	<u>44,753</u>	<u>(150,642)</u>	<u>68,877</u>	<u>93,552</u>	<u>86,840</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	460	460
Transfers out	(460)	-	-	-	-	(460)
Total other financing sources (uses)	<u>(460)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>460</u>	<u>-</u>
Net change in fund balances	29,840	44,753	(150,642)	68,877	94,012	86,840
Fund balances - beginning	168,736	533,841	1,104,236	1,643,081	267,349	3,717,243
Fund balances - ending	<u>\$ 198,576</u>	<u>\$ 578,594</u>	<u>\$ 953,594</u>	<u>\$ 1,711,958</u>	<u>\$ 361,361</u>	<u>\$ 3,804,083</u>

SCHOOL DISTRICT NUMBER 3
 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 change in fund balances - total governmental funds	\$ 86,840
Amounts reported for governmental activities in the statement of activities are different because:	
<p>Governmental funds report capital outlay expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
<p>This is the amount by which capital outlay (\$261,896) exceeded depreciation (\$122,667) in the current period.</p>	139,229
<p>The net effect of various transactions involving capital assets (i.e., sales, donations and trade-ins) is to increase net position.</p>	26,000
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:</p>	
Compensated absences	(1,450)
Retirees health insurance	14,052
Other post employment benefits (OPEB)	<u>(7,468)</u>
Change in net position of governmental activities	<u>\$ 257,203</u>

SCHOOL DISTRICT NUMBER 3
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
June 30, 2014

	<u>Private Purpose Trust Fund- Extracurricular</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	<u>\$ 28,758</u>	<u>\$ 2,994</u>
Total assets	<u>28,758</u>	<u>\$ 2,994</u>
LIABILITIES		
Accounts payable	<u>-</u>	<u>\$ 2,994</u>
Total liabilities	<u>-</u>	<u>\$ 2,994</u>
NET POSITION		
Held in trust	<u>\$ 28,758</u>	

SCHOOL DISTRICT NUMBER 3
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND
For the Year Ended June 30, 2014

	<u>Private Purpose Trust Fund- Extracurricular</u>
ADDITIONS	
Student extracurricular activities	<u>\$ 101,620</u>
Total additions	<u>101,620</u>
DEDUCTIONS	
Student extracurricular activities	<u>127,885</u>
Total deductions	<u>127,885</u>
Change in net position	(26,265)
Net position - beginning	<u>55,023</u>
Net position - ending	<u><u>\$ 28,758</u></u>

SCHOOL DISTRICT NUMBER 3
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the government have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

The government's significant accounting policies are described below.

Reporting Entity

The government was established under Montana law to provide educational services below the college and university level to residents of the district. The government consists of kindergarten through twelfth grade district, which is managed by a central Board of Trustees, elected in a district wide election and by a central administration appointed by and responsible to the Board.

The County provides substantial services to the government; tax billing, cash collections, debt payments and warrant redemption. The County also maintains the government's cash and invests available funds at the direction of the government. The County Commissioners have a legal obligation to set levy amounts and to approve the budget adopted by the government. However, despite the degree of services provided, the government does not qualify as a component unit of the County.

These financial statements present, as a single reporting entity, all activities of the primary government. A primary government is defined as having a separately elected governing body, being legally separate, and fiscally independent.

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Fiduciary funds are excluded from the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include 1) charges for services which report fees and other charges provided by a given function or identifiable activity 2) operating grants and contributions and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. 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 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes 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 government.

SCHOOL DISTRICT NUMBER 3
NOTES TO BASIC FINANCIAL STATEMENTS

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The government reports the following major governmental funds:

The general fund is used to account for all financial resources, except those required by law or administrative action to be accounted for in another fund. The general fund is always reported as a major fund in the governmental fund statements.

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specific purposes other than debt service or capital projects. The following special revenue funds are reported as major:

The miscellaneous programs fund accounts for federal, state and local grants.

The flexibility fund accounts for resources accumulated and payments made under Section 20-9-543, MCA.

The building reserve fund (a capital projects fund) accounts for a voted property tax levy for improvements, repairs and supplies.

Additionally, the government reports the following fund types:

The government has a private-purpose trust fund, the student extracurricular fund, which accounts for the extracurricular student activities.

Agency funds are custodial in nature and are used to account for assets that the government holds for others in an agency capacity.

Assets, Liabilities, Deferred Inflows and Net Position/Fund Balance

Cash and Investments

Cash and investments, except amounts in the extracurricular fund, are held by the County Treasurer. The County Treasurer invests the District's cash at the direction of the government as required by state statute. Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or NCUA and the State Short Term Investment Pool (STIP). STIP is classified as a 2a7-like pool, and as such, uses amortized cost to report unit values.

Investments in the pool are reported at fair value. Fair value is determined annually, based on year-end market values. Short-term investments are reported at cost, which approximates fair value. Cash on hand, demand, savings and time deposits, STIP and short-term investments with original maturities of three months or less from the date of acquisition are considered cash equivalents.

Receivables

Most property taxes are levied in September of each fiscal year, based on assessments as of the prior January 1. Real property taxes are billed as of November 1 and are payable in two payments, November 30 and May 31. Unpaid taxes become delinquent on December 1 and June 1. Most personal property taxes are due and payable on January 1 and become delinquent February 1. Property taxes are maintained and collected by the County Treasurer. No allowance is made for uncollectible taxes as they are not considered significant.

Inventories and Prepaid Items

Inventory items purchased are recorded as expenditures/expenses at the time of purchase. Inventory at year-end was not material and therefore not recorded. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the government-wide financial statements. The government has elected not to report major infrastructure assets retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

SCHOOL DISTRICT NUMBER 3
NOTES TO BASIC FINANCIAL STATEMENTS

Depreciation on capital assets is calculated on the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	20-50
Machinery and equipment	3-20

Collections Not Capitalized

Certain collections of historic artifacts and works of art are not reported in the accompanying financial statements. These assets have not been capitalized because they meet all of the conditions that qualify them as collections that are not required to be capitalized. These conditions are the collections are held for public exhibition or education in the furtherance of public service, not held for financial gain; the collections are protected, kept unencumbered, cared for, and preserved; and any sale proceeds are expected to be used to acquire other items for the collections.

Compensated Absences

Liabilities associated with accumulated vacation and sick leave are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Classified employees (non-teaching) earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Accumulated vacation is restricted under state statute to a maximum accumulation of two times the amount earned annually. Vacation leave is absorbed by time off from work, or, with certain limitations, may be payable to the employee upon termination.

Sick leave is accumulated for classified employees at the rate of 12 days per year with no limit on the carry over amount. Sick leave for certified personnel (teachers) is awarded at 10 days per year up to a cumulative maximum of 120 days. Upon retirement or resignation, classified and certified employees are eligible for sick leave compensation at one fourth of the accumulated amount.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. In the fund financial statements, the face amount of debt issued is reported as an other financing source.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report 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 that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

It is the government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Net Position

In the government-wide statements, equity is classified as net position and displayed in three components:

Net investment in capital assets - consists of capital assets (net of accumulated depreciation), plus capital-related deferred outflows of resources, less capital-related borrowings and deferred inflows of resources.

Restricted - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted - any portion of net position that does not meet the definition of "net investment in capital assets" or "restricted."

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

SCHOOL DISTRICT NUMBER 3
NOTES TO BASIC FINANCIAL STATEMENTS

Fund Balance

In the fund statements, governmental fund equity is classified as fund balance. The following classifications describe the relative strength of the spending constraints:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed fund balance - amounts constrained to specific purposes by the government itself, using its highest level of decision-making authority (i.e., governing body). The government establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned fund balance - amounts the government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The governing body has by resolution authorized the clerk, in conjunction with the superintendent, to assign fund balance. There was no assigned fund balance in the general fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the government considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the government considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing body has provided otherwise in its commitment or assignment actions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2. DETAILED NOTES ON ALL FUNDS

Equity in Pooled Cash and Investments

As discussed in Note 1, the government's cash and investments, except amounts in the extracurricular and flexible benefits funds, are held by the County Treasurer. The government directs the investment of money pursuant to the provisions of state statute. The extracurricular and flexible benefits funds bank balances were entirely insured by the FDIC.

Montana law allows the local governing body to require security for the portion of deposits not guaranteed or insured. Deposit insurance is administered by the FDIC. The County Treasurer has the fiduciary responsibility to ensure that adequate collateral is pledged for all investments that are not fully covered by Federal Deposit Insurance. Montana code allows the County Treasurer to take collateral up to 50% of deposits if the institution in which the deposit is made has a net worth to total assets ratio of 6% or more and 100% if the ratio is less than 6%. Risk in the event of loss is unclear in state law, but may be the liability of the County government. Custodial credit risk, interest rate risk and concentration of credit risk classifications of the government's deposits and pooled investments can be obtained from the Sheridan County Treasurer.

SCHOOL DISTRICT NUMBER 3
NOTES TO BASIC FINANCIAL STATEMENTS

Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets, not being depreciated				
Land	\$ 12,470	\$ 7,189	\$ -	\$ 19,659
Construction-in-progress	-	-	-	-
Total capital assets, not being depreciated	<u>12,470</u>	<u>7,189</u>	<u>-</u>	<u>19,659</u>
Capital assets, being depreciated				
Buildings/improvements	1,519,397	3,828	-	1,523,225
Improvements other than buildings	118,418	-	-	118,418
Machinery and equipment	834,450	276,879	(140,869)	970,460
Total capital assets, being depreciated	<u>2,472,265</u>	<u>280,707</u>	<u>(140,869)</u>	<u>2,612,103</u>
Less accumulated depreciation for:				
Buildings/improvements	(729,860)	(36,935)	-	(766,795)
Improvements other than buildings	(78,778)	(3,791)	-	(82,569)
Machinery and equipment	(523,652)	(81,941)	140,869	(464,724)
Total accumulated depreciation	<u>(1,332,290)</u>	<u>(122,667)</u>	<u>140,869</u>	<u>(1,314,088)</u>
Total capital assets, being depreciated, net	<u>1,139,975</u>	<u>158,040</u>	<u>-</u>	<u>1,298,015</u>
Total capital assets, net	<u>\$ 1,152,445</u>	<u>\$ 165,229</u>	<u>\$ -</u>	<u>\$ 1,317,674</u>

Depreciation expense was charged as follows:

Instruction	\$ 16,617
Support services-general administration	5,093
Support services-administration	333
Support services-business	452
Operation and maintenance	38,384
Student transportation	55,735
Food services	694
Extracurricular	5,359
	<u>\$ 122,667</u>

Interfund Transfers

Interfund transfers consisted of the general fund transferring \$460 to the compensated absences fund to fund the future payout of vacation and sick leave of classified and administrative employees.

Long-Term Debt

The District reached an agreement with a former employee to pay health insurance for 5 years. Expenditures for the health insurance are recognized in the fund financial statements as the district pays the individual's health insurance premium. Annual payments of \$14,052 will be made through fiscal year 2015. Long-term liability activity for the year ended June 30, 2014, was as follows:

SCHOOL DISTRICT NUMBER 3
NOTES TO BASIC FINANCIAL STATEMENTS

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Retirees health insurance	\$ 28,104	\$ -	\$ (14,052)	\$ 14,052	\$ 14,052
Compensated absences	61,651	1,450	-	63,101	9,217
Total long-term liabilities	\$ 89,755	\$ 1,450	\$ (14,052)	\$ 77,153	\$ 23,269

Compensated absences and retirees health insurance are generally liquidated in the fund in which the employees' wage was charged.

NOTE 3. OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; professional liability (i.e., errors and omissions); workers compensation (i.e., employee injuries); medical insurance costs; and environmental damages. A variety of methods is used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for theft, damage or destruction of assets, professional liabilities and employee medical costs. The government participates in the Montana Schools Group's Workers' Compensation Risk Retention Program, a state-wide public risk pool currently operating as a common risk management and insurance program for the member school districts. The government pays quarterly premiums for its employee injury insurance coverage. The agreement for formation of the pool provides that it will be self-sustaining through member premiums. There are no deductibles or maximum coverage limits in the plan. Given lack of coverage available, the government has no coverage for potential losses from environmental damages. Coverage limits and the deductibles on the commercial policies have remained relatively constant for the last several years. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Interlocal Cooperative

The government participates with other school districts located in Sheridan and Daniels County in the Sheridan/Daniels Educational Related Services Consortium. The Consortium provides special education services to its member schools.

Contingencies

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any to be immaterial.

Retirement Plans

The government participates in two statewide mandatory cost-sharing multiple employer defined benefit retirement plans which cover all employees, except certain substitute teachers and part-time, non-teaching employees. The Teachers' Retirement System (TRS) covers teaching employees, including principals and superintendents. The Public Employees Retirement System (PERS) covers non-teaching employees. The plans are established under State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

The plans issue a publicly available financial report that include financial statements and required supplementary information. The reports may be obtained from the Public Employees' Retirement Board, 100 North Park, P.O. Box 200131, Helena, Montana 59620-0131, telephone (406) 444-3154.

Contribution rates for the plans are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll, were as follows:

	Employer	Employee	Total
TRS:			
Tier 1 member	8.470%	8.150%	16.620%
Tier 2 member	8.470%	8.150%	16.620%
PERS	7.800%	7.900%	15.700%

TRS:
A "tier 1 member" is a person who became a member before July 1, 2013 and who has not withdrawn his/her account balance. A "tier 2 member" is a person who became a member on or after July 1, 2013 or who, after withdrawing his/her account balance, became a

SCHOOL DISTRICT NUMBER 3
NOTES TO BASIC FINANCIAL STATEMENTS

member again on or after July 1, 2013. Effective July 1, 2013, the Tier 1 member supplemental contribution may be decreased, and a Tier 2 member may be required to contribute a supplemental contribution, under circumstances described in Section 19-20-608, MCA. Also, the employer supplemental contribution may be decreased under circumstances described in Section 19-20-609, MCA.

PERS:

On January 1 following an actuarial valuation, the employee contribution rate will be reduced to 6.9%, and the additional contributions by the employer (1%) and the State of Montana will terminate, if the actuarial valuation determines that these reductions and terminations would not cause the amortization period to exceed 25 years. Effective July 1, 2013, retired members who return to active service are subject to the above employee, employer, and state contributions. For retired members who return to work in a covered position, but who have not become active members, the employer and state shall contribute the amounts specified in Sections 19-3-316 and 319. (MCA 19-3-1113)

The State of Montana contributes .37% and 2.49% per year to the PERS and TRS plans, respectively, on behalf of the employer. The State of Montana TRS contribution (\$17,818) has been recorded in the financial statements.

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

	2014	2013	2012
TRS	\$ 118,928	\$ 128,986	\$ 100,870
PERS	35,200	28,690	28,550
	\$ 154,128	\$ 157,676	\$ 129,420

Postemployment Benefits Other Than Pensions

Plan Description. The government provides postemployment health care benefits in accordance with Montana Code Annotated, Title 2, Chapter 18, Section, 704 to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions, and (2) surviving dependents of deceased employees. Retirement eligibility is determined based on the minimum of (1) reaching age 50 with at least 5 years of membership service or (2) reaching 25 years of membership at any age.

Funding Policy. The required contribution is based on pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation. The government's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The government has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers with plans that have fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to 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 changes in the government's net OPEB obligation to the plan:

Annual required contribution	\$ 7,322
Interest on net OPEB obligation	146
Annual OPEB cost (expense)	7,468
Net OPEB obligation - beginning of year	54,968
Net OPEB obligation - end of year	\$ 62,436

The government's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2014 and the preceding two years are as follows:

SCHOOL DISTRICT NUMBER 3
NOTES TO BASIC FINANCIAL STATEMENTS

Year Ending June 30,	Annual OPEB Cost (AOC)	Percentage of Annual AOC Contributed	Net OPEB Obligation (NOO)
2012	\$ 23,541	0%	\$ 44,401
2013	7,887	0%	54,968
2014	7,468	0%	62,436

Funded Status and Funding Progress. As of July 1, 2013, the Plan was 0% funded. The actuarial accrued liability for benefits was \$95,032, and the actuarial value of assets is \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$95,032.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. A schedule of funding progress, which is required to be presented as supplementary information following the notes to the financial statements, will be included in future financial statements when multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits is available.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following simplifying assumptions were made:

Assumptions About Employees and Members: Based on the historical average retirement age of the covered group, active plan members were assumed to retire at age 59 or the first year thereafter in which the member would qualify for benefits. Marital status as of the calculation date was assumed to continue throughout retirement. Life expectancy was based on a case study for the league of Minnesota cities used in determining OPEB costs using the alternative measurement method. The probability of remaining employed until the assumed retirement age and employees' expected future working lifetimes were developed using non-group-specific age-based turnover data from GASB Statement No. 45.

Assumptions About Healthcare Costs: The 2014 health insurance premiums for retirees were used to calculate the present value of total benefits to be paid. The expected rate of increase in health insurance premiums initially used a select rate of 3 percent over the next ten years.

Other Assumptions and Methods: The inflation rate was assumed to be 4 percent. Based on the historical and expected returns of the government's investments, the investment rate of return was assumed to be 4 percent. The UAAL is amortized over a twenty five period using a 4 percent interest rate and a 2 percent payroll growth rate.

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

Statement No. 68 - Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. Effective Date: The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014.

Statement No. 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68 Effective Date: The provisions of this Statement should be applied simultaneously with the provisions of Statement 68.

REQUIRED SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT NUMBER 3
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
General Fund
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
REVENUES					
Intergovernmental:					
State aid	\$ 426,318	\$ 426,318	\$ 426,318	\$ -	\$ 426,318
State other	475,593	475,593	475,593	17,818	493,411
Federal	-	-	3,857	-	3,857
Tuition	55,000	55,000	61,773	-	61,773
Interest	4,585	4,585	3,005	-	3,005
Miscellaneous	277	277	890	-	890
Total revenues	<u>961,773</u>	<u>961,773</u>	<u>971,436</u>	<u>17,818</u>	<u>989,254</u>
EXPENDITURES					
Total expenditures	<u>1,027,276</u>	<u>1,027,276</u>	<u>941,136</u>	<u>17,818</u>	<u>958,954</u>
Excess (deficiency) of revenues over expenditures	<u>(65,503)</u>	<u>(65,503)</u>	<u>30,300</u>	<u>-</u>	<u>30,300</u>
OTHER FINANCING USES					
Transfers out	<u>(460)</u>	<u>(460)</u>	<u>(460)</u>	<u>-</u>	<u>(460)</u>
Total other financing uses	<u>(460)</u>	<u>(460)</u>	<u>(460)</u>	<u>-</u>	<u>(460)</u>
Net change in fund balances	<u>\$ (65,963)</u>	<u>\$ (65,963)</u>	29,840	-	29,840
Fund balances - beginning			<u>168,736</u>	<u>-</u>	<u>168,736</u>
Fund balances - ending			<u>\$ 198,576</u>	<u>\$ -</u>	<u>\$ 198,576</u>

SCHOOL DISTRICT NUMBER 3
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
Flexibility Fund
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
REVENUES					
Intergovernmental:					
State other	\$ 690,444	\$ 690,444	\$ 390,000	\$ -	\$ 390,000
Interest	-	-	7,234	-	7,234
Miscellaneous	564,903	564,903	-	-	-
Total revenues	<u>1,255,347</u>	<u>1,255,347</u>	<u>397,234</u>	<u>-</u>	<u>397,234</u>
EXPENDITURES					
Total expenditures	<u>1,800,000</u>	<u>1,800,000</u>	<u>547,876</u>	<u>-</u>	<u>547,876</u>
Net change in fund balances	<u>\$ (544,653)</u>	<u>\$ (544,653)</u>	<u>(150,642)</u>	<u>-</u>	<u>(150,642)</u>
Fund balances - beginning			<u>1,104,236</u>	<u>-</u>	<u>1,104,236</u>
Fund balances - ending			<u>\$ 953,594</u>	<u>\$ -</u>	<u>\$ 953,594</u>

SCHOOL DISTRICT NUMBER 3
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2014

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

State law requires budgets be prepared for certain funds - generally those supported by property tax revenues. Budgets are prepared on the modified accrual basis. State law requires only that a fund's total expenditures not exceed total budgeted expenditures. Budgets may be amended as defined by State law. There were no budget amendments during the year.

The general fund budget is based on the State of Montana's foundation program which is based primarily on enrollment. Budgets of other funds are based on expected revenues and expenditures. The Board of Trustees approves the original budget by the second Monday in August.

State law permits the inclusion of obligations (encumbrances) for construction-in-progress and the purchase of personal property as expenditures for budget purposes. Encumbrances outstanding at year-end are reported as a reservation of fund balance in the fund financial statements. Because the inclusion of these obligations is required for budgetary purposes, encumbrances, if applicable, have been included as expenditures for budgetary purposes. The difference between the budgetary basis and GAAP basis is the state of Montana on behalf TRS contribution.

A budget is not adopted for the miscellaneous programs fund (a major special revenue fund) because it is not legally required and, therefore, presentation of budgetary comparison information is not required.

SCHOOL DISTRICT NUMBER 3
 SCHEDULE OF FUNDING PROGRESS-OTHER POST EMPLOYMENT BENEFITS
 For the Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UALL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UALL as a Percentage of Covered Payroll [(b-a)/c]
6/30/2014	\$ -	\$ 62,436	\$ 62,436	-	\$ 985,039	0.063384292
6/30/2013	-	54,968	54,968	-	920,954	0.059685934
6/30/2012	-	67,942	67,942	-	940,885	0.072210738

OTHER SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT NUMBER 3
EXTRACURRICULAR FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2014

Activity	Balance July 1, 2013	Revenues	Expenditures	Transfers In (Out)	Balance June 30, 2014
Athletics	\$ 25,882	\$ 4,802	\$ 16,723	\$ 425	\$ 14,386
Thunder Athletics	13,262	45,305	60,060	-	(1,493)
Journalism	797	1,699	761	-	1,735
Music	1,468	2,740	1,957	-	2,251
Class of 2014	8,796	1,115	9,829	(82)	-
Class of 2015	140	24,958	24,332	(81)	685
Class of 2016	251	-	-	(81)	170
Class of 2017	390	1	-	(81)	310
Class of 2018	234	542	6	-	770
Class of 2019	-	973	437	-	536
Student Council	1,243	4,647	2,186	-	3,704
Pep Club	1,923	14,757	11,248	(100)	5,332
Shop Fund	637	81	346	-	372
	<u>\$ 55,023</u>	<u>\$ 101,620</u>	<u>\$ 127,885</u>	<u>\$ -</u>	<u>\$ 28,758</u>

SCHOOL DISTRICT NUMBER 3
 SCHEDULE OF SCHOOL DISTRICT ENROLLMENT
 For the Year Ended June 30, 2014

	<u>Reported Enrollment</u>	<u>Enrollment per Records</u>	<u>Difference</u>
FALL ENROLLMENT - October 2013			
<u>Elementary District</u>			
Kindergarten	1	1	-
Grades one through six	27	27	-
Grades seven and eight	7	7	-
	<u>35</u>	<u>35</u>	<u>-</u>
 <u>High School District</u>			
Grades nine through twelve	<u>25</u>	<u>25</u>	<u>-</u>
Part-time students included in grades nine through twelve (540-719 hrs/yr)	<u>1</u>	<u>1</u>	<u>-</u>
 WINTER ENROLLMENT - December 2013			
<u>Elementary District</u>			
Kindergarten	1	1	-
Grades one through six	27	27	-
Grades seven and eight	7	7	-
	<u>35</u>	<u>35</u>	<u>-</u>
 <u>High School District</u>			
Grades nine through twelve	<u>25</u>	<u>25</u>	<u>-</u>
Part-time students included in grades nine through twelve (540-719 hrs/yr)	<u>1</u>	<u>1</u>	<u>-</u>
 SPRING ENROLLMENT - February 2014			
<u>Elementary District</u>			
Kindergarten	1	1	-
Grades one through six	28	28	-
Grades seven and eight	7	7	-
	<u>36</u>	<u>36</u>	<u>-</u>
Part-time students included in grades one through six (540-719 hrs/yr)	<u>1</u>	<u>1</u>	<u>-</u>
 <u>High School District</u>			
Grades nine through twelve	<u>25</u>	<u>25</u>	<u>-</u>
Part-time students included in grades nine through twelve (540-719 hrs/yr)	<u>1</u>	<u>1</u>	<u>-</u>

OLNESS & ASSOCIATES, P. C.

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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

To the Board of Trustees
School District Number 3
Westby, 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 School District Number 3, Westby, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated May 5, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the government'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 government's internal control. Accordingly, we do not express an opinion on the effectiveness of the government'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, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses. (Findings 2014-001 through 2014-003)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the government's financial statements are free from 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*.

The Government's Response to Findings

The government did not respond to the findings identified in our audit as described in the accompanying schedule of findings. Section 2-7-515, Montana Code Annotated, states that the government should respond to any findings in the audit report within 30 days after the receipt of the final audit report.

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 (CONTINUED)

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.

O'ness & Associates, PC

Billings, Montana
May 5, 2015

SCHOOL DISTRICT NUMBER 3
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2014

2014-001. FINANCIAL STATEMENT PREPARATION

Criteria: We were engaged to assist in the preparation of the government's financial statements. The government ensures the quality of its financial statements by engaging a qualified audit firm with expertise in governmental audits and by reading a preliminary draft of the financial statements.

Condition: The government does not have specific controls in place to review the selection and application of accounting principles and resulting disclosures and presentations within the financial statements.

Cause: The government is a small organization with limited resources.

Effect: It is common within the governmental sector to rely the audit firm to prepare the financial statements; however, an audit firm cannot be considered part of the government's internal control by professional standards currently in effect. Since some presentations and disclosures may be material to the financial statements, this weakness in internal control would be classified as material.

Recommendation: The government should continue to read its draft financial statements and ensure the quality of the document and the preparer.

2014-002. SEGREGATION OF DUTIES

Criteria: Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction.

Condition: In many financial areas, including federal award programs, the government lacks segregation of duties.

Cause: The extent to which the government can segregate duties is limited based on the number of personnel, their skill set and work load, and organizational structure.

Effect: The risk of errors or irregularities occurring and not being detected in a timely manner increases when a lack of segregation of duties exists.

Recommendation: There are inherent inefficiencies with full segregation of duties and inherent risks with the lack of segregation of duties. The cost versus benefits for both should be considered. The government should continue to evaluate its segregation of duties and when possible assign tasks to strengthen controls.

2014-003. EXTRACURRICULAR

Criteria: Since cash is so readily subject to error and mishandling, effective control of checks, currency, and other cash items should begin at the time of receipt and continue through deposit, custody, and disbursement.

Condition: Extracurricular fund bank deposits were not made in a timely manner.

Cause: Unknown.

Effect: Exposes the government to risk of loss or theft.

Recommendation: Extracurricular fund bank deposits should be made at least weekly.

SCHOOL DISTRICT NUMBER 3
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

<u>PRIOR YEAR FINANCIAL STATEMENT FINDINGS</u>	<u>STATUS</u>
2013-1. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2013-2. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE