

**SCHOOL DISTRICT NUMBER 1
PETROLEUM COUNTY
WINNETT, MONTANA**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

2810 CENTRAL AVENUE, SUITE B
BILLINGS, MONTANA 59102
(406) 252-6230
FAX (406) 245-6922

TABLE OF CONTENTS

	<u>Page No.</u>
ORGANIZATION	1
INDEPENDENT AUDITOR'S REPORT	2
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Position.....	4
Statement of Activities.....	5
Fund Financial Statements:	
Balance Sheet - Governmental Funds	6
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	7
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	9
Statement of Net Position - Fiduciary Funds	10
Statement of Changes in Net Position - Fiduciary Fund.....	11
Notes to Basic Financial Statements	12
OTHER SUPPLEMENTARY INFORMATION:	
Extracurricular Fund - Schedule of Revenues, Expenditures and Changes in Fund Balances	20
Schedule of School District Enrollment	21
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 <i>GOVERNMENT AUDITING STANDARDS</i>	22
SCHEDULE OF FINDINGS.....	24
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS.....	28

SCHOOL DISTRICT NUMBER 1

ORGANIZATION

June 30, 2014

BOARD OF TRUSTEES

Debbie Hale	Chairperson
Amanda Gillett	Trustee
Kevin Keith	Trustee
Raye Anne Lund	Trustee
Jolene Shaw	Trustee

OFFICIALS

Don Johnson	Superintendent
Melissa Bohn	Clerk

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

BRENT D. OLNESS, CPA
CURT D. WYSS, CPA

ERNEST J. OLNESS, CPA

2810 CENTRAL AVENUE, SUITE B
BILLINGS, MONTANA 59102
(406) 252-6230
FAX (406) 245-6922

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
School District Number 1
Winnett, Montana

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District Number 1, Winnett, 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 an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinions

Because of inadequacies in the accounting records, we were unable to obtain sufficient appropriate audit evidence regarding the financial statements referred to above as of June 30, 2014 and for the year ended June 30, 2014.

Disclaimer of Opinions

Because of the significance of the matter described in the Basis for Disclaimer of Opinions paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for the audit opinions. Accordingly, we do not express opinions on the financial statements referred to in the first paragraph.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

INDEPENDENT AUDITOR'S REPORT (Continued)

Other Information

We were engaged to audit the financial statements of the government as of and for the year ended June 30, 2014. Our report thereon dated May 27, 2015, stated that the scope of our audit of the financial statements was not sufficient to enable us to express opinions because of the matters described under the heading Basis for Disclaimer of Opinions and accordingly, we did not express opinions on such 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. Because of the significance of the matters discussed above, it is inappropriate to, and we do not, express an opinion on the supplementary information referred to above.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 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'neal & Associates, PC

Billings, Montana
May 27, 2015

SCHOOL DISTRICT NUMBER 1
STATEMENT OF NET POSITION
June 30, 2014

ASSETS	
Cash and cash equivalents	\$ 432,750
Receivables:	
Taxes	25,587
Governments	461
Capital assets not being depreciated-land	9,811
Capital assets, net of accumulated depreciation	<u>1,755,716</u>
 Total assets	 <u>2,224,325</u>
 LIABILITIES	
Due to other governments	1,374
Noncurrent liabilities:	
Due within one year:	
Bonds	50,000
Compensated absences	3,862
Due in more than one year:	
Bonds	115,000
Compensated absences	<u>34,758</u>
 Total liabilities	 <u>204,994</u>
 NET POSITION	
Net investment in capital assets	1,600,527
Restricted for:	
Instruction	95,778
Support services:	
Operation and maintenance	13,784
Student transportation	166,436
Food services	2,885
Debt service	4,486
Unrestricted	<u>135,435</u>
 Total net position	 <u><u>\$ 2,019,331</u></u>

SCHOOL DISTRICT NUMBER 1
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	\$ 620,276	\$ 1,350	\$ 86,093	\$ (516,292)
Support services:				
Students	618	-	-	(618)
Instructional staff	19,252	-	-	(19,252)
General administration	140,763	-	-	(140,763)
School administration	25,331	-	-	(25,331)
Business services	38,172	-	-	(38,172)
Operation and maintenance	200,166	10,800	-	(189,366)
Student transportation	126,905	-	23,069	(103,836)
Food services	131,653	7,747	63,547	(60,359)
Extracurricular	77,195	-	-	(77,195)
Interest	11,731	-	-	(11,731)
Total	\$ 1,392,062	\$ 19,897	\$ 172,709	(1,182,915)
General revenues:				
Property taxes				353,918
Intergovernmental:				
State aid				637,137
State other				101,573
County				139,974
Interest				21
Contributions and donations				100
Gain on disposal of capital assets				7,000
Total general revenues				1,239,723
Change in net position				56,808
Net position - beginning				1,962,523
Net position - ending				\$ 2,019,331

SCHOOL DISTRICT NUMBER 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General	Transportation	Bus Depreciation	Retirement	Debt Service	Total Nonmajor Funds	Total Governmental Funds
REVENUES							
Property taxes	\$ 228,522	\$ 57,048	\$ 22,745	\$ -	\$ 40,219	\$ 1,020	\$ 349,554
Intergovernmental:							
County	-	-	-	139,974	-	-	139,974
State aid	644,394	-	-	-	6,581	-	650,975
State other	94,946	25,136	781	-	1,735	20,242	142,840
Federal	-	-	-	-	-	131,645	131,645
Charges for services	-	-	-	-	-	18,735	18,735
Interest	21	-	-	-	-	-	21
Miscellaneous	-	-	-	-	-	3,762	3,762
Total revenues	967,883	82,184	23,526	139,974	48,535	175,404	1,437,506
EXPENDITURES							
Current:							
Instruction	449,201	-	-	62,452	-	70,821	582,474
Support services:							
Students	160	-	-	-	-	-	160
Instructional staff	16,077	-	-	602	-	-	16,679
General administration	129,635	461	-	10,667	-	-	140,763
School administration	22,068	40	-	3,223	-	-	25,331
Business services	34,590	-	-	3,302	-	-	37,892
Operation and maintenance	172,322	-	-	9,909	-	13,483	195,714
Student transportation	5,376	97,499	-	5,277	-	-	108,152
Food services	46,949	-	-	6,012	-	75,733	128,694
Extracurricular	69,603	-	-	4,414	-	-	74,017
Capital outlay	22,785	-	-	-	-	14,041	36,826
Debt service:							
Principal	-	-	-	-	50,000	-	50,000
Interest and other charges	-	-	-	-	11,731	-	11,731
Total expenditures	968,766	98,000	-	105,858	61,731	174,078	1,408,433
Net change in fund balances	(883)	(15,816)	23,526	34,116	(13,196)	1,326	29,073
Fund balances - beginning	157,751	45,752	108,150	30,248	14,106	46,757	402,764
Fund balances - ending	\$ 156,868	\$ 29,936	\$ 131,676	\$ 64,364	\$ 910	\$ 48,083	\$ 431,837

SCHOOL DISTRICT NUMBER 1
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2014

Total fund balances, governmental funds	\$ 431,837
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.	1,765,527
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	25,587
Some liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not included in the funds.	<u>(203,620)</u>
Net position of governmental activities	<u>\$ 2,019,331</u>

SCHOOL DISTRICT NUMBER 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General	Transportation	Bus Depreciation	Retirement	Debt Service	Total Nonmajor Funds	Total Governmental Funds
REVENUES							
Property taxes	\$ 228,522	\$ 57,048	\$ 22,745	\$ -	\$ 40,219	\$ 1,020	\$ 349,554
Intergovernmental:							
County	-	-	-	139,974	-	-	139,974
State aid	644,394	-	-	-	6,581	-	650,975
State other	94,946	25,136	781	-	1,735	20,242	142,840
Federal	-	-	-	-	-	131,645	131,645
Charges for services	-	-	-	-	-	18,735	18,735
Interest	21	-	-	-	-	-	21
Miscellaneous	-	-	-	-	-	3,762	3,762
Total revenues	967,883	82,184	23,526	139,974	48,535	175,404	1,437,506
EXPENDITURES							
Current:							
Instruction	449,201	-	-	62,452	-	70,821	582,474
Support services:							
Students	160	-	-	-	-	-	160
Instructional staff	16,077	-	-	602	-	-	16,679
General administration	129,635	461	-	10,667	-	-	140,763
School administration	22,068	40	-	3,223	-	-	25,331
Business services	34,590	-	-	3,302	-	-	37,892
Operation and maintenance	172,322	-	-	9,909	-	13,483	195,714
Student transportation	5,376	97,499	-	5,277	-	-	108,152
Food services	46,949	-	-	6,012	-	75,733	128,694
Extracurricular	69,603	-	-	4,414	-	-	74,017
Capital outlay	22,785	-	-	-	-	14,041	36,826
Debt service:							
Principal	-	-	-	-	50,000	-	50,000
Interest and other charges	-	-	-	-	11,731	-	11,731
Total expenditures	968,766	98,000	-	105,858	61,731	174,078	1,408,433
Net change in fund balances	(883)	(15,816)	23,526	34,116	(13,196)	1,326	29,073
Fund balances - beginning	157,751	45,752	108,150	30,248	14,106	46,757	402,764
Fund balances - ending	\$ 156,868	\$ 29,936	\$ 131,676	\$ 64,364	\$ 910	\$ 48,083	\$ 431,837

SCHOOL DISTRICT NUMBER 1
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:	\$ 29,073
 Amounts reported for governmental activities in the statement of activities are different because:	
 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.	
This is the amount by which depreciation (\$70,455) exceeded capital outlay (\$36,826) in the current period.	(33,629)
The net effect of various transactions involving capital assets (i.e., sales, donations and trade-ins) is to increase net assets.	7,000
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	4,364
Governmental funds report debt proceeds as current financial resources. In contrast, the statement of activities treats such issuance of debt as a liability. Governmental funds report repayment of principal as an expenditure. In contrast, the statement of activities treats such repayments as a reduction in long-term liabilities. This is the amount of debt repaid.	<u>50,000</u>
Change in net position of governmental activities	<u><u>\$ 56,808</u></u>

SCHOOL DISTRICT NUMBER 1
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
June 30, 2014

	Private Purpose Trust Fund- Extracurricular	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 30,238	\$ 26,686
Total assets	30,238	\$ 26,686
LIABILITIES		
Accounts payable	-	26,686
Total liabilities	-	\$ 26,686
NET POSITION		
Held in trust	\$ 30,238	

SCHOOL DISTRICT NUMBER 1
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND
For the Year Ended June 30, 2014

	Private Purpose Trust Fund- Extracurricular
ADDITIONS	
Student extracurricular activities	<u>\$ 51,260</u>
Total additions	<u>51,260</u>
DEDUCTIONS	
Student extracurricular activities	<u>63,927</u>
Total deductions	<u>63,927</u>
Change in net position	(12,667)
Net position - beginning	<u>42,905</u>
Net position - ending	<u><u>\$ 30,238</u></u>

SCHOOL DISTRICT NUMBER 1
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 a 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.

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.

SCHOOL DISTRICT NUMBER 1
NOTES TO BASIC FINANCIAL STATEMENTS

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 transportation fund accounts for the resources accumulated and payments made for the maintenance and operation of district owned buses.

The bus depreciation fund accounts for the resources accumulated and payments made for the replacement of buses and transportation communication equipment.

The retirement fund accounts for the countywide retirement levy and the district's share of TRS, PERS, unemployment and Social Security and Medicare.

The debt service fund accounts for the accumulation of resources for and payment of principal, interest, and related costs of the government's long-term debt.

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

The District maintains and controls a cash and investment portfolio for all funds. The investment portfolio is managed by the District Clerk and overseen by the Board of Trustees. The District Clerk is responsible for setting the investment policies, reviewing and monitoring investments to ensure the District's investment policies are met and ensuring investments are in compliance with 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 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

All inventories are recorded as expenses/expenditures when purchased. Inventories at year-end were immaterial and not recorded.

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

SCHOOL DISTRICT NUMBER 1
NOTES TO BASIC FINANCIAL STATEMENTS

estimated useful life in excess of one year. 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.

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

<u>Assets</u>	<u>Years</u>
Building and improvements	25-80
Machinery and equipment	5-20

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 60 days. Upon retirement or resignation, classified employees are eligible for sick leave compensation at one fourth of the accumulated amount and certified employees are eligible for sick leave compensation at one fourth of the accumulated amount at the current daily rate.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

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

SCHOOL DISTRICT NUMBER 1
NOTES TO BASIC FINANCIAL STATEMENTS

government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

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, superintendent and/or board of trustees to assign fund balance. Assigned fund balance in the general fund represents year-end encumbrances.

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

Cash and Cash Equivalents and Investments

The government's cash, cash equivalents and investments are reported as follows:

Governmental activities	\$ 432,750
Fiduciary funds	<u>56,924</u>
	<u>\$ 489,674</u>

Total carrying value of cash, cash equivalents and investments as of June 30, 2014, consisted of the following:

	<u>Cash/Cash Equivalents</u>
Cash in banks:	
Demand deposits	\$ 352,048
Savings deposits	<u>137,626</u>
	<u>\$ 489,674</u>

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2014, the government's bank balance of \$495,866 was insured by FDIC.

SCHOOL DISTRICT NUMBER 1
NOTES TO BASIC FINANCIAL STATEMENTS

State statutes require that the government obtain securities for the uninsured portion of deposits as follows: 1.) securities equal to 50% of such deposits if the institution in which the deposits are made has a net worth to total assets ratio of 6% or more, or 2.) 100% if the ratio of net worth to total assets is less than 6%. State statutes do not specify in whose custody or name the collateral is to be held. The amount of collateral held for the government's deposits as of June 30, 2014, exceed the amount required by state statute.

Interest Rate Risk. The government does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, under state statute, an investment may not have a maturity date exceeding 5 years, except when the investment is used in an escrow account to refund an outstanding bond issue in advance.

Credit Risk. 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. The government has no investment policy that would further limit its investment choices. The Short-Term Investment Pool (STIP) maintained by the State of Montana has certain investments in derivatives. GASB requires the nature of the underlying securities and market, credit and legal risks be disclosed. Reference to the audit of the State of Montana would identify the level of risk associated with STIP. The District had no investments at year-end.

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	\$ 9,811	\$ -	\$ -	\$ 9,811
Total capital assets, not being depreciated	9,811	-	-	9,811
Capital assets, being depreciated				
Buildings/improvements	2,161,626	14,041	-	2,175,667
Machinery and equipment	386,804	29,785	(11,500)	405,089
Total capital assets, being depreciated	2,548,430	43,826	(11,500)	2,580,756
Less accumulated depreciation for:				
Buildings/improvements	(579,789)	(34,837)	-	(614,626)
Machinery and equipment	(186,296)	(35,618)	11,500	(210,414)
Total accumulated depreciation	(766,085)	(70,455)	11,500	(825,040)
Total capital assets, being depreciated, net	1,782,345	(26,629)	-	1,755,716
Capital assets, net	\$ 1,792,156	\$ (26,629)	\$ -	\$ 1,765,527

SCHOOL DISTRICT NUMBER 1
NOTES TO BASIC FINANCIAL STATEMENTS

Depreciation expense was charged as follows:

Instruction	\$	37,802
Support services-students		458
Support services-instructional staff		2,573
Support services-business		280
Operation and maintenance		4,452
Student transportation		18,753
Food services		2,959
Extracurricular		3,178
		3,178
	\$	70,455

Long-Term Debt

The government issued 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 government. General obligation bonds currently outstanding are as follows:

	Original Amount	Term	Interest Rate	Balance June 30, 2014
2000 General obligation debt	\$ 710,000	20 yr	5.05-6.00%	\$ 165,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year ending June 30,	Governmental Activities		
	Principal	Interest	Total
2015	\$ 50,000	\$ 8,867	\$ 58,867
2016	55,000	6,181	61,181
2017	60,000	3,225	63,225
	\$ 165,000	\$ 18,273	\$ 183,273

Long-term liability activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
General obligation debt	\$ 215,000	\$ -	\$ (50,000)	\$ 165,000	\$ 50,000
Compensated absences	38,620	-	-	38,620	3,862
Total	\$ 253,620	\$ -	\$ (50,000)	\$ 203,620	\$ 53,862

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

SCHOOL DISTRICT NUMBER 1
NOTES TO BASIC FINANCIAL STATEMENTS

exceeded commercial insurance coverage in any of the past three fiscal years.

Interlocal Cooperative

The government participates with other school districts located in Fergus, Petroleum, Golden Valley, Judith Basin, Musselshell and Wheatland Counties in the Central Montana Learning Resource Center Cooperative. The Cooperative provides special education services to its member schools.

Commitments and Contingencies

At year-end, the government had commitments outstanding, in the form of purchase orders, of \$15,314, primarily for supplies and repairs. The following schedule displays encumbrances by major funds and nonmajor funds in the aggregate.

	General Fund	Transportation	Total Governmental Funds
Restricted:			
Support services:			
Student transportation	\$ -	\$ 369	\$ 369
Assigned:			
Instruction	429	-	429
Support services:			
Instructional staff	92	-	92
General administration	44	-	44
Business services	189	-	189
Operation and maintenance	13,926	-	13,926
Student transportation	150	-	150
Extracurricular	115	-	115
	<u>\$ 14,945</u>	<u>\$ 369</u>	<u>\$ 15,314</u>

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 member again on or after July 1, 2013. Effective July 1, 2013, the Tier 1 member supplemental contribution may be decreased, and a

SCHOOL DISTRICT NUMBER 1
NOTES TO BASIC FINANCIAL STATEMENTS

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 contributions have not 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	\$ 74,238	\$ 84,081	\$ 89,625
PERS	20,901	22,656	20,475
	\$ 95,139	\$ 106,737	\$ 110,100

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.

OTHER SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT NUMBER 1
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
Interest	\$ 531	\$ 158	\$ 86	\$ -	\$ 603
Skills USA	197	916	913	-	200
Class of 2013	170	-	-	(170)	-
Class of 2014	4,013	420	2,749	-	1,684
Class of 2015	-	10,254	6,510	-	3,744
Yearbook	8,708	3,665	3,992	-	8,381
Cheerleaders	649	1,931	2,810	521	291
Athletics	20,119	21,502	35,327	(521)	5,773
Music	69	243	209	170	273
Library	40	1,738	1,715	-	63
Student Council	4,946	2,557	1,300	-	6,203
Yellowstone Park	816	6,004	6,381	-	439
Elementary Fair	264	101	88	-	277
High School Fair	65	100	2	-	163
Greenhouse	1,060	51	20	170	1,261
Financial Education	246	-	3	-	243
AYP Donation	350	-	302	-	48
Shed Fund	492	1,620	1,520	-	592
Acedemic Challenge	170	-	-	(170)	-
Total	<u>\$ 42,905</u>	<u>\$ 51,260</u>	<u>\$ 63,927</u>	<u>\$ -</u>	<u>\$ 30,238</u>

SCHOOL DISTRICT NUMBER 1
 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	4	4	-
Grades one through six	30	30	-
Grades seven and eight	14	14	-
	<u>48</u>	<u>48</u>	<u>-</u>
 <u>High School District</u>			
Grades nine through twelve	<u>37</u>	<u>37</u>	<u>-</u>
 WINTER ENROLLMENT - December 2013			
<u>Elementary District</u>			
Kindergarten	4	4	-
Grades one through six	32	32	-
Grades seven and eight	14	14	-
	<u>50</u>	<u>50</u>	<u>-</u>
 <u>High School District</u>			
Grades nine through twelve	<u>36</u>	<u>36</u>	<u>-</u>
 SPRING ENROLLMENT - February 2014			
<u>Elementary District</u>			
Kindergarten	5	5	-
Grades one through six	32	32	-
Grades seven and eight	14	14	-
	<u>51</u>	<u>51</u>	<u>-</u>
 <u>High School District</u>			
Grades nine through twelve	<u>37</u>	<u>37</u>	<u>-</u>

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

BRENT D. OLNESS, CPA
CURT D. WYSS, CPA

ERNEST J. OLNESS, CPA

2810 CENTRAL AVENUE, SUITE B
BILLINGS, MONTANA 59102
(406) 252-6230
FAX (406) 245-6922

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 1
Winnett, Montana

We were engaged to audit, 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 1, Winnett, 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 27, 2015. We did not express an opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund because of inadequate accounting records.

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 and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 2014-008)

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies. (Findings 2014-009 through 2014-011)

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2014-009.

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'Leary & Associates, PC

Billings, Montana
May 27, 2015

SCHOOL DISTRICT NUMBER 1
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2014

2014-001. ACCOUNTING RECORDS

Criteria: Strong internal control and effective financial reporting require complete and accurate financial information related to the district accounting records.

Condition: Assets, liabilities, net assets/fund, revenues and expenses/expenditures were either over or understated.

Cause: Unknown.

Effect: Because of the significance of these matters, we were not able to obtain sufficient appropriate audit evidence to provide a basis for the audit opinions. Accordingly, we issued a disclaimer of opinion.

Recommendation: We recommend procedures be developed to provide accurate and complete financial information related to the district accounting records.

2014-002. 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.

2014-003. 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.

2014-004. EXTRACURRICULAR ACTIVITIES

Criteria: Strong internal control and effective financial reporting require complete and accurate financial information.

Condition: Accurate and complete financial records were not available to support the detail extracurricular schedule and the fiduciary fund statements of net position and changes in net position.

Cause: Unknown.

Effect: Because of the significance of these matters, we were not able to obtain sufficient appropriate audit evidence to provide a basis for the audit opinions. Accordingly, we issued a disclaimer of opinion.

SCHOOL DISTRICT NUMBER 1
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2014

Recommendation: We recommend procedures be developed to provide accurate and complete extracurricular information.

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.

Condition: Deposits were not always made intact or in a timely manner.

Cause: Unknown.

Effect: Lack of cash controls over extracurricular collections exposes the government to risk of loss or theft.

Recommendation: We recommend deposits be made intact, on a weekly basis.

Criteria: Strong internal control procedures dictate all disbursements be supported by adequate documentation prior to being approved for payment.

Condition: Items were paid for without complete and adequate documentation (charge slips, invoices and receipts) to support each disbursement from the extracurricular fund.

Cause: Unknown

Effect: The risk of errors, irregularities or inappropriate charges occurring and not being detected is increased if supporting documentation is not attached to all disbursements

Recommendation: Employees and sponsors should be required to obtain complete and adequate documentation when purchasing items.

2014-005. CASH NOT RECONCILED MONTHLY

Criteria: Effective internal control requires cash to be reconciled monthly. Unlocated differences should be identified and resolved immediately.

Condition: Unlocated differences existed each month on the bank reconciliations for fiscal year 2014.

Cause: Procedures are not in place to identify the unlocated differences and correct them.

Effect: The district's general ledger accounts could be significantly misstated.

Recommendation: Cash reconciliations should be completed every month. Unlocated differences should be resolved immediately and any necessary adjustments recorded.

2014-006. RECONCILE PAYROLL CLEARING FUND

Criteria: Reconciling the liability accounts in the payroll clearing fund with the amounts actually paid strengthens internal controls and ensures the accuracy of amounts recorded in the general ledger.

Condition: The liability accounts in the payroll clearing fund were not reconciled.

Cause: Unknown.

Effect: Internal control is weakened.

Recommendation: After payroll is processed, the clerk should print a payroll clearing fund trial balance and verify the liabilities are equal to the amounts recorded on the payroll summary report.

2014-007. RECONCILE WARRANTS PAYABLE

Criteria: Reconciling warrants payable in the payroll and claims clearing funds would strengthen internal controls and ensure the accuracy of amounts recorded in the general ledger.

Condition: Warrants payable in the payroll and claims clearing funds were not reconciled at the end of each month.

SCHOOL DISTRICT NUMBER 1
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2014

Cause: Unknown.

Effect: Inaccurate financial information.

Recommendation: Warrants payable in the payroll and claims clearing funds should be reconciled at the end of each month. Documentation should be retained for future reference.

2014-008. TRUSTEES FINANCIAL SUMMARY DID NOT AGREE TO THE ACCOUNTING RECORDS

Criteria: The Trustees Financial Summary that is submitted to the Office of Public Instruction should be supported by the underlying accounting records.

Condition: The fiscal year 2014 Trustees Financial Summary submitted to the Office of Public Instruction did not agree to the underlying accounting records.

Cause: Unknown

Effect: The Trustees Financial Summary was not accurate for all funds.

Recommendation: The Trustees Financial Summary should be prepared from and reconciled to the district's general ledger.

2014-009. GRANTS NOT SEPARATELY IDENTIFIED IN THE GENERAL LEDGER

Criteria: Effective internal control and grant terms and conditions require grant revenues and expenditures to be separately identified in the general ledger.

Condition: Grant revenues and expenditures were not separately identified in the general ledger. Instances were noted where numerous grant activity was combined under a single project reporter code, not assigned a specific project reporter code or were coded to the incorrect project reporter code.

Cause: Unknown.

Effect: Internal controls are weakened and non-compliance with grant terms and conditions.

Recommendation: Grant revenues and expenditures should be properly coded and separately identified in the general ledger.

2014-010. RECONCILE PAYROLL WAGE BASES

Criteria: Reconciling the various wages bases (i.e., gross wage, social security wage, Medicare wage, federal and state wage, unemployment wage and worker's compensation wage) identifies errors, if any, in individual employee setups.

Condition: Procedures to reconcile the various wages bases are not in place.

Cause: Unknown.

Effect: Internal control is weakened.

Recommendation: The various wage bases should be reconciled at the end of each month and the payroll reports should be reconciled at the end of each quarter.

2014-011. REQUIRED SUPPLEMENTARY INFORMATION

Criteria: Accounting principles generally accepted in the United States of America require the required supplementary information to be presented to supplement the basic financial statements.

Condition: Management has omitted the required supplementary information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements.

Cause: Unknown.

Effect: Such missing information, although not a part of the basic financial statements, is required by the Governmental

SCHOOL DISTRICT NUMBER 1
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2014

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. Our opinion on the basic financial statements is not affected by this missing information.

Recommendation: On an annual basis, the district should develop the required supplementary information as required by accounting principles generally accepted in the United States.

SCHOOL DISTRICT NUMBER 1
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
2013-3. EXTRACURRICULAR ACTIVITES	NOT IMPLEMENTED
2013-4. GRANTS NOT SEPARATELY IDENTIFIED IN THE GENERAL LEDGER	NOT IMPLEMENTED
2013-5. CASH NOT RECONCILED MONTHLY	NOT IMPLEMENTED
2013-6. RECONCILE PAYROLL WAGE BASES	NOT IMPLEMENTED
2013-7. TRUSTEES FINANCIAL SUMMARY DID NOT AGREE TO THE ACCOUNTING RECORDS	NOT IMPLEMENTED
2013-8. DISTRICT EXPENDITURES CHARGED TO THE LEASE RENTAL FUND	IMPLEMENTED
2013-10.REQUIRED SUPPLEMENTARY INFORMATION	NOT IMPLEMENTED
2013-11.RECONCILE PAYROLL CLEARING FUND	NOT IMPLEMENTED
2013-12.ADMINISTRATIVE WAGE ALLOCATION	IMPLEMENTED