

**SCHOOL DISTRICT NUMBER 72
GALLATIN COUNTY
BIG SKY, 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**

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SCHOOL DISTRICT NUMBER 72

ORGANIZATION

June 30, 2014

BOARD OF TRUSTEES

Loren Bough	Chairperson
Laura Michel	Vice-chairperson
Matt Jennings	Trustee
Meggie Luchini	Trustee
Kristen Ramirez	Trustee

OFFICIALS

Jerry House	Superintendent
Sue Becker	Business Manager
Marie Goode	District 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 72
Big Sky, 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 72, Big Sky, 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.

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.

INDEPENDENT AUDITOR'S REPORT (Continued)

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, schedule of school district enrollment, schedule of general obligation debt capacity and schedule of taxable market value and total taxable value 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 fairly stated in all material respects in relation to the basic financial statements as a whole.

The schedule of general obligation debt capacity and schedule of taxable market value and total taxable value capacity have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2014, 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'ness & Associates, PC

Billings, Montana
November 11, 2014

SCHOOL DISTRICT NUMBER 72
MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis of School District Number 72's financial performance provides an overview of the government's financial activities for the year ended June 30, 2014. Please read the information here in conjunction with our financial statements and footnotes which begin on page 7.

FINANCIAL HIGHLIGHTS

- Net position increased \$1,305,721 as a result of this year's operations.
- The total cost of all our programs increased by \$835,124.
- The General fund reported an increase in fund balance this year of \$45,100.
- The general fund budget was amended \$46,747 for unanticipated increase in enrollment.

USING THIS AUDIT REPORT

This annual report consists of a series of financial statements. The government-wide financial statements provide information about the activities of the government as a whole and present a longer-term view of the finances. For governmental funds, fund statements tell how these services were financed in the short term, as well as, what remains for future spending. Fund financial statements also report the government's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which the government acts solely as a trustee or agent for the benefit of those outside of the government.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide financial statements One of the most important questions asked about the government's finances is, "Is the district as a whole better off or worse off as a result of the year's activities?" The Statement of Net position and the Statement of Activities (pages 7 and 8) report information about the government as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report net position and changes in it. You can think of net position—the difference between assets and liabilities—as one way to measure the district's financial health, or financial position. Over time, increases or decreases in net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the property tax base, economy, enrollment and changes in the State's funding of educational costs to assess the overall health.

Fund financial statements The fund financial statements (pages 9 and 11) provide detailed information about the most significant funds—not the government as a whole. Some funds are required to be established by State law. Also, the governing body establishes many other funds to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other money. We utilize the following funds:

Governmental funds—Basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations (pages 10 and 12, respectively).

Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds use the accrual basis of accounting. We exclude these activities from the other financial statements because we cannot use these assets to finance our operations. We are responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE GOVERNMENT AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In our case, assets exceeded liabilities by \$10,939,327 as of June 30, 2014. Net position increased \$1,305,721, which resulted from levying to pay debt service principal, funding capital asset additions and capital grants and contributions. Following are the schedules of net position and changes in net position:

SCHOOL DISTRICT NUMBER 72
MANAGEMENT'S DISCUSSION & ANALYSIS

NET POSITION	2014	2013	Change
ASSETS			
Current and other assets	\$ 9,026,758	\$ 1,260,810	\$ 7,765,948
Capital assets	15,236,490	13,149,187	2,087,303
Total assets	<u>24,263,248</u>	<u>14,409,997</u>	<u>9,853,251</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	52,808	66,010	(13,202)
Total deferred outflows of resources	<u>52,808</u>	<u>66,010</u>	<u>(13,202)</u>
LIABILITIES			
Other liabilities	16,086	42,216	(26,130)
Long-term liabilities	13,360,643	4,800,185	8,560,458
Total liabilities	<u>13,376,729</u>	<u>4,842,401</u>	<u>8,534,328</u>
NET POSITION			
Net investment in capital assets	9,792,413	8,536,059	1,256,354
Restricted	870,577	901,126	(30,549)
Unrestricted	276,337	196,421	79,916
	<u>\$ 10,939,327</u>	<u>\$ 9,633,606</u>	<u>\$ 1,305,721</u>
	2014	2013	Change
CHANGE IN NET POSITION			
Program revenues:			
Charges for services	\$ 110,207	\$ 79,490	\$ 30,717
Operating grants and contributions	514,298	417,079	97,219
Capital grants and contributions	16,000	1,602,937	(1,586,937)
General revenues:			
Taxes	3,518,161	2,588,052	930,109
State sources	965,318	822,527	142,791
County sources	320,034	234,251	85,783
Interest	75,639	10,527	65,112
Miscellaneous	9,078	17,947	(8,869)
Total revenues	<u>5,528,735</u>	<u>5,772,810</u>	<u>(244,075)</u>
Expenses:			
Instruction	2,119,336	1,672,002	447,334
Support services-students	79,045	61,857	17,188
Support services-instructional staff	199,431	200,854	(1,423)
Support services-general administration	229,163	212,830	16,333
Support services-administration	413	844	(431)
Support services-business	91,778	78,196	13,582
Operation and maintenance	516,334	451,852	64,482
Student transportation	261,200	271,597	(10,397)
Food services	129,481	123,616	5,865
Community services	67,429	58,882	8,547
Extracurricular	69,618	66,494	3,124
Interest on long-term debt	459,786	188,866	270,920
Total expenses	<u>4,223,014</u>	<u>3,387,890</u>	<u>835,124</u>
Change in net position	1,305,721	2,384,920	(1,079,199)
Net position, beginning	9,633,606	7,311,655	2,321,951
Cumulative effect change in accounting principle	-	(62,969)	62,969
Net position, ending	<u>\$ 10,939,327</u>	<u>\$ 9,633,606</u>	<u>\$ 1,305,721</u>

SCHOOL DISTRICT NUMBER 72
MANAGEMENT'S DISCUSSION & ANALYSIS

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the major (most significant) funds. To be reported as a major fund, total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures of an individual fund must be at least 10 percent of the corresponding element total (assets, liabilities, etc.) for all funds. The General fund is always reported as a major fund.

General fund revenues exceeded expenditures by \$52,029 for the year ended June 30, 2014. Revenues in the general fund increased \$385,368 over the prior year due to an increase in property taxes and state aid. The increase is attributable to an increase in enrollment. Overall, general fund expenditures increased by \$394,476 over the prior year. The increase in expenditures occurred due to employee raises, increasing staff FTE and allocation of personnel costs between funds.

The Debt Service fund fund balance increased by \$48,542. The increase is due to collection of delinquent taxes.

Fund balance for the building fund increased \$7,634,393. The increase is due to the issuance of bonds for school expansion.

CAPITAL ASSET AND DEBT ADMINISTRATION

The district's capital assets as of June 30, 2014 totaled \$15,236,490. The investment in capital assets includes land, construction in progress, improvements, buildings, and machinery and equipment. During 2014, \$9,745,000 in bonds were issued for school expansion. For more information related to capital assets and long term-liabilities, see the notes to the basic financial statements.

THE GOVERNMENT'S FUTURE

Big Sky School District, a K-12 public school district, currently houses Ophir Elementary School, Ophir Middle School and Lone Peak High School in one school building. District-wide enrollment increases have created a space shortage in this building. Based on the Facility Committee's (committee comprised of community, staff and Board members) findings/recommendations, the Board of Trustees moved forward with a bond levy election. Voters approved \$10,200,000 in general obligation bonds in May 2013 for the purpose of providing funds to pay the costs of acquiring two parcels of land and designing, building and equipping on the expanded school campus a new school complex to serve prekindergarten through fourth grade classes, to include classrooms, a gymnasium, an administrative center, a satellite kitchen, a cafeteria, site improvements and related improvements and to make related improvements to the existing school campus. The land parcels were acquired in August 2013. Construction started in spring 2014. The new construction will be completed during summer 2015 in time to open for the 2015/2016 school year.

The Friends of Big Sky Education, a local non-profit school foundation, received a grant to provide 1:1 technology devices to Big Sky School District students. The device implementation is occurring during the 2014-2015 school year.

With legislative changes to the school funding formula, continued taxpayer support in passing a general fund levy election and enrollment growth, there was an 11.79% increase in budget authority from FY14 (amended budget authority with Office of Public Instruction approved budget authority increases due to unanticipated enrollment increases) to FY15 (includes an Office of Public Instruction approved budget authority increase due to an anticipated enrollment increase). The FY14 General Fund reserve increased to 8.56% of the 10% of the FY15 adopted budget limit allowed per state law.

SCHOOL DISTRICT NUMBER 72
STATEMENT OF NET POSITION
June 30, 2014

ASSETS	
Cash and cash equivalents	\$ 8,819,036
Receivables:	
Taxes	164,616
Governments	19,623
Other	11,221
Inventories	3,223
Prepays	9,039
Capital assets:	
Land and construction in progress	2,868,012
Capital assets, net of accumulated depreciation	<u>12,368,478</u>
 Total assets	 <u>24,263,248</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	<u>52,808</u>
 Total deferred outflows of resources	 <u>52,808</u>
 LIABILITIES	
Accounts payable-vendors	122,276
Unearned revenues	3,810
Long-term liabilities:	
Due within one year:	
Bonds payable	1,555,000
Compensated absences	8,555
Due in more than one year:	
Bonds payable	11,523,470
Compensated absences	76,990
Other post employment benefits	<u>86,628</u>
 Total liabilities	 <u>13,376,729</u>
 NET POSITION	
Net investment in capital assets	9,792,413
Restricted for:	
Instruction	457,743
Support services:	
Instructional staff	87,494
General administration	4,535
Business services	3,063
Operation and maintenance	63,086
Student transportation	97,570
Food services	2,456
Extracurricular	1,866
Debt service	152,764
Unrestricted	<u>276,337</u>
 Total net position	 <u><u>\$ 10,939,327</u></u>

SCHOOL DISTRICT NUMBER 72
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	Capital Grants and Contributions	
Instruction	\$ 2,119,336	\$ 20,105	\$ 347,870	\$ 16,000	\$ (1,735,361)
Support services:					
Students	79,045	-	5,357	-	(73,688)
Instructional staff	199,431	-	6,738	-	(192,693)
General administration	229,163	-	-	-	(229,163)
School administration	413	-	-	-	(413)
Business services	91,778	-	-	-	(91,778)
Operation and maintenance	516,334	11,582	18,734	-	(486,018)
Student transportation	261,200	-	41,692	-	(219,508)
Food services	129,481	78,520	11,627	-	(39,334)
Community services	67,429	-	37,038	-	(30,391)
Extracurricular	69,618	-	45,242	-	(24,376)
Interest	459,786	-	-	-	(459,786)
Total	\$ 4,223,014	\$ 110,207	\$ 514,298	\$ 16,000	(3,582,509)
General revenues:					
Property taxes					3,518,161
Intergovernmental:					
State aid					921,283
State other					44,035
County					320,034
Interest					75,639
Contributions and donations					5,492
Miscellaneous					3,586
Total general revenues					4,888,230
Change in net position					1,305,721
Net position - beginning					9,633,606
Net position - ending					\$ 10,939,327

SCHOOL DISTRICT NUMBER 72
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General	Debt Service	Building	Total Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 202,512	\$ 64,478	\$ 7,739,381	\$ 812,665	\$ 8,819,036
Receivables:					
Taxes	51,435	88,286	-	24,895	164,616
Governments	-	-	-	19,623	19,623
Other	410	-	-	10,811	11,221
Inventories	-	-	-	3,223	3,223
Prepaid items	7,000	-	-	2,039	9,039
Total assets	\$ 261,357	\$ 152,764	\$ 7,739,381	\$ 873,256	\$ 9,026,758
LIABILITIES					
Accounts payable-vendors	\$ 3,284	\$ -	\$ 104,988	\$ 14,004	\$ 122,276
Unearned revenues	-	-	-	3,810	3,810
Total liabilities	3,284	-	104,988	17,814	126,086
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-taxes	51,435	88,286	-	24,895	164,616
Total deferred inflows of resources	51,435	88,286	-	24,895	164,616
FUND BALANCES (DEFICITS)					
Nonspendable:					
Prepaid items	7,000	-	-	2,039	9,039
Inventory	-	-	-	3,223	3,223
Restricted:					
Instruction	-	-	-	450,264	450,264
Support services:					
Instructional staff	-	-	-	87,494	87,494
General administration	-	-	-	4,535	4,535
Business services	-	-	-	3,063	3,063
Operation and maintenance	-	-	-	56,963	56,963
Student transportation	-	-	-	84,238	84,238
Food services	-	-	-	2,456	2,456
Extracurricular	-	-	-	1,866	1,866
Capital projects	-	-	7,634,393	-	7,634,393
Debt service	-	64,478	-	-	64,478
Committed:					
Instruction	-	-	-	70,276	70,276
Support services:					
Instructional staff	-	-	-	2,000	2,000
General administration	-	-	-	9,600	9,600
Business services	-	-	-	12,477	12,477
Operation and maintenance	-	-	-	2,249	2,249
Student transportation	-	-	-	542	542
Extracurricular	-	-	-	42,886	42,886
Unassigned	199,638	-	-	(5,624)	194,014
Total fund balances (deficits)	206,638	64,478	7,634,393	830,547	8,736,056
Total liabilities, deferred inflows of resources and fund balances	\$ 261,357	\$ 152,764	\$ 7,739,381	\$ 873,256	\$ 9,026,758

SCHOOL DISTRICT NUMBER 72
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2014

Net change in fund balances - total governmental funds	\$ 8,736,056
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.	15,236,490
Other long-term assets are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the funds.	164,616
Deferred charges on refunding bonds are amortized in the statement of net position.	52,808
Some liabilities, including compensated absences, bonds payable and other post employment benefits, are not due and payable in the current period and, therefore, are not included in the funds.	<u>(13,250,643)</u>
Net position of governmental activities	<u>\$ 10,939,327</u>

SCHOOL DISTRICT NUMBER 72
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General	Debt Service	Building	Total Nonmajor Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 1,112,640	\$ 1,967,337	\$ -	\$ 540,975	\$ 3,620,952
Intergovernmental:					
County	-	-	-	340,880	340,880
State aid	921,283	-	-	-	921,283
State other	180,684	-	-	107,392	288,076
Federal	-	-	-	13,378	13,378
Tuition	15,855	-	-	-	15,855
Charges for services	-	-	-	90,052	90,052
Interest	3,055	7,038	63,798	1,748	75,639
Miscellaneous	1,714	-	3,991	259,706	265,411
Total revenues	2,235,231	1,974,375	67,789	1,354,131	5,631,526
EXPENDITURES					
Current:					
Instruction	1,432,971	-	-	403,107	1,836,078
Support services:					
Students	62,589	-	-	13,323	75,912
Instructional staff	84,506	-	-	102,674	187,180
General administration	180,847	-	-	44,849	225,696
School administration	9	-	-	404	413
Business services	75,257	-	-	14,580	89,837
Operation and maintenance	287,613	-	4,168	171,436	463,217
Student transportation	22,491	-	-	178,823	201,314
Food services	3,914	-	-	98,263	102,177
Community services	-	-	-	67,429	67,429
Extracurricular	33,005	-	-	19,285	52,290
Capital outlay	-	-	2,298,292	199,570	2,497,862
Debt service:					
Principal	-	1,550,000	-	-	1,550,000
Interest and other charges	-	375,833	117,305	-	493,138
Total expenditures	2,183,202	1,925,833	2,419,765	1,313,743	7,842,543
Excess (deficiency) of revenues over expenditures	52,029	48,542	(2,351,976)	40,388	(2,211,017)
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	-	9,745,000	-	9,745,000
Premium on issuance of bonds	-	-	250,886	-	250,886
Transfers in	-	-	-	6,929	6,929
Transfers out	(6,929)	-	-	-	(6,929)
Total other financing sources (uses)	(6,929)	-	9,995,886	6,929	9,995,886
Net change in fund balances	45,100	48,542	7,643,910	47,317	7,784,869
Fund balances - beginning	161,538	15,936	(9,517)	783,230	951,187
Fund balances (deficits) - ending	\$ 206,638	\$ 64,478	\$ 7,634,393	\$ 830,547	\$ 8,736,056

See notes to basic financial statements.

SCHOOL DISTRICT NUMBER 72
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	\$ 7,784,869
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<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>	
This is the amount by which capital outlay (\$2,497,862) exceeded depreciation (\$407,062) in the current period.	2,090,800
The net effect of various transactions involving capital assets (i.e., sales, donations and trade-ins) is to decrease net position.	(3,497)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(102,791)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statements of activities. The details of these transactions follows:</p>	
Issuance of bonds	(9,745,000)
Premium on issuance of bonds	(250,886)
Debt principal repayments	1,550,000
Amortization of deferred charge on refunding	(13,202)
Amortization of bond premium	46,554
<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	(27,473)
Other post employment benefits	(23,653)
Change in net position of governmental activities	\$ 1,305,721

SCHOOL DISTRICT NUMBER 72
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
June 30, 2014

	Private Purpose Trust Fund- Extracurricular	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 22,062	\$ 65,858
Other	15	-
Total assets	\$ 22,077	\$ 65,858
LIABILITIES		
Accounts payable	3,363	\$ 65,858
Total liabilities	3,363	\$ 65,858
NET POSITION		
Held in trust	\$ 18,714	

SCHOOL DISTRICT NUMBER 72
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND
For the Year Ended June 30, 2014

	<u>Private Purpose Trust Fund- Extracurricular</u>
ADDITIONS	
Contributions:	
Student extracurricular activities	<u>\$ 113,448</u>
Total contributions	<u>113,448</u>
DEDUCTIONS	
Student extracurricular activities	<u>105,713</u>
Total deductions	<u>105,713</u>
Change in net position	7,735
Net position - beginning	<u>10,979</u>
Net position - ending	<u><u>\$ 18,714</u></u>

SCHOOL DISTRICT NUMBER 72
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 72
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.

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

The building fund accounts for the construction of school facilities.

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 Outflows/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

All inventories are valued at cost. Inventories are recorded as expenses when consumed rather than when purchased. 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 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>
Land improvements	20-25
Buildings	25-50
Machinery and equipment	5-25

SCHOOL DISTRICT NUMBER 72
NOTES TO BASIC FINANCIAL STATEMENTS

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. Leave for certified personnel (teachers) is awarded at 12 days per year with a maximum accumulation of 75 days. Upon retirement or resignation, classified employees are eligible for sick leave compensation at one fourth of the accumulated amount and certified personal leave is paid out at \$75 per day.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond issuance costs are recognized as an expense in the period incurred. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government only has one item that would qualify for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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."

SCHOOL DISTRICT NUMBER 72
NOTES TO BASIC FINANCIAL STATEMENTS

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.

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 business manager, superintendent and/or board of trustees 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. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Equity

The school food (\$2,175) and traffic education (\$226) funds had deficit fund balances as of June 30, 2014. The deficits occurred because current year expenditures exceeded revenues. Management is evaluating how to eliminate the deficits.

NOTE 3. 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 fund, are held by the County Treasurer. The government directs the investment of money pursuant to the provisions of state statute. The extracurricular fund bank balance was 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 Gallatin County Treasurer.

SCHOOL DISTRICT NUMBER 72
NOTES TO BASIC FINANCIAL STATEMENTS

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

Cash in banks-demand deposits	\$ 592
Pooled cash at Gallatin County	8,533,641
Brokerage account	<u>372,723</u>
	<u>\$ 8,906,956</u>

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.

Investments made by the government are summarized below. The investments that are represented by specific identifiable investment securities are categorized in the following manner: Category 1-Insured or registered, with securities held by the government or its agent in the government's name; Category 2-Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name; Category 3-Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

	Custodial Credit Risk Category			Carrying Amount	Fair Value
	1	2	3		
Brokerage account	<u>\$ 372,723</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 372,723</u>	<u>\$ 372,723</u>

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	\$ 555,261	\$ 430,820	\$ -	\$ 986,081
Construction-in-progress	24,100	1,857,831	-	1,881,931
Total capital assets, not being depreciated	<u>579,361</u>	<u>2,288,651</u>	<u>-</u>	<u>2,868,012</u>
Capital assets, being depreciated				
Buildings/improvements	13,783,878	11,007	-	13,794,885
Improvements other than buildings	139,757	9,640	-	149,397
Machinery and equipment	1,303,709	188,564	(14,190)	1,478,083
Total capital assets, being depreciated	<u>15,227,344</u>	<u>209,211</u>	<u>(14,190)</u>	<u>15,422,365</u>
Less accumulated depreciation for:				
Buildings/improvements	(2,175,305)	(278,977)	-	(2,454,282)
Improvements other than buildings	(28,521)	(5,803)	-	(34,324)
Machinery and equipment	(453,692)	(122,282)	10,693	(565,281)
Total accumulated depreciation	<u>(2,657,518)</u>	<u>(407,062)</u>	<u>10,693</u>	<u>(3,053,887)</u>
Total capital assets, being depreciated, net	<u>12,569,826</u>	<u>(197,851)</u>	<u>(3,497)</u>	<u>12,368,478</u>
Capital assets, net	<u>\$ 13,149,187</u>	<u>\$ 2,090,800</u>	<u>\$ (3,497)</u>	<u>\$ 15,236,490</u>

SCHOOL DISTRICT NUMBER 72
NOTES TO BASIC FINANCIAL STATEMENTS

Depreciation expense was charged as follows:

Instruction	\$ 253,387
Support services-students	3,215
Support services-instructional staff	8,146
Support services-general administration	1,337
Support services-business	607
Operation and maintenance	39,796
Student transportation	56,894
Food services	26,108
Extracurricular	17,572
	<u>\$ 407,062</u>

Interfund Transfers

Transfers from the general fund to the compensated absences fund (\$6,929) were made to fund future payout of accumulated leave for administrative and classified staff.

Long-Term Debt

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
2005 Refunding bonds	\$ 1,390,000	11 yr	3.2%-4.35%	\$ 475,000
2012 Refunding bonds	4,585,000	6 yr	2.00%	3,040,000
2014 bonds	9,745,000	15 yr	2-4.00%	9,210,000
				<u>\$ 12,725,000</u>

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

Year ending June 30,	Principal	Interest	Total
2015	\$ 1,555,000	\$ 363,991	\$ 1,918,991
2016	1,520,000	329,590	1,849,590
2017	1,550,000	295,590	1,845,590
2018	855,000	260,713	1,115,713
2019	630,000	243,612	873,612
2020-2024	3,415,000	968,036	4,383,036
2025-2027	3,200,000	304,156	3,504,156
	<u>\$ 12,725,000</u>	<u>\$ 2,765,688</u>	<u>\$ 15,490,688</u>

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 bonds	\$ 4,530,000	9,745,000	\$ (1,550,000)	\$ 12,725,000	\$ 1,555,000
Premium	149,138	250,886	(46,554)	353,470	-
Compensated absences	58,072	27,473	-	85,545	8,555
	<u>\$ 4,737,210</u>	<u>\$ 10,023,359</u>	<u>\$ (1,596,554)</u>	<u>\$ 13,164,015</u>	<u>\$ 1,563,555</u>

SCHOOL DISTRICT NUMBER 72
NOTES TO BASIC FINANCIAL STATEMENTS

Compensated absences are generally liquidated by the general fund and general obligation bonds are liquidated by the debt service fund.

NOTE 4. 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 Gallatin and Madison County in the Gallatin-/Madison County Special Education 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 contracts, of approximately \$7.9 million, primarily for construction projects.

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.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the government.

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:

	<u>Employer</u>	<u>Employee</u>	<u>Total</u>
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 72
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 on-behalf TRS contribution (\$30,835) 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	\$ 205,447	\$ 150,841	\$ 135,815
PERS	73,542	75,423	60,789
	\$ 278,989	\$ 226,264	\$ 196,604

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	\$ 46,314
Interest on net OPEB obligation	2,676
Adjustment to annual required contribution	(2,654)
Annual OPEB cost (expense)	46,336
Contributions made	(22,683)
Increase in net OPEB obligation	23,653
Net OPEB obligation - beginning of year	62,975
Net OPEB obligation - end of year	\$ 86,628

SCHOOL DISTRICT NUMBER 72
NOTES TO BASIC FINANCIAL STATEMENTS

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 two preceding years are as follows.

Year Ending June 30,	Annual OPEB Cost (AOC)	Percentage of Annual AOC Contributed	Net OPEB Obligation (NOO)
2012	\$ 48,527	0%	\$ 33,772
2013	46,712	0%	62,975
2014	46,336	0%	86,628

Funded Status and Funding Progress. As of July 1, 2013, the Plan was 0% funded. The actuarial accrued liability for benefits was \$382,384, and the actuarial value of assets is \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$382,384.

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 65 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 the RP2000 Healthy Combined Generational Table. 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 10.6 percent, with reduction to the ultimate rate of 5 percent.

Other Assumptions and Methods: The inflation rate was assumed to be 4 percent (less than 65 years of age) and 3 percent (older than 65 years of age). Based on the historical and expected returns of the government's investments, the investment rate of return was assumed to be 4.25%. Estimated participation is based on the assumption that 45 percent of future retirees will elect medical coverage. The UAAL is amortized over a thirty-year period using a 4.25 interest rate and a 2.5 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 72
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					
Property taxes	\$ 1,069,588	\$ 1,069,588	\$ 1,112,640	\$ -	\$ 1,112,640
Intergovernmental:					
State aid	874,536	921,283	921,283	-	921,283
State other	149,849	149,849	149,849	30,835	180,684
Tuition	15,850	15,850	15,855	-	15,855
Interest	2,726	2,726	3,055	-	3,055
Miscellaneous	-	-	1,714	-	1,714
Total revenues	<u>2,112,549</u>	<u>2,159,296</u>	<u>2,204,396</u>	<u>30,835</u>	<u>2,235,231</u>
EXPENDITURES					
Total expenditures	<u>2,105,620</u>	<u>2,152,367</u>	<u>2,152,367</u>	<u>30,835</u>	<u>2,183,202</u>
Excess (deficiency) of revenues over expenditures	<u>6,929</u>	<u>6,929</u>	<u>52,029</u>	<u>-</u>	<u>52,029</u>
OTHER FINANCING USES					
Transfers out	<u>(6,929)</u>	<u>(6,929)</u>	<u>(6,929)</u>	<u>-</u>	<u>(6,929)</u>
Total other financing uses	<u>(6,929)</u>	<u>(6,929)</u>	<u>(6,929)</u>	<u>-</u>	<u>(6,929)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>45,100</u>	<u>-</u>	<u>45,100</u>
Fund balances - beginning			<u>161,538</u>	<u>-</u>	<u>161,538</u>
Fund balances - ending			<u>\$ 206,638</u>	<u>\$ -</u>	<u>\$ 206,638</u>

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. The general fund budget was amended \$46,747 for an unanticipated increase in enrollment.

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 not later than August 25th.

State law permits the inclusion of obligations (encumbrances) for construction in progress and the purchase of personal property as expenditures for budget purposes. The budget to GAAP difference above consists of the state of Montana on-behalf TRS contribution.

SCHOOL DISTRICT NUMBER 72
 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]
6/30/2012	\$ -	\$ 318,436	\$ 318,436	-	\$ 1,523,604	0.209002
6/30/2013	-	366,777	366,777	-	1,667,003	0.220022
6/30/2014	-	382,384	382,384	-	1,886,745	0.202669

OTHER SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT NUMBER 72
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
Student Council Middle School	\$ 128	\$ 1,869	\$ 1,468	\$ -	\$ 529
Student Council High School	3,352	584	396	-	3,540
Expedition Yellowstone	5,300	9,130	7,990	(1,621)	4,819
High School Yearbook	541	1,620	2,161	-	-
8th Grade DC Trip-2014	90	42,821	42,229	1,682	2,364
8th Grade DC Trip-2013	1,418	-	-	-	1,418
Volleyball	-	8,363	8,363	-	-
Boy's Basketball	-	5,610	5,610	-	-
Girl's Basketball	-	9,135	9,135	-	-
Football	-	8,648	8,648	-	-
Golf	-	5,088	5,088	-	-
Intramurals	-	2,245	1,817	-	428
Pep Band	-	973	973	-	-
National Honor Society	-	832	832	-	-
Interest	61	-	-	(61)	-
Homecoming/Prom Dance	-	15,000	9,384	-	5,616
Student Athletics-General	89	1,530	1,619	-	-
Total	\$ 10,979	\$ 113,448	\$ 105,713	\$ -	\$ 18,714

SCHOOL DISTRICT NUMBER 72
 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	27	27	-
Grades one through six	145	145	-
Grades seven and eight	43	43	-
	<u>215</u>	<u>215</u>	<u>-</u>
Part-time students included in grades seven and eight (180-359 hrs/yr)	<u>1</u>	<u>1</u>	<u>-</u>
<u>High School District</u>			
Grades nine through twelve	<u>60</u>	<u>60</u>	<u>-</u>
Part-time students included in grades nine through twelve (360-539 hrs/yr)	<u>3</u>	<u>3</u>	<u>-</u>
Part-time students included in grades nine through twelve (540-719 hrs/yr)	<u>2</u>	<u>2</u>	<u>-</u>
WINTER ENROLLMENT - December 2013			
<u>Elementary District</u>			
Kindergarten	27	27	-
Grades one through six	147	147	-
Grades seven and eight	44	44	-
	<u>218</u>	<u>218</u>	<u>-</u>
Part-time students included in grades seven and eight (180-359 hrs/yr)	<u>1</u>	<u>1</u>	<u>-</u>
<u>High School District</u>			
Grades nine through twelve	<u>44</u>	<u>44</u>	<u>-</u>
Part-time students included in grades nine through twelve (360-539 hrs/yr)	<u>3</u>	<u>3</u>	<u>-</u>
Part-time students included in grades nine through twelve (540-719 hrs/yr)	<u>2</u>	<u>2</u>	<u>-</u>

SCHOOL DISTRICT NUMBER 72
 SCHEDULE OF SCHOOL DISTRICT ENROLLMENT
 For the Year Ended June 30, 2014

	<u>Reported Enrollment</u>	<u>Enrollment per Records</u>	<u>Difference</u>
SPRING ENROLLMENT - February 2014			
<u>Elementary District</u>			
Kindergarten	32	32	-
Grades one through six	157	157	-
Grades seven and eight	47	47	-
	<u>236</u>	<u>236</u>	<u>-</u>
Part-time students included in grades seven and eight (180-359 hrs/yr)	<u>1</u>	<u>1</u>	<u>-</u>
<u>High School District</u>			
Grades nine through twelve	<u>60</u>	<u>60</u>	<u>-</u>
Part-time students included in grades nine through twelve (360-539 hrs/yr)	<u>3</u>	<u>3</u>	<u>-</u>
Part-time students included in grades nine through twelve (540-719 hrs/yr)	<u>2</u>	<u>2</u>	<u>-</u>

SCHOOL DISTRICT NUMBER 72
 SCHEDULE OF GENERAL OBLIGATION DEBT CAPACITY
 For the Year Ended June 30, 2014

	<u>Elementary Portion</u>	<u>High School Portion</u>
District Taxable Value	\$ 25,932,526	\$ 25,932,526
Times: Debt Limit Rate	0.8528	0.1472
Equals: Maximum Debt Capacity	<u>22,115,258</u>	<u>3,817,268</u>
Less: General Obligation Bonds Outstanding:		
2005 General Obligation Bonds Outstanding	475,000	-
2012 General Obligation Bonds Outstanding	2,592,512	447,488
2014 General Obligation Bonds Outstanding	<u>7,854,288</u>	<u>1,355,712</u>
Amount of General Obligation Bonds Payable Applicable to Limit	<u>10,921,800</u>	<u>1,803,200</u>
Estimated Debt Capacity Remaining	<u>\$ 11,193,458</u>	<u>\$ 2,014,068</u>
Aggregate K-12 Debt Capacity Remaining		<u>\$ 13,207,526</u>

*Montana Codes Annotated Section 20-9-406 provides for the issuance of bonds not to exceed the greater of 1) 100% of the latest available taxable valuation of property which is subject to taxation within the District or 2) 50% of the sum of the facility guaranteed mill value per elementary ANB times 1000 times the elementary ANB of the district and the facility guaranteed mill value per high school ANB times 1000 times the high school ANB of the district. The District taxable value for 2013 is used above which exceeds the statewide average valuation method.

SCHOOL DISTRICT NUMBER 72
SCHEDULE OF TAXABLE MARKET VALUE AND TOTAL TAXABLE VALUE

Year Ended June 30,	Taxable Market Value	Total Taxable Value
2010	\$ 734,770,452	\$ 22,262,158
2011	793,393,147	23,287,458
2012	854,199,713	24,214,619
2013	910,658,344	25,123,252
2014	973,083,875	25,932,526

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

ERNEST J. OLNESS, CPA

BRENT D. OLNESS, CPA
CURT D. WYSS, 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 72
Big Sky, 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 72, Big Sky, 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 November 11, 2014.

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 and 2014-002)

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
November 11, 2014

SCHOOL DISTRICT NUMBER 72
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 on 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.

SCHOOL DISTRICT NUMBER 72
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 DISCLSoure
2013-3. DOCUMENT SIGNIFICANT OPERATIONAL AND ACCOUNTING PROCESSES	IMPLEMENTED