



Independent Auditor's Report and
Financial Statements

Lockwood School District No. 26

Yellowstone County
Billings, Montana
June 30, 2014

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LOCKWOOD SCHOOL DISTRICT NO. 26

June 30, 2013

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June 30, 2014

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ORGANIZATION – BOARD OF TRUSTEES AND OFFICIALS

For the Year Ended June 30, 2014

BOARD OF TRUSTEES

Susanne Vinton	Chairman
Peter Freivalds	Vice Chairman
Jennifer Wagner	Trustee
Timothy Sather	Trustee
Katherine Luhman	Trustee
Joseph Borgstrom	Trustee
Donald Reed	Trustee

OFFICIALS

Tobin Novasio	District Superintendent
Laurie Noonkester	District Clerk
Scott Twito	County Attorney
Max Lennington	County Superintendent of Schools
Max Lennington	County Treasurer



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS – JUNE 30, 2013

This Management Discussion and Analysis (MD&A) written by the Business Manager/District Clerk of the Lockwood School District provides an overview of the financial position and governmental financial activities for the fiscal year ending June 30, 2014. Please read it in conjunction with our audit report financial statements. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS FOR 2013:

The financial position of the school district has again experienced a slight change as a result of operations for fiscal year 2014. This is substantiated by a one percent increase in overall net position due largely to the district's available cash.

The taxable valuation of the district had increased steadily since 2001; however a significant decrease was experience for the first time in 2013 with the taxable value dropping from \$22,238,297 to \$21,269,656 due to the reassessment of taxable property of two petroleum refineries within the district's boundaries. In August 2014 the taxable valuation was again decreased by \$206,145 but the re-evaluation process within the district should be completed and this downward trend is not expected to continue.

For 2013-14, other capital items included increases of \$12,000 for new equipment and \$52,160 in land/site improvements.

District fund reserves were held at the allowed maximums with the exception of the Transportation fund. Fund reserve maximums are maintained by the district in a concerted effort to hold the district's net position in check. In May, tax collections for the year were again projected to follow the normal deficit trend which did occur, but again conservative spending enabled the district to maintain the reserves at maximum levels. District levy collections averaged 97.73%, up slightly from the previous fiscal year. General Fund reserves are \$768,960.31 which is 10 %; last year's General Fund reserves were \$739,943.40 meeting the maximum once again; Maximum allowed by law is 10% percent of the ensuing fiscal year budget.

Transportation Fund reserves are \$132,984.40, which is 20%. Maximum reserve allowed for this fund is 20%.

Building Reserve Fund had an ending balance of \$435,689.31 which will continue to be used for approved purposes such as maintenance, safety, construction, renovation, electrical and plumbing, remodeling, major equipment, roof repairs, sewer system hook-up, site improvements, technology acquisition and updating. A \$75,000 per year Building Reserve levy was passed on May 7, 2013 and will continue for ten subsequent years.



MANAGEMENT'S DISCUSSION AND ANALYSIS

USING THIS AUDIT REPORT

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

REPORTING THE DISTRICT AS A WHOLE

One important question asked about school district finances is, "Is the District, as a whole, in a better or worse financial position as a result of the year's activities?" The Statement of Net Position on Page 16 and the Statement of Activities on Page 17 report information about the district 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 basis of accounting used by most private-sector companies. A comparative analysis of government-wide data to the prior year is presented.

The change in net position over time is one indicator of whether the District's financial health is improving or deteriorating. However, there are other non-financial factors that influence the financial health of the school district, such as enrollment changes, changes in how the State of Montana funds educational costs, and changes in the tax base of the school district.

The report includes two district-wide statements that focus on operations of the district as a whole. These statements measure inputs and outflows using an economic resources measurement focus, and use the accrual basis of accounting. Activities that are fiduciary in nature are not included in these statements.

- A. The Statement of Net Position on Page 16 shows the assets, liabilities, and the net assets of the school district. The statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in fixed or capital assets, such as buildings, equipment and other long-lived property; and some assets are available to fund budgets of the following year. Assets exceed liabilities by \$7,966,509 as of June 30, 2014. For current year net position, capital assets and restricted net position compose 116% of the total of net position as there is a deficit unrestricted net position related to other postemployment benefits. Last year capital assets and restricted net position composed 114% of the total net position while having a smaller deficit net position. This allocation has continued to change due to the increase in liabilities associated with the other postemployment benefits.
- B. The Statement of Activities on Page 17 shows the amounts of program-specific and general school district revenues used to support the various functions of the school district. General revenues from taxes and other sources for general school supported 81 percent of expenditures, while 19 percent of expenditures were supported with sources other than taxes, called program revenues. Program revenues for Lockwood Schools include grants, purchased meals and community education fees.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Lockwood Schools are reported under the category of Governmental Activities. These funds provide a short-term view of the district's operations. 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 other short-term assets and liabilities (receivables and payables) that can readily be converted to cash or will soon be paid with cash. The governmental fund statements provide a detailed short-term view of the general government operations and the basic services it provides.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

The fund statements on Pages 18-25 provide detailed information about the funds used by the school district. State law and Generally Accepted Accounting Principles (GAAP) establish the fund structure of school districts. State law generally requires school districts to segregate money generated for certain specific purposes, such as transportation, into separate fund accounts.

These fund statements report balances and activities of the most significant or major funds separately and combine activities of less significant funds under a single category. To be reported as a major fund, total assets, liabilities, revenues, or expenditures of an individual fund must be at least ten percent of the corresponding element totals (assets, liabilities, etc.) for all funds. The General Fund is always reported as a major fund. Transportation, Miscellaneous, Debt Services, and Building Reserve Funds are considered major funds for our district because each of these funds has criteria exceeding the ten percent threshold.

The Balance Sheet (Page 18) and Statement of Revenues, Expenditures, and Changes in Fund Balances (Page 20) are shown for governmental funds such as general funds, special revenue funds for transportation and school food service, and capital outlay funds. These funds use the modified accrual basis of accounting and represent the majority of the district's activities and programs.

Fund statements include a reconciliation of the governmental fund statements to the district-wide statements (Page 19). Most significant differences result from the use of different presentation bases. The district-wide statements are presented using the accrual basis of accounting and the fund statements for governmental funds use the modified accrual basis. In addition, general capital assets and general long-term debt are reported in the district-wide statements, but not in the fund statements.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Comparisons of the District's assets, revenues and expenditures from 2013 to 2014 are listed below.

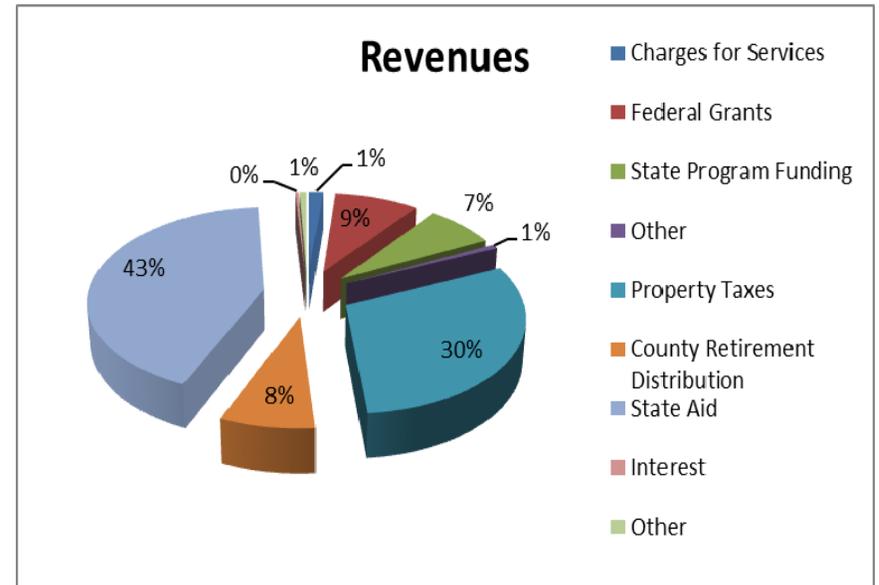
Net Position, Revenues and Expenses

	2014	2013
Net Position:		
Current assets	3,351,554	2,984,900
Capital assets - net	17,029,068	17,624,587
Total assets	<u>20,380,622</u>	<u>20,609,487</u>
Current liabilities:	644,298	622,115
Non-current liabilities	11,769,817	12,121,732
Total liabilities	<u>12,414,115</u>	<u>12,743,847</u>
Net position:		
Net investment in capital assets	7,044,068	7,054,587
Restricted	2,191,205	1,900,372
Unrestricted	(1,268,766)	(1,089,319)
Total net position	<u>7,966,507</u>	<u>7,865,640</u>



MANAGEMENT'S DISCUSSION AND ANALYSIS

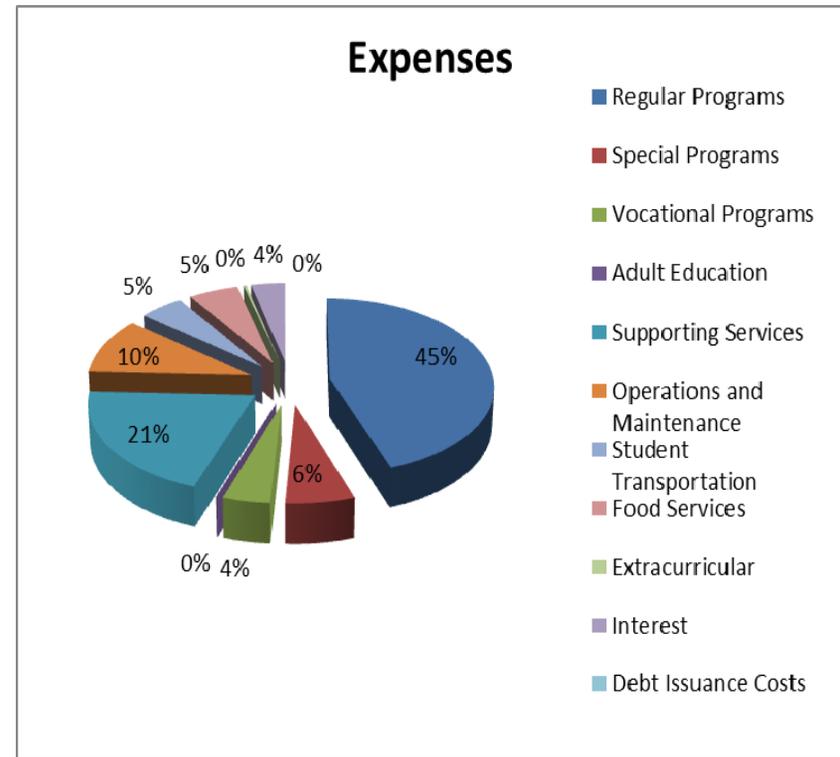
	2014	2013
Revenues:		
Program revenues:		
Charges for services	179,839	201,756
Federal grants	1,110,496	1,111,428
State program funding	919,126	945,898
Other	89,528	90,179
Total program revenues	<u>2,298,989</u>	<u>2,349,261</u>
General revenues:		
Property taxes	3,809,149	3,486,356
County retirement distribution	951,762	785,126
State aid	5,341,696	5,141,420
Interest	41,481	10,435
Other	89,020	62,756
Special Item		
Gain/(Loss) on disposal of assets	(6,936)	0
Total general revenues	<u>10,226,172</u>	<u>9,486,093</u>
Total Revenues	<u><u>12,525,161</u></u>	<u><u>11,835,354</u></u>



MANAGEMENT'S DISCUSSION AND ANALYSIS

Expenses:

Regular programs	5,554,864	5,691,310
Special programs	771,826	665,146
Vocational programs	531,092	393,762
Adult education	9,924	6,928
Supporting services	2,530,770	2,620,414
Operations and maintenance	1,272,917	1,171,021
Student transportation	597,148	546,198
Food services	664,116	686,847
Extracurricular	38,837	36,630
Interest	452,450	474,850
Debt issuance costs	350	300
Total expenses	<u>12,424,294</u>	<u>12,293,406</u>



MANAGEMENT'S DISCUSSION AND ANALYSIS

REPORTING THE DISTRICT'S PROPRIETARY FUND

The Day Care Fund was reported as a Proprietary Fund. Net position equal the carried fund balance of 2.

REPORTING THE DISTRICT'S TRUST AND FIDUCIARY RESPONSIBILITIES

Fiduciary funds: The district is the trustee or fiduciary for the student extracurricular fund. This report includes the activities in a separate Statement of Fiduciary Net Position and Changes in Fiduciary Net Position (Page 25) because the district cannot use these assets to fund its operations. The district is responsible for ensuring these assets are used for their intended purpose.

BUDGET TO ACTUAL COMPARISONS

The district's original and final budgets for all funds were identical for the year ending June 30, 2014. There were no budget amendments adopted during the year.

Variances were determined for general fund by functionality and reported as significant if there was a variance greater than five percent between budget and actual.

Few variances existed this fiscal year due to a planned effort to use year- end budget surpluses to fill reserves and upgrade technology in the classroom.

Student support services function experienced a variance of 9.52% or \$27,116.42 due to savings in salaries and benefits by not filling budgeted positions.

There was a significant negative variance of \$77,546 between the final expenditure budget and actual expenditures for technology services. This variance is the result of year end expenditures for classroom, classroom interactive board, projector installation, reclassification of software and internet upgrades. The majority of the year end budget authority was spent on technology purchases.

There was a minor positive variance of \$27,657 in business services budget area due to the reduction of costs throughout the year for anticipated needs.



MANAGEMENT'S DISCUSSION AND ANALYSIS

THE DISTRICT AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The district experienced a modest positive change of \$100,867. This increase is a direct result of the increase in Direct State Aid, protested tax settlements and a reduction in the OPEB liability as referenced on Page 16, Statement of Net Position.

As stated in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds on Page 20, the combined ending fund balances for all funds increased significantly by \$308,647. Details of the changes in the major funds are explained below:

The net change in the fund balance of the General Fund experienced an increase of \$36,610 due in most part to fund reserve allowance. Other Governmental fund balances increased by \$158,696 by maintaining cash balances and holding expenditures to a minimum. The same fund balance increase trends were found across the board in most funds as explained on page 20.

CAPITAL ASSETS

The district's investment in capital assets as of June 30, 2014, totaled \$17,029,068. This investment in capital assets includes land, land improvements, buildings and improvements, machinery, equipment, and major technology software, and construction in progress. The following schedule presents capital asset balances net of depreciation for the fiscal year ended June 30, 2014:

<u>CAPITAL ASSETS</u>	<u>2012-2013</u>	<u>2013-2014</u>	<u>Changes</u>
Land	277,490	277,490	0
Land Improvements	724,317	443,724	(280,593)
Buildings & Improvements	16,436,257	16,163,629	(272,628)
Machinery, Equipment, & Maj. Technology Software	186,523	144,225	(42,298)
TOTALS	17,624,587	17,029,068	(595,519)

The net decrease to the district's capital assets is \$595,519. Depreciation expense for the year amounted to \$652,743.



MANAGEMENT'S DISCUSSION AND ANALYSIS

DEBT ADMINISTRATION

The district general fund budget was at the maximum allowed by the state without a levy. Lockwood School District has no capital leases. For budget year 2013-2014, levies for all Lockwood School funds increased 19.35 mills over the previous year. The increase was due to the passage of a Building Reserve levy and budget increases in the Tuition, Transportation and Adult Education funds. The taxable value within the district took an unexpected decrease of \$968,641 due to the Montana Department of Revenues reassessment of Exxon Mobil Refinery property and centrally assessed property being removed from the tax rolls. This dramatic drop in the district's tax base is the chief basis of the mill increase by the district.

The general long term debt of the district for 2013-2014 includes:

1. Outstanding general obligation bonds of \$9,985,000 payable over 13 years.
2. Future payout of vacation leave, sick leave, and termination/severance pay for all employees of the district in the amount of \$576,963. This liability increased \$30,199 over last year.
3. OPEB liabilities increased by \$224,434.

The General Obligation Bond, Series 2007A in the amount of \$12,365,000 issued in connection with its participation in the INTERCAP Revolving Program of the Board of Investments of the State of Montana had an interest rate for February 2007 to February 2014 of 4.00%; this rate increases to 5.5% effective February 2015 to February 2017, and decreases to 4.00% effective February 2018 to February 2026: increases to 4.125% in 2027, reaching final maturity July 1, 2027.

SUMMARY INFORMATION FOR CONTINUING DISCLOSURE

Population: The 2010 district population is estimated at 6,797 persons according to a Yellowstone County GIS report.

Debt Limitations: The statutory debt limit as of June 30, 2014, is \$19,686,700; the outstanding debt is \$9,985,000; the remaining debt capacity is \$9,701,700, per Note on Page 37.

Property Valuation: The table below indicates the property valuation trends for the District for the current and five prior fiscal years.

2013/14	\$742,440,100	-2.86%	\$21,269,656	-4.36%
2012/13	\$764,370,888	4.3%	\$22,238,297	1.78%
2011/12	\$732,846,777	.64%	\$21,849,461	2.85%
2010/11	\$728,166,981	20.73%	\$21,244,771	18.05%
2009/10	\$603,149,871	8.25%	\$17,996,616	6.3%



MANAGEMENT'S DISCUSSION AND ANALYSIS

Tax Collections:

Tax Collections: The following table demonstrates the tax collection history for real property taxes levied by the District for all funds for fiscal years ending June 30, 2009 through June 30, 2014.

Fiscal Year	Total Current Total Tax Levy	Total Current Tax Collections	Total Collections As Percent of Levy	Total Tax Collections*	Total Collections as Percent of Levy*
2013/14	\$3,833,618	\$3,746,721	97.73%	\$3,761,009	98.11%
2012/13	\$3,578,461	\$3,414,673	95.42%	\$3,421,530	95.61%
2011/12	\$3,456,111	\$3,366,386	97.40%	\$3,379,019	97.70%
2010/11	\$3,533,207	\$3,609,290	102.15%	\$3,615,355	102.33%
2009/10	\$3,298,194	\$3,157,887	95.75%	\$3,164,933	95.96%
2008/09	\$3,330,080	\$3,203,231	96.19%	\$3,210,426	96.41%

* Total tax collection figures include principal and interest collected on delinquent taxes.

Enrollment and ANB Historical Data:

Fiscal Year	Enrollment	ANB*
2013/14	1,191 (Fall/Spring Avg.)	1239
2012/13	1,166 (Fall/Spring Avg.)	1210
2011/12	1,166 (Fall/Spring Avg.)	1211
2010/11	1,175 (Fall/Spring Avg.)	1207
2009/10	1,172 (Fall/Spring Avg.)	1216
2008/09	1,190 (Fall/Spring Avg.)	1200

*ANB (Average Number Belonging) used for fiscal year budget funding. ANB is determined from previous years' enrollment figures or average of previous three years' enrollment figures, whichever is greater. ANB calculation includes adjustments for adding seven PIR days and full time kindergarten enrollment.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Major Taxpayers:

The following table lists the major taxpayers within the district for fiscal year 2013/14, in declining order of taxable value.

Taxpayer	Business	2013-14 Taxable Value	Percent of 2013-14 Taxable Value \$21,269,656
1. Exxon Mobil Corporation	Refinery	9,029,598	42.45%
2. Yellowstone Energy	Utility	688,690	3.24%
3. Northwestern Corp.	Utility	637,420	3.00%
4. AT&T Mobility LLC	Cellular Towers	413,504	1.94%
5. Aspen Air US Corp	Industrial Gas Producer	313,359	1.47%
6. Montana Sulphur & Chemical Co.	Chemical Plant	209,152	.98%
7. Pacific Hide & Fir Depot	Recycling Plant	197,571	.93%
8. Cenex Products	Pipeline	193,685	.91%
9. Montana Rail Link, Inc.	Railroad	159,930	.75%
10. Exxon Corporation	Industrial Offices	156,943	.74%

THE FUTURE OF THE DISTRICT

The District is actively updating the district's infrastructure such as ongoing roofing replacement and phase one of the public sewer hookup has been completed. In addition, stronger security measures have been implemented throughout the campus with further projects slated for installation in the upcoming years.

The Yellowstone County Commissioners and Lockwood Steering Committee were successful in garnering support from the taxpayers in funding SID projects to improve safe walkways throughout the area. The community has expressed growing interest in expanding our current K-8 district to include grades 9-12.

For the 2013-14 budget which uses 2012-13 enrollment figures, Lockwood Schools experienced a steady trend in student enrollment, exceeding the previous year's enrollment. The Average Number Belonging (ANB) was 1,210 which are the same figures as last year. *ANB figure was calculated using the current year figure and not the 3 year average.

It is expected that enrollment at Lockwood Schools will grow in the future because there are some significant housing developments under construction in the community, new businesses are entering the community and existing businesses are expanding. The Yellowstone County Commissioners recently



MANAGEMENT'S DISCUSSION AND ANALYSIS

approved the Big Sky Economic Development Council's concept of creating a Targeted Economic Development District (TEDD) within district boundaries into a specific proposal for consideration. The BSEDC has slated Lockwood to be the best site in the county to develop an industrial park.

The Boys' and Girls' Club continue to occupy building space for their After School Program and Summer Program. The Adult Education offering has expanded to include the HiSET program to assist community members in obtaining high school degrees.

Head Start continues to operate and has been at the Lockwood campus for a fifth full year with the Lockwood School District instituting a Pre-K class for those outside of the Head Start qualifications. School year 2014-15 will be the third year of the Pre-K offering.

Lockwood School District Superintendent continues to actively pursue additional grants for land improvements and seek ways to use the current facilities in order to provide much needed services to the community as a whole.

ExxonMobil, the largest taxpayer of the district, has again received a nominal reduction in the August 2014 taxable value by approximately \$206,145. This reduction leaves the district hopeful that a tax protest has been averted. However, the district will budget and continue to prepare financially in future fiscal years with the possibility of a tax protest in mind.

Yellowstone County has experienced tax protestations with two of the three major refineries within their taxing jurisdiction since 2009 but the dispute has been settled and taxable values have been adjusted thus stabilizing the tax revenue of the district.

The Board of Trustees and administration are committed to providing the best and safest learning environment for students. They continue to work diligently to keep all classrooms and the entire campus technologically updated and the buildings and grounds well-maintained. Due to recent events, student safety has been moved to the forefront of the leadership team's goals and objectives. Both the Trustees and Administrative staff have participated and hosted meetings with local law enforcement to establish a firm safety plan for the district's students and staff. Mock intruder drills have been performed and security measures enacted to accomplish the safest possible environment.

CONTACT INFORMATION

Tobin Novasio – Superintendent
406-252-6022

Lockwood School District No. 26
1932 US Highway 87
Billings, MT 59101





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INDEPENDENT AUDITOR'S REPORT

December 22, 2014

Board of Trustees
Lockwood School District No. 26
Yellowstone County
Billings, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lockwood School District No. 26, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Lockwood School District No. 26's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Lockwood School District No. 26's 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, the business-type activities, each major fund, and the aggregate remaining fund information of Lockwood School District No. 26, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows 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 schedule of funding progress – other postemployment benefits, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lockwood School District No. 26's basic financial statements. The extracurricular activities – schedule of cash receipts, disbursements and changes in net position, schedule of reported enrollment and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The extracurricular activities – schedule of cash receipts, disbursements and changes in net position, schedule of reported enrollment, and schedule of expenditures of federal awards 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 activities – schedule of cash receipts, disbursements and changes in net position, schedule of reported enrollment, and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014 on our consideration of Lockwood School District No. 26'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 Lockwood School District No. 26's internal control over financial reporting and compliance.

Galusha, Higgins & Galusha, PC

GALUSHA, HIGGINS & GALUSHA, PC
Billings, Montana

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements

STATEMENT OF NET POSITION

June 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Equivalents	2,726,038	2	2,726,040
Taxes Receivable	610,828	0	610,828
Due from Other Governments	14,688	0	14,688
Capital Assets:			
Land	277,490	0	277,490
Other Capital Assets, net of depreciation	16,751,578	0	16,751,578
Total Capital Assets	17,029,068	0	17,029,068
Total Assets	20,380,622	2	20,380,624
LIABILITIES:			
Accounts Payable and Accrued Expenses	10,450	0	10,450
Long-Term Liabilities:			
Due within one year:			
Bonds Payable	605,000	0	605,000
Compensated Absences	28,848	0	28,848
Due in more than one year:			
Bonds Payable	9,380,000	0	9,380,000
Compensated Absences	548,115	0	548,115
Other Postemployment Benefits	1,841,702	0	1,841,702
Total Liabilities	12,414,115	0	12,414,115
NET POSITION:			
Net investment in capital assets	7,044,068	0	7,044,068
Restricted for:			
Capital projects	438,538	0	438,538
Compensated absences	61,731	0	61,731
Debt Service	292,212	0	292,212
Other fund activities	1,398,724	0	1,398,724
Unrestricted	(1,268,766)	2	(1,268,764)
Total Net Position	7,966,507	2	7,966,509

The accompanying notes are an integral part of these financial statements.



BASIC FINANCIAL STATEMENTS

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

Program Activities	Expenses	Program Revenue		Net (Expenses) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants & Contributions	Governmental Activities	Business-type Activities	
Governmental Activities						
Instruction:						
Regular Programs	5,554,864	0	670,097	(4,884,767)	0	(4,884,767)
Special Programs	771,826	0	808,523	36,697	0	36,697
Vocational Programs	531,092	0	0	(531,092)	0	(531,092)
Adult Education	9,924	4,968	0	(4,956)	0	(4,956)
Supporting Services	2,530,770	0	0	(2,530,770)	0	(2,530,770)
Operations & Maintenance	1,272,917	0	0	(1,272,917)	0	(1,272,917)
Student Transportation	597,148	0	198,110	(399,038)	0	(399,038)
Food Services	664,116	174,871	442,420	(46,825)	0	(46,825)
Extracurricular	38,837	0	0	(38,837)	0	(38,837)
Interest on Long-term debt	452,450	0	0	(452,450)	0	(452,450)
Debt Issuance Costs	350	0	0	(350)	0	(350)
Total governmental activities	12,424,294	179,839	2,119,150	(10,125,305)	0	(10,125,305)
Business-Type Activities						
Day Care	0	0	0	0	0	0
Total business-type activities	0	0	0	0	0	0
Total governmental activities	12,424,294	179,839	2,119,150	(10,125,305)	0	(10,125,305)
General revenues:						
Property taxes, levied for general purposes				3,809,149	0	3,809,149
County Retirement Distribution				951,762	0	951,762
State Aid				5,341,696	0	5,341,696
Interest				41,481	0	41,481
Other				89,020	0	89,020
Special items:						
Gain/(Loss) on disposal of assets				(6,936)	0	(6,936)
Total general revenues				10,226,172	0	10,226,172
Change in net assets				100,867	0	100,867
Net position - beginning				7,865,640	2	7,865,642
Net position - ending				7,966,507	2	7,966,509

The accompanying notes are an integral part of these financial statements.



BASIC FINANCIAL STATEMENTS

Fund Financial Statements

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2014

	General Fund	Transportation	Miscellaneous Programs	Debt Service	Building Reserve	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and equivalents	786,002	132,984	276,065	142,808	435,689	952,490	2,726,038
Taxes receivable	363,897	69,270	0	149,404	2,849	25,408	610,828
Due from other governments	0	0	0	0	0	14,688	14,688
Total assets	1,149,899	202,254	276,065	292,212	438,538	992,586	3,351,554
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES							
Liabilities:							
Accounts payable	0	0	0	0	0	10,450	10,450
Total liabilities	0	0	0	0	0	10,450	10,450
Deferred inflows of resources:							
Unavailable tax revenues	363,897	69,270	0	149,404	2,849	25,408	610,828
Total deferred inflows of resources	363,897	69,270	0	149,404	2,849	25,408	610,828
Fund balances:							
Restricted for:							
Other fund activities	0	132,984	276,065	0	0	883,909	1,292,958
Compensated Absences	0	0	0	0	0	61,731	61,731
Debt service	0	0	0	142,808	0	0	142,808
Capital projects funds	0	0	0	0	435,689	0	435,689
Assigned for:							
Encumbrances	17,041	0	0	0	0	11,088	28,129
Unassigned	768,961	0	0	0	0	0	768,961
Total fund balances	786,002	132,984	276,065	142,808	435,689	956,728	2,730,276
Total liabilities, deferred inflows of resources and fund balances	1,149,899	202,254	276,065	292,212	438,538	992,586	3,351,554

The accompanying notes are an integral part of these financial statements.



BASIC FINANCIAL STATEMENTS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2014

Total fund balance, governmental funds	2,730,276
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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 this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	17,029,068
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Property taxes receivable that are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	610,828
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Some liabilities, (such as Compensated Absences, Bonds Payable and Other Postemployment Benefits), are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.	<u>(12,403,665)</u>
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Net Position of Governmental Activities in the Statement of Net Position	<u><u>7,966,507</u></u>
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The accompanying notes are an integral part of these financial statements.



BASIC FINANCIAL STATEMENTS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

For the Year Ended June 30, 2014

	General Fund	Transportation	Miscellaneous Programs	Debt Service	Building Reserve	Other Governmental Funds	Total Governmental Funds
REVENUES							
Property Taxes for General Purposes	2,111,367	424,977	0	898,239	71,431	245,763	3,751,777
Tuition	0	0	0	0	0	4,968	4,968
Intergovernmental:							
County	0	89,528	0	0	0	951,762	1,041,290
State	5,240,734	108,582	603,989	161,114	0	146,403	6,260,822
Federal	0	0	629,456	0	0	481,040	1,110,496
Interest on Investments	4,432	585	29,265	1,636	1,803	3,759	41,480
Food Services	0	0	0	0	0	174,871	174,871
Other	510	0	53,350	0	0	35,160	89,020
Total revenues	7,357,043	623,672	1,316,060	1,060,989	73,234	2,043,726	12,474,724
EXPENDITURES							
Current:							
Instruction	4,576,735	0	621,495	0	0	956,400	6,154,630
Supporting Services	1,560,310	0	626,853	0	0	206,401	2,393,564
Operations and Maintenance	1,058,914	0	19,208	0	42,944	119,556	1,240,622
Student Transportation	0	588,841	0	0	0	8,307	597,148
Food Services	0	0	279	0	0	639,037	639,316
Extracurricular	33,726	0	0	0	0	5,111	38,837
Capital Outlay	61,160	0	0	0	3,000	0	64,160
Debt Service	0	0	0	1,037,800	0	0	1,037,800
Total Expenditures	7,290,845	588,841	1,267,835	1,037,800	45,944	1,934,812	12,166,077
Excess (deficiency) of revenues over expenditures	66,198	34,831	48,225	23,189	27,290	108,914	308,647
OTHER FINANCING							
Operating Transfers in	0	0	0	0	10,883	49,782	60,665
Operating Transfers out	(29,588)	(31,077)	0	0	0	0	(60,665)
Total other financing sources and uses	(29,588)	(31,077)	0	0	10,883	49,782	0
Net change in fund balances	36,610	3,754	48,225	23,189	38,173	158,696	308,647
Fund balances - beginning	749,392	129,230	227,840	119,619	397,516	798,032	2,421,629
Fund balances - ending	786,002	132,984	276,065	142,808	435,689	956,728	2,730,276

The accompanying notes are an integral part of these financial statements.



BASIC FINANCIAL STATEMENTS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds:	308,647
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.	(652,743)
Governmental funds do not report the loss from sale of an asset because it does not provide current financial resources. In contrast, the Statement of Activities reports the loss on the sale of assets. Thus, the change in Net Position differs from the change in fund balance by the loss on the asset sold.	(6,936)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.	57,372
Statement of Activities reports expenses that the governmental funds do not and are not reported as expenditures in the governmental funds:	
Compensated absences expense	(30,199)
Other postemployment benefits	(224,434)
Governmental funds report expenses that the Statement of Activities do not and are not reported as expenditures in statement of activities:	
Capital outlays, not including capital assets under leases	64,160
Principal payments on debt	585,000
Change in net position of governmental activities	<u>100,867</u>

The accompanying notes are an integral part of these financial statements.



BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION – PROPRIETARY FUND

June 30, 2014

	Business- Type Activities Enterprise Fund Day Care Fund
ASSETS	
Current assets:	
Cash	2
Total current assets	<u>2</u>
NET POSITION	
Unrestricted	2
Total net position	<u><u>2</u></u>

The accompanying notes are an integral part of these financial statements.



BASIC FINANCIAL STATEMENTS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PROPRIETARY FUND

For the Year Ended June 30, 2014

	Business-Type Activities Enterprise Fund Daycare Fund
Operating revenues:	
Charges for services	0
Contributions	0
Total operating revenues	<u>0</u>
 Operating expenses	
Salaries and wages	0
Supplies and materials	0
Total operating expenses	<u>0</u>
Operating income (loss)	<u>0</u>
 Nonoperating revenues (expenses):	
Interest on investments	0
Total nonoperating revenues (expenses)	<u>0</u>
 Change in net position	0
 Total net position, beginning of year	<u>2</u>
 Total net position, end of year	<u><u>2</u></u>

The accompanying notes are an integral part of these financial statements.



BASIC FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS – PROPRIETARY FUND

For the Year Ended June 30, 2014

	<u>Enterprise Fund</u>
OPERATING ACTIVITIES:	
Cash Received from Customers	0
Cash Donations	0
Cash Payments for:	
Salaries	0
Benefits	0
Supplies and Materials	0
Net cash provided (used) by operating activities	<u>0</u>
INVESTING ACTIVITIES:	
Interest Earnings	0
Net cash provided by investing activities	<u>0</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	0
CASH AND CASH EQUIVALENTS- BEGINNING OF YEAR	<u>2</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>2</u></u>

The accompanying notes are an integral part of these financial statements.



BASIC FINANCIAL STATEMENTS

STATEMENT OF FIDUCIARY NET POSITION AND CHANGES IN FIDUCIARY NET POSITION

For the Year Ended June 30, 2014

	PRIVATE PURPOSE TRUST STUDENT ACTIVITY FUND	AGENCY FUND DEFERRED COMPENSATION
FIDUCIARY NET POSITION		
Assets:		
Cash	19,165	41,814
Total Assets	<u>19,165</u>	<u>41,814</u>
Liabilities:		
Due to external parties	0	0
Other current liabilities	0	41,814
Total Liabilities	<u>0</u>	<u>41,814</u>
Net Position:		
Held in Trust	19,165	0
Total Net Position	<u>19,165</u>	<u>0</u>
CHANGES IN FIDUCIARY NET POSITION		
Additions		
Revenue	65,133	
Deductions		
Expenses	<u>66,119</u>	
Change in Net Position	(986)	
Net Position, Beginning of Year	<u>20,151</u>	
Net Position, End of Year	<u>19,165</u>	

The accompanying notes are an integral part of these financial statements.



BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

Note A. Description of the School District and Reporting Entity

1. Reporting Entity

Lockwood School District No. 26 was established under Montana law to provide educational services below the college and university level to residents of the District. The District is managed by a Board of Trustees elected by the citizens, and by a central administration appointed by and responsible to the Board.

The criteria for including organizations within the District's reporting entity are set forth in Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity." This statement defines the financial reporting entity as the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the District. The District has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a component unit in the District's financial statements. In addition, the District is not aware of any entity that would exercise such financial accountability that would result in the District being considered a component unit of the entity.

Yellowstone County provides substantial services to the District; tax billings, cash collections, debt payments and warrant redemption all flow through the office of the County Treasurer. This office also maintains the District's cash and invests funds at the direction of the District. The County Commissioners have the legal obligation to set levy amounts to finance the budget of the District, as directed by the Board of Trustees. Despite the degree of services rendered, the District has determined that neither Yellowstone County nor any other outside agency meets the criteria set forth in the preceding paragraph and therefore, no other agency has been included as a component unit of the District's financial statements.

The District functions in a fiduciary capacity relating to the Student Extracurricular and the Deferred Compensation Funds.



BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

Note B. Summary of Significant Accounting Policies

The financial statements of Lockwood School District No. 26 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District's significant accounting policies are described below:

1. Basis of Presentation

a. Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities show information about the overall financial position and activities of the District with the exception of the Extracurricular and Deferred Compensation funds. The Extracurricular fund, which accounts for the extracurricular activities of the District's students, is reported as a private purpose trust fund in the statement of fiduciary net position and changes in fiduciary net position. The Deferred Compensation fund accounts for the District's cafeteria plan. The Deferred Compensation fund is reported as an agency fund in those same statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to students or the public who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues.

b. Fund Financial Statements

The District uses funds to report on its financial position and results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate 'fund types.'



BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category) for the determination of major funds.

2. Governmental Funds

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It accounts for resources traditionally associated with government operations which are not required to be accounted for in another fund. The District maintains the General Fund to account for most of the instructional and administrative aspects of the District's operations and to account for repair and maintenance of District property.

Transportation – The Transportation Fund is used for the purpose of financing the maintenance and operation of district owned school buses, contracts with private carriers for school bus service, individual transportation contracts, and any amount necessary for the purchase, rental or insurance of yellow school buses or operation of the transportation program. The fund may be used only to support costs of home-to-school transportation.

Miscellaneous Programs – The Miscellaneous Programs Fund is used for the purpose of accounting for local, state or federal grants and reimbursements. Donations and expendable trusts for scholarships or other purposes that support district programs are deposited in this fund.

Debt Service – The Debt Service Fund is used for the purpose of paying interest and principal on outstanding bonds and special improvement district (SID) assessments. This fund is also used to account for the proceeds of bonds sold for the purposes provided in Section 20-9-403 (c) and (d), MCA.

Building Reserve – The Building Reserve Fund is used for the purpose of financing voter approved building or construction projects funded with district mill levies.



BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

3. Proprietary Funds

Proprietary funds are used to account for operations that are financed and operated in a manner similar to a private business enterprise where the intent is that of providing goods or services to the general public on a continuing basis to be financed or recovered primarily through user charges. Lockwood School District No. 26 has one enterprise fund, the Day Care Fund. Currently the school has suspended day care services.

4. Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee capacity for others and are therefore not available to support District programs. The reporting focus is on net position and changes in net position and are reported using generally accepted accounting principles similar to business in the private sector.

The District's fiduciary funds are presented in the statement of fiduciary net position and changes in fiduciary net position by type (private purpose and agency). Because by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide financial statements.

5. Basis of Accounting and Measurement Focus

a. Government-Wide Financial Statements

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 eligibility requirements imposed by the provider have been met.

b. Fund Financial Statements

Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when 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 District 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.



BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

The District recognizes property taxes as a receivable at the time an enforceable legal claim is established and considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Those revenues susceptible to accrual are property taxes, special assessments, grants, interest revenue, and charges for services. Capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The District reports unavailable tax revenue as deferred inflows of resources and advances from grantors as liabilities on its government-wide Statement of Net Position and on its Balance Sheet – Governmental Funds. Unavailable tax revenues and advances from grantors arise when potential revenue does not meet both the ‘measurable’ and ‘available’ criteria for recognition in the current period. Advances from grantors also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to resources, the deferred inflow of resources for unavailable tax revenue and liability for advances from grantors are removed from the balance sheet and revenue is recognized.

6. Cash and Investments

Cash resources of the District for all funds other than the Extracurricular Fund, and Deferred Compensation Fund are combined with cash resources of other school districts within Yellowstone County to form a pool of cash and cash equivalents that is managed by the Yellowstone County Treasurer. Investments of the pooled cash consist primarily of certificates of deposit and repurchase agreements and are carried at cost, which approximates fair value. Among the instruments which state statutes authorize the District to invest in are direct obligations of the United States government; in savings or time deposits in a state or national bank, building or loan association, savings and loan association, or credit union insured by the FDIC, FSLIC, or NCUA located in the state; in a repurchase agreement or Montana short-term investment pool. Interest income received as a result of pooling is distributed to the appropriate district utilizing a formula based on the respective district’s previous month’s ending balance of cash and cash equivalents. The County Treasurer then distributes interest income to each fund utilizing a formula based on the fund’s previous month’s ending balance of cash and cash equivalents.

The District issues warrants in payment of its obligations. When the warrants are presented to the County Treasurer, the District’s cash balance is reduced to pay the warrant. The cash and claims warrants payable for the payroll and claims clearing agency funds are netted for reporting purposes.



BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

The cash and warrants payable in the payroll and claims clearing accounts are as follows:

	<u>Payroll Clearing</u>	<u>Claims Clearing</u>
Cash	<u>\$571,939</u>	<u>\$247,730</u>
Warrants payable	<u>\$571,939</u>	<u>\$247,730</u>

Information regarding the collateral and security for cash and cash equivalents is not available to the District. Montana state statute requires that collateral to secure deposits of public funds be held in direct obligations of the United States government or its agencies.

Extracurricular Fund cash of \$18,862 at June 30, 2014 is held at Western Security Bank. The account is insured by the FDIC up to \$250,000. Deferred Compensation Fund cash of \$41,814 is held by Insurance Coordinators.

7. Capital Assets

Capital assets, including land, buildings, improvements, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an initial useful life of one year or more. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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 the life of the asset are not capitalized. Buildings, improvements, and equipment are depreciated using the straight-line depreciation method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15-50 Years
Buildings and Improvements	15-50 Years
Machinery and Equipment	5-20 Years



BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

8. Compensated Absences

All full-time District employees accumulate vacation and/or sick leave hours for later use or for payment upon termination, death or retirement. Vacation and sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the District will compensate the employees for the benefits through paid time off or some other means. The Compensated Absences liability fund is used to pay the accumulated vacation and/or sick leave of a non-teaching employee upon termination, death or retirement. Such reserve may not exceed 30% of the District's recorded liability for accumulated sick leave and 30% of accumulated vacation leave for non-teaching or administrative employees.

9. Deferred Inflows of Resources

In addition to liabilities, the statement of financial 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 District 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 tax revenue, is reported in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

10. Fund Balances

The Governmental Accounting Standards Board (GASB) has issued Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*, requires the fund balance amounts to be reported within one of the fund balance categories listed below.

Nonspendable - Amounts that cannot be spent because they are either (1) not in spendable form (e.g. inventories and prepaid amounts) or (2) legally or contractually required to be maintained intact (e.g. the corpus or principal of a permanent fund).

Restricted – Amounts that can be spent only for a specific purpose pursuant to state law, enabling legislation, grant agreement, or donor agreement.



BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

Committed – Amounts that can be used only for specific purposes determined by a formal action of the School District’s Board of Trustees (the District’s highest level of decision making authority).

Assigned – Amounts that are intended to be used by the government for specific purposes under the direction of the District Clerk by authority granted by the Board of Trustees.

Unassigned – The residual classification for the government’s general fund that includes all amounts that are not contained in the other classifications.

It is the District’s policy that for purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance.

Encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. All encumbrances are classified as either Assigned fund balance or Committed fund balance. At June 30, 2014, \$17,041 and \$11,088 was assigned for encumbrances in the General and Remaining Aggregate Non Major Funds, respectively.

11. Net Position

Net position represents the residual of assets plus deferred outflows less liabilities and deferred inflows. Net investment in capital assets represents net position in the form of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The School District’s policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

12. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.



BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

13. Date of Management Review

Management has evaluated the activities and transactions subsequent to June 30, 2014 to determine the need for any adjustments to and/or disclosure within the audited financial statements for the year ended June 30, 2014. Management has performed this evaluation through December 22, 2014, the date the financial statements were available to be issued.

Note C. Property Taxes

Property taxes are collected by Yellowstone County who remits to the District their respective share of the collections. The 2013 property tax levy, which was perfected and became a receivable in October 2013, was levied to finance District operations during the year ended June 30, 2014. The tax levy was collectible in November 2013 and May 2014. As of May 31, 2014 uncollected property taxes became delinquent. Property taxes are attached as an enforceable lien on the underlying property. After a period of three years, Yellowstone County, the collecting agent, may begin foreclosure proceedings and sell the property at auction. The District receives its share of the sale proceeds from Yellowstone County.

All property taxes are recognized in compliance with GASB interpretation "Property Tax Revenue Recognition in Government Funds," which states that such revenue is recorded when it becomes measurable and available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.



BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

Note D. Capital Assets

A summary of changes in capital assets for the year ended June 30, 2014 is as follows:

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>
CAPITAL ASSETS BEING DEPRECIATED AT COST:				
Land Improvements	1,482,239	52,160	0	1,534,399
Buildings and Improvements	22,326,122	0	0	22,326,122
Machinery and Equipment	550,776	12,000	20,883	541,893
	<u>24,359,137</u>	<u>64,160</u>	<u>20,883</u>	<u>24,402,414</u>
OTHER CAPITAL ASSETS:				
Land	277,490	0	0	277,490
	<u>277,490</u>	<u>0</u>	<u>0</u>	<u>277,490</u>
Total	<u>24,636,627</u>	<u>64,160</u>	<u>20,883</u>	<u>24,679,904</u>
LESS ACCUMULATED DEPRECIATION FOR:				
Land Improvements	757,922	332,753	0	1,090,675
Buildings and Improvements	5,889,865	272,628	0	6,162,493
Machinery and Equipment	364,253	47,362	13,947	397,668
Total accumulated depreciation	<u>7,012,040</u>	<u>652,743</u>	<u>13,947</u>	<u>7,650,836</u>
Total	<u>17,624,587</u>			<u>17,029,068</u>



BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

Depreciation expense was charged to the functions of the District as follows:

Instruction	585,755
Supporting Services	9,890
Operations and Maintenance	32,295
Food Service	24,803
	<u>652,743</u>

Note E. General Long-Term Debt

In January of 2007 the District issued general obligation bonds in the amount of \$12,860,000 to finance the construction of a middle school. The summary of activity in bonds payable (including current maturities) is as follows:

	<u>Bonds Payable</u> <u>July 1, 2013</u>	<u>Debt Issued</u>	<u>Debt Principal</u> <u>Retired</u>	<u>Bonds Payable</u> <u>June 30, 2014</u>
General Obligation Bonds:				
2007 series; interest rate 4.000% 2007 - 2014, 5.50% 2015 - 2017, 4.00% 2018 - 2026, 4.125% 2027; original issue of \$12,860,000; final maturity July 1, 2027	10,570,000	0	585,000	9,985,000
Total	<u>10,570,000</u>	<u>0</u>	<u>585,000</u>	<u>9,985,000</u>



BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

At June 30, 2014 the annual cash flow requirements for retirement of bond principal are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	605,000	420,275	1,025,275
2016	630,000	387,000	1,017,000
2017	655,000	352,350	1,007,350
2018	680,000	326,150	1,006,150
2019	705,000	298,950	1,003,950
Thereafter	6,710,000	1,280,250	7,990,250
Total	<u>9,985,000</u>	<u>3,064,975</u>	<u>13,049,975</u>

The District is subject to Montana Code Annotated which limits the amount of indebtedness by the issuance of bonds to the greater of:

1. 50% of the taxable value of property subject to taxation by the District as ascertained by the last assessment for property taxes, or
2. 50% of the statewide Facility Guaranteed Mill Value per ANB multiplied by 1,000, multiplied by the number of students enrolled in a particular district (based on the current year average number of students belonging "ANB").

As of June 30, 2014 the statutory debt limit for the District was as follows:

	Elementary
Statutory debt limit	<u>19,686,700</u>
Outstanding debt	<u>9,985,000</u>
Remaining debt capacity	<u>9,701,700</u>



BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

The following is a summary of changes in long-term obligations for the year ended June 30, 2014:

	July 1, 2013	Additions	Reductions	June 30, 2014	Due Within One Year	Due in More Than One Year
Compensated Absences Payable	546,764	30,199	0	576,963	28,848	548,115
Bonds Payable	10,570,000	0	585,000	9,985,000	605,000	9,380,000
Other postemployment benefits	1,617,268	224,434	0	1,841,702	0	1,841,702
Total	<u>12,734,032</u>	<u>254,633</u>	<u>585,000</u>	<u>12,403,665</u>	<u>633,848</u>	<u>11,769,817</u>

The compensated absences liability will be liquidated by several of the Governmental funds.

The bonds payable liability will be liquidated by the Debt Service Fund.

Note F. Employee Benefit Plans

1. Plan Description and Provisions

All full-time District employees participate in one of two statewide, cost-sharing, multiple-employer retirement benefit plans. Contributions to the two plans are as required by state statute. Information about the two plans is presented below. Total payroll for all District employees for the year ended June 30, 2014 was \$5,870,311.

Public Employees' Retirement System (PERS) - All District employees, except employees who teach on a full-time basis or who are employed in a position in which instructional services are expected to be rendered, are provided pension benefits by a multi-employer plan administered by the State of Montana. Participating units of government and their employees provide funding. The District's contribution to this plan for the year ended June 30, 2014 was \$51,187 (7.80% of eligible payroll). The State of Montana contributes .37% of the PERS employees' monthly compensation that is considered to be an "on behalf" payment. Although not a significant amount, the contribution is a part of the PERS funding policy. The District's contribution to this plan represented less than 1% of total contributions required of all participating employers. Required employee contributions to this plan were \$51,736 (7.90% of eligible payroll for employees). Total payroll for employees covered by PERS was \$655,543. One hundred percent of the required contributions were made for the current year and the preceding two years. They were \$102,923, \$134,342, and \$84,001, for the fiscal years ended June 30, 2014, 2013 and 2012 respectively.



BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

Participants become eligible for benefits after age 60 and 5 years of service, after age 65 regardless of service, or 30 years of service regardless of age. The benefit is 1/56 of the final compensation for each year of credited service, paid as a modified cash refund annuity. A participant is eligible for early retirement benefits after age 50 and 5 years of service or after 25 years of service regardless of age. Rights become vested after 5 years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State Legislature.

Teachers' Retirement System (TRS) - All District employees who teach on a full-time basis or are employed in a position in which instructional services are expected to be rendered, are provided pension benefits by a multi-employer plan administered by the State of Montana. Participating units of government and their employees provide funding. The District's contribution to this plan for the year ended June 30, 2014 was \$429,064 (8.47% of eligible payroll). The State of Montana contributes 2.49% of the TRS employees' monthly compensation, which is considered to be an "on behalf" payment. Although not a significant amount, the contribution is a part of the TRS funding policy. The District's contribution represented less than 1% of total contributions required of all participating employers. Required employee contributions to this plan were \$412,437 (8.15% of eligible payroll). Total payroll for teaching employees was \$5,060,579. One hundred percent of the required contributions were made for the current year and the preceding two years. They were \$841,501, \$718,490, and \$680,471, for the fiscal years ended June 30, 2014, 2013 and 2012, respectively.

Participants become eligible for benefits after age 60 or 25 years of service. The benefit is 1/60 of the final compensation for each year of credited service. A participant is eligible for early retirement, with reduced benefits, after age 50 and 5 years of service. Rights become vested after 5 years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State Legislature.

The PERS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report for the fiscal year end. It is available from the PERD at 100 North Park Avenue, Suite 200, P.O. Box 200131, Helena, Montana 59620-0131, (406) 444-3154.

The TRS financial information is reported in the Teachers' Retirement Board's Actuarial Valuation for the fiscal year end. It is available from the TRB at 1500 E. Sixth Avenue, Helena, Montana 59620-0139, (406) 444-3134.



BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

Note G. Risk Management

The District faces a considerable number of risks of loss, including: a) damage to and loss of property and contents; b) employee torts; c) professional liability, (i.e. errors and omissions); d) environmental damage; e) workers' compensation, (i.e. employee injuries) and f) medical insurance costs of employees. A variety of methods are used to provide insurance for these risks. A commercial policy with Payne West Insurance, transferring all risks of loss, except for relatively small deductible amounts, was purchased for property and content damage, employee torts and professional liabilities. Beginning in 1992, the District joined together with other Montana school districts to form the Montana Schools Group Workers' Compensation Risk Retention Program, a public entity risk pool currently operating as a common risk management and insurance program for the member school districts. The District pays a quarterly premium for its employee injury insurance coverage which is allocated to the employer fund based on total paid salaries and wages. 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. Employee medical insurance is provided through Employee Benefit Management Services, Inc. The District does not carry coverage for environmental damages. The risk of potential loss is low and coverage is not cost beneficial.

Note H. Due From Other Governments

Due from other governments at June 30, 2014 consists of amounts owed to the District from other governmental entities. These consist of the following:

School Food Fund	14,688
Total	<u>14,688</u>

Note I. Non-Monetary Transactions

The District received \$24,432 in USDA Commodities during the 2013-2014 fiscal year. The commodities received are valued at the average wholesale price as determined by the distributing agency. All commodities received by the District were treated as an expense of the fund receiving the commodities.



BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

Note J. Transfers

For the year ended June 30, 2014, resource transfers in of \$168,750 were made to the Miscellaneous Programs Fund to record lump sum payments received from Eastern Yellowstone Special Services Cooperative and resource transfers out of \$20,495 and \$19,142 were made from the General Fund and Retirement Fund, respectively, for special education expenditures relating to the District's share of IDEA federal funds.

During the year ended June 30, 2014, the District made resource transfers of \$10,883 from the Transportation Fund to the Building Reserve Fund for the purpose of updating school safety and security measures. These transfers are allowable pursuant to on Senate Bill 348 that was passed in the spring of 2013 by the Montana State Legislature. The District also made an equity transfer of \$29,588 from the General Fund to the Compensated Absences Fund to fund vacation and sick leave and made an equity transfer of \$20,194 from the Transportation Fund to the Flex fund during the year.

Note K. Other Postemployment Benefits (OPEB)

1. Other Postemployment Benefits

The District provides continuation of medical and dental coverage to its retiring employees. Retirees may elect to continue medical and dental coverage for themselves and their dependents through the District until the retiree's death. The District does not contribute to the health insurance premiums for retirees with the exception of one retiree and their spouse for whom the District contributes 100% of the medical insurance premiums. Other postemployment benefits arise from the difference in the District's medical insurance cost the retirees are incurring and what they would otherwise be paying on the open market for a similar plan and the cost of the retiree's premiums that are paid 100% by the District. As required by Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the District has calculated and included a postemployment benefit liability for the year ended June 30, 2014.

2. Plan Description

The District maintains a single-employer medical plan. The plan provides defined health insurance for eligible employees, retirees, spouses and dependents. Included in the plan are medical and dental benefits. The plan has options for pre Medicare insurance benefits and for Medicare supplemental insurance benefits. Continued participation in the plan is elected by retirees at the time of retirement.

3. Funding Policy

The required contribution for the District is based on a pay-as-go basis using a level percentage of pay amortization method over 30 years.



BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

4. Annual OPEB Cost and Net OPEB Obligation

The District's other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan and the changes in the District's net OPEB obligation:

Normal Cost	332,047
Amortization of Unfunded Actuarial Accrued Liability (UAAL)	348,099
Interest to 6/30/14	0
Annual OPEB Cost (expense)	<u>680,146</u>
Interest on Net OPEB Obligation	51,460
Contributions Made	(120,148)
ARC Adjustment	<u>(387,024)</u>
Increase in net OPEB Obligation	224,434
Net OPEB Obligation - 7/1/13	<u>1,617,268</u>
Net OPEB Obligation - 6/30/14	<u><u>1,841,702</u></u>



BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

5. Trend Information

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	432,005	23.6%	329,943
June 30, 2011	461,683	21.8%	717,985
June 30, 2012	494,126	24.8%	1,089,167
June 30, 2013	630,566	16.2%	1,617,268
June 30, 2014	680,146	17.8%	1,841,702

6. Funded Status and Funding Progress

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding funding status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents 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.



BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

7. Actuarial Methods and Assumptions

As of June 30, 2014, the District's actuarially accrued liability (AAL) for benefits was \$8,279,903. The AAL by status breakdown is shown below:

Actives	5,089,254
Retirees	<u>3,190,649</u>
Total AAL	<u><u>8,279,903</u></u>
Normal Cost	<u><u>332,047</u></u>
Participant Information:	
Actives (participating)	95
Actives (not currently participating)	37
Retirees	<u>28</u>
Total Participants	<u><u>160</u></u>

The following key assumptions were chosen by the District:

- Funding method: Entry Age Normal Cost, level percent of pay
- Discount rate: 4%
- Salary increase: 4% per year for PERS employees; 4.5% per year for TRS employees
- Healthcare trend rate: 2014 – 9%, 2015 – 8.5%, 2016 – 8%, 2017 – 6%, 2018 – 7% and 2018 and thereafter – 7%
- Participation rate: 50% of current active participants, 25% of actives not currently participating
- Marital assumption: 80% of current active participants are assumed to be married. Of these, 60% are assumed to elect coverage for their spouse in retirement. Husbands assumed to be 3 years older than their wives.



BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

Note L. Contingent Liabilities

The District participates in a number of federally assisted grant programs that are subject to audit and adjustment by the grantors. Such grantor audits of these programs, if any, for or including the year ended June 30, 2014, have not yet been conducted. Accordingly, the District's compliance with applicable grant requirements for those programs if audited by grantor agencies will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.





REQUIRED SUPPLEMENTAL INFORMATION

Lockwood School District No. 26

Yellowstone County
Lockwood, Montana
June 30, 2014

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2014

	General Fund		Transportation	
	ORIGINAL AND FINAL		ORIGINAL AND FINAL	
	BUDGET	ACTUAL	BUDGET	ACTUAL
REVENUES				
Taxes	2,154,933	2,111,367	434,920	424,977
Intergovernmental revenues				
County	0	0	98,480	89,528
State	5,240,734	5,240,734	117,535	108,582
Interest on investments	3,755	4,432	218	585
Other revenue	12	510	0	0
Total revenues before reappropriations	7,399,434	7,357,043	651,153	623,672
Budgeted reappropriations	0		0	
Total revenues and reappropriations	7,399,434		651,153	
EXPENDITURES				
Current:				
Instruction	7,399,434	4,569,973	0	0
Supporting services	0	1,574,665	0	0
Operations and maintenance	0	1,058,914	0	0
Student transportation	0	0	651,153	588,841
Extracurricular	0	33,726	0	0
Capital outlay	0	61,160	0	0
Total expenditures	7,399,434	7,298,438	651,153	588,841
Excess (deficiency) of revenues over expenditures	0	58,605	0	34,831
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)		(29,588)		(31,077)
Total other financing sources (uses)		(29,588)		(31,077)
Excess (deficiency) of revenues and other sources over expenditures		29,017		3,754
Fund balances, beginning (Non-GAAP budgetary basis)		739,944		129,230
Fund balances, ending (Non-GAAP budgetary basis)		768,961		132,984
Adjustments to generally accepted accounting principles				
Current year encumbrances included in expenditures		17,041		0
Fund balances, ending (GAAP basis)		786,002		132,984

See notes to Budgetary Comparison Schedule



REQUIRED SUPPLEMENTAL INFORMATION

NOTES TO BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2014

1. Budgetary Process

State Law requires that the District adopt budgets for certain funds, generally those supported by property taxes. Budgeted and non-budgeted funds are as follows:

Fund	Budgeted	Non-Budgeted
<u>Governmental Funds</u>		
General	X	
Transportation	X	
School Food Services		X
Tuition	X	
Retirement	X	
Miscellaneous Programs		X
Adult Education	X	
Lease Rental		X
Compensated Absences		X
Technology	X	
Flex Fund	X	
Debt Service	X	
Building		X
Building Reserve	X	
<u>Fiduciary Funds</u>		
Extracurricular		X
Payroll Clearing		X
Claims Clearing		X
Cobra Insurance		X
Deferred Compensation		X
<u>Proprietary Funds</u>		
Daycare		X



REQUIRED SUPPLEMENTAL INFORMATION

NOTES TO BUDGETARY COMPARISON SCHEDULE (CONTINUED)

For the Year Ended June 30, 2014

The District's budget is prepared on the modified accrual basis of accounting, including encumbrances, which results in the accounting for certain transactions to be on a basis other than accounting principles generally accepted in the United States of America (modified accrual). The District's accounting records are maintained on the basis of cash receipts and disbursements during the year. At year end, certain adjustments are made to the District's accounting records to reflect the basis of accounting described above. Reported budget amounts represent the originally adopted budget. Total fund expenditures may not legally exceed the budgeted expenditures. The budget lapses at the end of each year. The results of operations, on the budget basis of accounting, described above, are presented in the Budgetary Comparison Schedule to provide a meaningful comparison of actual results with the budget

General Fund budgets are 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. Budgeted fund expenditures are limited by State Law to budgeted amounts which may be amended for emergencies as defined by State Law. Budget authority may be transferred between expenditure classifications within the same fund.

a. Budgetary policy follows:

1. By the second Monday in July, the County Assessor transmits a statement of the assessed valuation and taxable valuation of all property to the County Superintendent of Schools.
2. Before the second Monday in August, the County Superintendent estimates revenue by fund and provides this information to the Board of Trustees prior to the final budget meeting.
3. On the second Monday in August, the Board of Trustees must meet to legally adopt the final budget. This budget is adopted consistent with the District's basis of accounting, except for encumbrances discussed below.
4. Upon adoption of the final budget, expenditures and operating transfers are limited to the total fund budget. Unexpended and unencumbered appropriations lapse at year end. Under State Law and District Policy, management may amend the budget without seeking Board approval as long as the total individual fund budget is not exceeded.
5. Individual fund budgets may only be increased with Board approval, in a manner prescribed by State Law (MCA 20-9-161 through MCA 20-9-166).



REQUIRED SUPPLEMENTAL INFORMATION

NOTES TO BUDGETARY COMPARISON SCHEDULE (CONTINUED)

For the Year Ended June 30, 2014

Encumbrances outstanding at year-end represent the estimated amount of expenditures ultimately to result if unperformed purchase orders or contracts in process at year-end were completed. They do not constitute expenditures or liabilities, and will not until performance is essentially complete. The encumbrances have been reported as an assignment of fund balance of the Balance Sheet – Governmental Funds. Because inclusion of these obligations is required for budgetary purposes, they have been included in expenditures in the Budgetary Comparison Schedule. The difference between this basis of presentation and GAAP basis is reconciled on the face of this statement.



REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

For the Year Ended June 30, 2014

The year ended June 30, 2010 was the year of transition for GASB Statement No. 45 therefore, the requirements of GASB Statement No. 45 have been implemented prospectively. Hence, the below illustration does not reflect similar information respective of the years preceding June 30, 2010. The annual OPEB costs, the percentage of OPEB cost contributed to the plan and the net OPEB obligation for June 30, 2014, 2013, 2012, 2011 and 2010 for the District's other postemployment benefits are as follows:

ANNUAL OPEB COST				
	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
Retiree Health Plan	06/30/10	\$ 432,005	23.6%	\$ 329,943
	06/30/11	\$ 461,683	21.8%	\$ 717,985
	06/30/12	\$ 494,126	24.8%	\$ 1,089,167
	06/30/13	\$ 630,566	16.2%	\$ 1,617,268
	06/30/14	\$ 680,146	17.7%	\$ 1,841,702

The funded status of the plan was as follows:

FUNDED STATUS	
(a) Actuarial accrued liability (AAL)	\$ 8,279,903
(b) Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL) [(a) - (b)]	\$ 8,279,903
Funded ratio (b) / (a)	0.0%
(c) Covered payroll	Not available
Unfunded actuarial accrued liability (UAAL) as a percentage of covered payroll [{(a) - (b)} / (c)]	Not available



REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

For the Year Ended June 30, 2014

SCHEDULE OF FUNDING PROGRESS							
	Actuarial Valuation Date	(a) Actuarial Value of assets	(b) Actuarial Accrued Liability (AAL)	(b - a) Unfunded AAL (UAAL)	(a / b) Funded Ratio	(c) Covered Payroll	[(b - a) / c] UAAL as a Percentage of Covered Payroll
Retiree Health Plan	06/30/10	\$ -	\$ 5,164,197	\$ 5,164,197	0.0%	Not available	Not available
	06/30/11	\$ -	\$ 5,519,542	\$ 5,519,542	0.0%	Not available	Not available
	06/30/12	\$ -	\$ 5,901,301	\$ 5,901,301	0.0%	Not available	Not available
	06/30/13	\$ -	\$ 7,741,460	\$ 7,741,460	0.0%	Not available	Not available
	06/30/14	\$ -	\$ 8,279,903	\$ 8,279,903	0.0%	Not available	Not available





SUPPLEMENTAL INFORMATION

Lockwood School District No. 26

Yellowstone County
Billings, Montana
June 30, 2014

SUPPLEMENTAL INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**For the Year Ended June 30, 2014**

<u>Federal Grantor/Pass Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Disbursements or Expenditures</u>
U.S. Department of Education Passed Through The Montana Office of Public Instruction		
Title I Grants to Local Education Agencies	84.010	388,792
Improving Teacher Quality State Grants	84.367	<u>71,914</u>
		<u>460,706</u>
Passed Through The Eastern Yellowstone Special Service Cooperative		
Special Education Cluster		
Special Education-Preschool Grants	84.173	13,593
Special Education-Grants to States	84.027	<u>155,157</u>
Total Special Education Cluster		<u>168,750</u>
Total Department of Education		<u>629,456</u>



SUPPLEMENTAL INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the Year Ended June 30, 2014

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Disbursements or Expenditures
U.S. Department of Agriculture Passed Through The Montana Office of Public Instruction		
Fresh Fruits and Vegetable Program	10.582	47,050
Child Nutrition Cluster:		
Cash Assistance:		
National School Lunch Program	10.555	308,652
School Breakfast Program	10.553	74,475
Summer Food Service Program for Children	10.559	<u>26,431</u>
Cash Assistance Subtotal		<u>409,558</u>
Non-Cash Assistance (Commodities):		
National School Lunch Program	10.555	<u>24,432</u>
Total Child Nutrition Cluster		<u>433,990</u>
Total Department of Agriculture		<u>481,040</u>
Total Federal Financial Assistance		<u><u>1,110,496</u></u>



SUPPLEMENTAL INFORMATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2014

Note A Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lockwood Public School District No. 26 and is presented on the modified accrual basis of accounting including encumbrances. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule differ from amounts presented in or used in the preparation of the financial statements.

Note B Nonmonetary Transactions

The District received \$24,432 in USDA Commodities during the 2013-2014 fiscal year. The commodities received are valued at the average wholesale price as determined by the distributing agency. All commodities received by the District were treated as an expense of the Fund receiving the commodities.



SUPPLEMENTAL INFORMATION

EXTRACURRICULAR ACTIVITIES – SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN NET POSITION**For the Year Ended June 30, 2014**

<u>Student Activity</u>	<u>Net Position 7/1/13</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Net Position 6/30/14</u>
Annual	61	12,623	12,684	0
Athletics	5,387	11,183	12,953	3,617
Extended Studies	820	0	0	820
Family Resource Center	494	2,662	2,525	631
Field Trip	238	0	0	238
Humanitarian Fund	820	300	102	1,018
Library	2,781	1,025	200	3,606
Music	3,649	26,968	27,994	2,623
Recycling	908	174	0	1,082
RevTrack	32	14	9	37
Student Council	2,058	4,465	3,148	3,375
Uniforms	2,903	5,719	6,504	2,118
Total	<u>20,151</u>	<u>65,133</u>	<u>66,119</u>	<u>19,165</u>



SUPPLEMENTAL INFORMATION

SCHEDULE OF REPORTED ENROLLMENT

For the Year Ended June 30, 2014

Grade	Fall		Winter		Spring	
	Enrollment Per FR-4	Enrollment Per District Record	Enrollment Per FR-4	Enrollment Per District Record	Enrollment Per FR-4	Enrollment Per District Record
K-2	400	400	399	399	406	406
3-5	409	409	409	409	417	417
6-8	405	405	398	398	391	391
Totals	<u>1,214</u>	<u>1,214</u>	<u>1,206</u>	<u>1,206</u>	<u>1,214</u>	<u>1,214</u>





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

December 22, 2014

Board of Trustees
Lockwood School District No. 26
Lockwood, Montana

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lockwood School District No. 26 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Lockwood School District No. 26's basic financial statements, and have issued our report thereon dated December 22, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lockwood Public School District No. 26'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 Lockwood Public School District No. 26's internal control. Accordingly, we do not express an opinion on the effectiveness of Lockwood Public School District No. 26's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lockwood Public School District No. 26'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*.

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.

Galusha, Higgins & Galusha, PC

GALUSHA, HIGGINS & GALUSHA, PC
Billings, Montana



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

December 22, 2014

Board of Trustees
Lockwood School District No. 26
Lockwood, Montana

Report on Compliance for Each Major Federal Program

We have audited Lockwood Public School District No. 26's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Lockwood Public School District No. 26's major federal programs for the year ended June 30, 2014. Lockwood Public School District No. 26's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Lockwood Public School District No. 26's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lockwood Public School District No. 26's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Lockwood Public School District No. 26's compliance.

Opinion on Each Major Federal Program

In our opinion, Lockwood Public School District No. 26 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of Lockwood Public School District No. 26 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lockwood Public School District No. 26's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lockwood Public School District No. 26's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Galusha, Higgins & Galusha, PC

GALUSHA, HIGGINS & GALUSHA, PC
Billings, Montana

SUPPLEMENTAL INFORMATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2014

Section I - Summary of Auditor's Results**Financial Statements**

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weaknesses identified?

_____	Yes	<u> X </u>	No
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Significant deficiency(ies) identified not considered to be material weaknesses?

_____	Yes	<u> X </u>	No
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Noncompliance material to financial statements noted?

_____	Yes	<u> X </u>	No
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Federal Awards

Type of auditor's report issued on compliance for major programs

Unmodified

Internal control over major programs:

Material weakness(es) identified?

_____	Yes	<u> X </u>	No
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Significant deficiency(ies) identified not considered to be material weaknesses?

_____	Yes	<u> X </u>	No
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Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?

_____	Yes	<u> X </u>	No
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Identification of major program:CFDA Number(s)

84.010

84.027, 84.173

Name of Federal Program or Cluster

Title I Grants to Local Education Agencies

Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

<u> X </u>	Yes	<u> </u>	No
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SUPPLEMENTAL INFORMATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS- CONTINUED

For the Year Ended June 30, 2014

Section II - Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Auditees Summary Schedule of Prior Audit Findings

2013-001 Implemented.

2013-002 Implemented.

