

**SCHOOL DISTRICT NUMBER 43  
GALLATIN COUNTY  
BOZEMAN, MONTANA**

**FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2014**

**OLNESS & ASSOCIATES, P. C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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SCHOOL DISTRICT NUMBER 43

ORGANIZATION

June 30, 2014

BOARD OF TRUSTEES

Amy Allen	Chairperson
Elisa Eshbaugh	Vice-chair
Ken Miller	Trustee
Karen Sipes-Schmidt	Trustee
Stacey Etchart	Trustee

OFFICIALS

LeeAnn Burke	Superintendent
Michelle Clark	Clerk
Sue Becker	Business Manager

# OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

BRENT D. OLNESS, CPA  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
School District Number 43  
Bozeman, Montana

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of School District Number 43, Bozeman, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the government, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the schedule of funding progress—other post employment benefits identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

INDEPENDENT AUDITOR'S REPORT (Continued)

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the government's basic financial statements. The extracurricular fund schedule and schedule of school district enrollment are presented for purposes of additional analysis and are not a required part of the financial statements.

The extracurricular fund schedule and schedule of school district enrollment are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the extracurricular fund schedule and schedule of school district enrollment 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 November 11, 2014, on our consideration of the government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the government's internal control over financial reporting and compliance.

*O'Leary & Associates, PC*

Billings, Montana  
November 11, 2014

SCHOOL DISTRICT NUMBER 43  
MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis of the School District Number 43's financial performance provides an overview of the government's financial activities for the year ended June 30, 2014. Please read the information here in conjunction with our financial statements and footnotes which begin on page 7.

**FINANCIAL HIGHLIGHTS**

- Net position increased \$36,577 as a result of this year's operations.
- Total fund balances increased \$23,455 over the prior year.
- The General fund expenditure budget was fully spent. There were no budget amendments during the year.

**USING THIS AUDIT REPORT**

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

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

SCHOOL DISTRICT NUMBER 43  
MANAGEMENT'S DISCUSSION & ANALYSIS

**THE GOVERNMENT AS A WHOLE**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In our case, assets exceeded liabilities by \$313,550 as of June 30, 2014, with the net position increasing \$36,577 over the prior year.

NET POSITION	2014	2013
Current and other assets	\$ 187,809	\$ 154,229
Capital assets	217,497	228,569
Total assets	405,306	382,798
Other liabilities	14,038	6,067
Long-term liabilities	77,718	99,758
Total liabilities	91,756	105,825
Net position		
Net investment in capital assets	203,169	185,380
Restricted	76,423	66,069
Unrestricted	33,958	25,524
	\$ 313,550	\$ 276,973
CHANGE IN NET POSITION	2014	2013
Revenues:		
Program revenues:		
Charges for services	\$ 20,322	\$ 31,623
Operating grants and contributions	93,598	85,971
General revenues:		
Taxes	262,320	229,140
State sources	294,731	275,044
County sources	77,584	54,143
Miscellaneous	69	662
Interest	1,192	1,255
Total revenues	749,816	677,838
Expenses:		
Instruction	445,535	410,694
Support services-students	12,525	8,082
Support services-instructional staff	10,559	12,936
Support services-general administration	9,811	10,128
Support services-administration	129,021	119,997
Support services-business	21,177	20,698
Operation and maintenance	52,062	75,416
Student transportation	11,302	11,821
Food services	10,615	20,818
Community services	9,384	8,056
Extracurricular	888	742
Interest on long-term debt	360	802
Total expenses	713,239	700,190
Change in net position	36,577	(22,352)
Net position, beginning	276,973	299,325
Net position, ending	\$ 313,550	\$ 276,973

SCHOOL DISTRICT NUMBER 43  
MANAGEMENT'S DISCUSSION & ANALYSIS

**FUND FINANCIAL STATEMENTS**

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

Fund balance for the General fund increased \$4,547, mainly due to current year encumbrances and the liquidation of prior year encumbrances.

The Retirement fund fund balance decreased \$5,470. Available fund balance was used to finance current year operations.

The Miscellaneous Programs fund fund balance increased \$7,532 because various donations were not spent in the current year.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

During the year, there were no capital asset additions.

Outstanding debt consists of an INTERCAP loan from the Montana Board of Investments. The loan matures in fiscal year 2015.

**THE GOVERNMENT'S FUTURE**

Enrollment in LaMotte School District 43 has remained fairly stable for the last ten years (ANB count for Fall 2013-14 was 67 students), as has the number of taxpayers in the district. However, trustees anticipate future growth in our district because Gallatin County is one of Montana's fastest-growing counties in recent years, and growth is expected to continue.

We currently have 18 out of district students enrolled, and those applications are reviewed every year as acceptance is based on classroom space availability. We have received more out of district applications than we have room for, and there is typically a waiting list for enrollment because of our small class size and potential for more individualized instruction.

Currently, we offer an all day kindergarten program, students attend three days a week for the first trimester, four days the second trimester, and five days a week for the last trimester of the year. Our students receive Spanish instruction beginning in first grade, as well as a full music program with instrumental instruction beginning in 4th grade. LaMotte School partners with The United Way to offer an After School Program, this assists parents that work beyond school hours. We offer girls and boys basketball and girls volleyball through a partnership with Mt. Ellis Elementary School, a private parochial school within our district.

LaMotte School is very well equipped with a variety of technology tools for student and staff use. Internet connection is provided wirelessly. Our students have the opportunity to utilize a laptop computer, Chromebook or iPad daily. We are working on the goal of one electronic device for every student. Each teacher has the use of a laptop for instructional purposes. We own three document cameras for instructional use and each classroom (six) has a Promethean interactive whiteboard. We have purchased 10 digital cameras for student use and a flip video camera. The district taxpayers have supported two technology levies in the last 10 years. Currently, the district receives \$15,000 yearly to support our instructional technology as well as repair and professional development.

SCHOOL DISTRICT NUMBER 43  
STATEMENT OF NET POSITION  
June 30, 2014

<b>ASSETS</b>	
Cash and cash equivalents	\$ 172,810
Receivables:	
Property taxes	12,379
Governments	2,563
Other	57
Capital assets:	
Land	780
Capital assets, net of accumulated depreciation	<u>216,717</u>
<b>Total assets</b>	<u><b>405,306</b></u>
<b>LIABILITIES</b>	
Accounts payable	13,651
Unearned revenues	387
Long-term liabilities:	
Due within one year:	
Notes	14,328
Compensated absences	551
Due in more than one year:	
Compensated absences	4,959
Other post employment benefits	<u>57,880</u>
<b>Total liabilities</b>	<u><b>91,756</b></u>
<b>NET POSITION</b>	
Net investment in capital assets	203,169
Restricted for:	
Instruction	40,887
Support services:	
Students	536
Instructional staff	407
School administration	5,646
Business services	673
Operation and maintenance	17,954
Student transportation	5,381
Food services	4,454
Community services	441
Extracurricular	44
Unrestricted	<u>33,958</u>
<b>Total net position</b>	<u><u><b>\$ 313,550</b></u></u>

SCHOOL DISTRICT NUMBER 43  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Instruction	\$ 445,535	\$ 5,000	\$ 74,871	\$ (365,664)
Support services:				
Students	12,525	-	-	(12,525)
Instructional staff	10,559	-	566	(9,993)
General administration	9,811	-	-	(9,811)
School administration	129,021	-	1,676	(127,345)
Business services	21,177	-	-	(21,177)
Operation and maintenance	52,062	-	1,803	(50,259)
Student transportation	11,302	-	8,682	(2,620)
Food services	10,615	9,605	-	(1,010)
Community services	9,384	5,717	6,000	2,333
Extracurricular	888	-	-	(888)
Interest	360	-	-	(360)
<b>Total</b>	<b>\$ 713,239</b>	<b>\$ 20,322</b>	<b>\$ 93,598</b>	<b>(599,319)</b>
General revenues:				
Property taxes				262,320
Intergovernmental:				
State aid				261,451
State other				33,280
County				77,584
Interest				1,192
Miscellaneous				69
Total general revenues				635,896
Change in net position				36,577
Net position - beginning				276,973
Net position - ending				\$ 313,550

SCHOOL DISTRICT NUMBER 43  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2014

	General	Retirement	Miscellaneous Programs	Total Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 76,771	\$ 33,662	\$ 26,393	\$ 35,984	\$ 172,810
Receivables:					
Property taxes	9,738	-	-	2,641	12,379
Governments	-	2,563	-	-	2,563
Other	-	-	18	39	57
<b>Total assets</b>	<b>\$ 86,509</b>	<b>\$ 36,225</b>	<b>\$ 26,411</b>	<b>\$ 38,664</b>	<b>\$ 187,809</b>
<b>LIABILITIES</b>					
Accounts payable	\$ 13,643	\$ -	\$ -	8	\$ 13,651
Unearned revenue	-	-	-	387	387
<b>Total liabilities</b>	<b>13,643</b>	<b>-</b>	<b>-</b>	<b>395</b>	<b>14,038</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue-property taxes	9,738	-	-	2,641	12,379
<b>Total deferred inflows of resources</b>	<b>9,738</b>	<b>-</b>	<b>-</b>	<b>2,641</b>	<b>12,379</b>
<b>FUND BALANCES</b>					
Restricted:					
Instruction	-	27,715	-	3,005	30,720
Support services:					
Students	-	536	-	-	536
Instructional staff	-	407	-	-	407
School administration	-	5,646	-	-	5,646
Business services	-	673	-	-	673
Operation and maintenance	-	656	-	15,458	16,114
Student transportation	-	107	-	4,902	5,009
Food services	-	-	-	4,454	4,454
Community services	-	441	-	-	441
Extracurricular	-	44	-	-	44
Committed:					
Instruction	-	-	23,843	7,809	31,652
Support services:					
Community services	-	-	2,568	-	2,568
Assigned:					
Instruction	5,118	-	-	-	5,118
Support services:					
School administration	49	-	-	-	49
Operation and maintenance	5,338	-	-	-	5,338
Unassigned	52,623	-	-	-	52,623
<b>Total fund balances</b>	<b>63,128</b>	<b>36,225</b>	<b>26,411</b>	<b>35,628</b>	<b>161,392</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 86,509</b>	<b>\$ 36,225</b>	<b>\$ 26,411</b>	<b>\$ 38,664</b>	<b>\$ 187,809</b>

See notes to basic financial statements.

SCHOOL DISTRICT NUMBER 43  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION  
June 30, 2014

Total fund balances, governmental funds	\$ 161,392
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	217,497
Other long-term assets are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the funds.	12,379
Compensated absences, notes payable and other post employment benefits are not due and payable in the current period and, therefore, are not included in the funds.	<u>(77,718)</u>
Net position of governmental activities	<u>\$ 313,550</u>

SCHOOL DISTRICT NUMBER 43  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2014

	General	Retirement	Miscellaneous Programs	Total Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>					
Property taxes	\$ 203,326	\$ -	\$ -	\$ 56,840	\$ 260,166
Intergovernmental:					
County	-	77,584	-	4,341	81,925
State aid	261,451	-	-	-	261,451
State other	65,326	-	2,952	8,548	76,826
Federal	-	-	31,645	-	31,645
Tuition	5,000	-	-	-	5,000
Charges for services	-	-	-	9,605	9,605
Interest	832	155	-	205	1,192
Miscellaneous	-	-	19,852	-	19,852
<b>Total revenues</b>	<b>535,935</b>	<b>77,739</b>	<b>54,449</b>	<b>79,539</b>	<b>747,662</b>
<b>EXPENDITURES</b>					
Current:					
Instruction	324,350	63,662	37,458	4,266	429,736
Support services:					
Students	7,855	1,231	-	3,439	12,525
Instructional staff	9,094	935	530	-	10,559
General administration	9,225	-	-	30	9,255
School administration	112,558	12,968	-	3,603	129,129
Business services	17,534	1,547	558	964	20,603
Operation and maintenance	49,985	1,507	-	605	52,097
Student transportation	-	245	-	11,057	11,302
Food services	-	-	-	9,508	9,508
Community services	-	1,013	8,371	-	9,384
Extracurricular	787	101	-	-	888
Debt service:					
Principal	-	-	-	28,861	28,861
Interest and other charges	-	-	-	360	360
<b>Total expenditures</b>	<b>531,388</b>	<b>83,209</b>	<b>46,917</b>	<b>62,693</b>	<b>724,207</b>
<b>Net change in fund balances</b>	<b>4,547</b>	<b>(5,470)</b>	<b>7,532</b>	<b>16,846</b>	<b>23,455</b>
Fund balances - beginning	58,581	41,695	18,879	18,782	137,937
Fund balances - ending	<u>\$ 63,128</u>	<u>\$ 36,225</u>	<u>\$ 26,411</u>	<u>\$ 35,628</u>	<u>\$ 161,392</u>

SCHOOL DISTRICT NUMBER 43  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF  
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds: \$ 23,455

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

Governmental funds report capital outlays expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

This is the amount by which depreciation (\$11,072) exceeded capital outlay (\$0) in the current period. (11,072)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. 2,154

Governmental funds report debt proceeds as other financing sources and repayment of debt principal as expenditures. In contrast, the statement of activities treats such proceeds as an increase in long-term liabilities and debt principal repayments as a reduction in long-term liabilities. This is the amount of debt principal repayments. 28,861

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Compensated absences	638
Other post employment benefits	<u>(7,459)</u>

Change in net position of governmental activities \$ 36,577

SCHOOL DISTRICT NUMBER 43  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
June 30, 2014

	Private Purpose Trust Fund- Extracurricular	Agency Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,988	\$ 12,136
Total assets	3,988	\$ 12,136
<b>LIABILITIES</b>		
Accounts payable	-	\$ 12,136
Total liabilities	-	\$ 12,136
<b>NET POSITION</b>		
Net position held in trust	\$ 3,988	

SCHOOL DISTRICT NUMBER 43  
STATEMENT OF CHANGES IN NET POSITION  
FIDUCIARY FUND  
For the Year Ended June 30, 2014

	<u>Private Purpose Trust Fund- Extracurricular</u>
<b>ADDITIONS</b>	
Student extracurricular activities	<u>\$ 7,626</u>
Total contributions	<u>7,626</u>
Investment earnings:	
Interest	<u>39</u>
Total net investment earnings	<u>39</u>
Total additions	<u>7,665</u>
<b>DEDUCTIONS</b>	
Student extracurricular activities	<u>9,509</u>
Total deductions	<u>9,509</u>
Change in net position	(1,844)
Net position - beginning	<u>5,832</u>
Net position - ending	<u><u>\$ 3,988</u></u>

SCHOOL DISTRICT NUMBER 43  
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The government's significant accounting policies are described below.

Reporting Entity

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

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

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

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

SCHOOL DISTRICT NUMBER 43  
NOTES TO BASIC FINANCIAL STATEMENTS

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

The government reports the following major governmental funds:

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

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

The retirement fund accounts for the resources accumulated from a countywide retirement levy and payments made for the district's share of TRS, PERS, unemployment and Social Security and Medicare.

The miscellaneous programs fund accounts for the resources accumulated and payments made for federal and state grants, entitlements and donations.

Additionally, the government reports the following fund types:

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

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

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

Cash and Investments

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

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

Receivables

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

Inventories

Inventory items purchased are recorded as expenditures/expenses at the time of purchase. Inventory at year-end was not material and therefore not recorded.

Capital Assets

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

SCHOOL DISTRICT NUMBER 43  
NOTES TO BASIC FINANCIAL STATEMENTS

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

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings	5-50
Machinery and equipment	5

Collections Not Capitalized

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

Compensated Absences

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

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

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

Long-term Obligations

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

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

Net Position

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

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

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

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

SCHOOL DISTRICT NUMBER 43  
NOTES TO BASIC FINANCIAL STATEMENTS

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

#### Fund Balance

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

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

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

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

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

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

The governing body has by resolution authorized the business manager, principal and/or board of trustees to assign fund balance. Assigned fund balance in the general fund represents year-end encumbrances.

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

#### Use of Estimates

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

#### NOTE 2. DETAILED NOTES ON ALL FUNDS

##### Equity in Pooled Cash and Investments

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

The extracurricular and flexible benefits accounts were entirely insured by the FDIC.

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

SCHOOL DISTRICT NUMBER 43  
NOTES TO BASIC FINANCIAL STATEMENTS

Capital Assets

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

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets, not being depreciated				
Land	\$ 780	\$ -	\$ -	\$ 780
Total capital assets, not being depreciated	780	-	-	780
Capital assets, being depreciated				
Buildings/improvements	324,162	-	-	324,162
Improvements other than buildings	66,133	-	-	66,133
Total capital assets, being depreciated	390,295	-	-	390,295
Less accumulated depreciation for:				
Buildings/improvements	(114,704)	(9,622)	-	(124,326)
Improvements other than buildings	(47,802)	(1,450)	-	(49,252)
Total accumulated depreciation	(162,506)	(11,072)	-	(173,578)
Total capital assets, being depreciated, net	227,789	(11,072)	-	216,717
Capital assets, net	\$ 228,569	\$ (11,072)	\$ -	\$ 217,497

Depreciation expense was charged as follows:

Instruction	\$ 7,741
Support services-general administration	556
Support services-administration	556
Support services-business	556
Operation and maintenance	556
Food services	1,107
	<u>\$ 11,072</u>

Long-Term Debt

In August 2009, the district borrowed \$135,000 from the State Board of Investments. Proceeds were used to erect a modular building. Interest and principal payments are due semi-annually. The interest rate on the notes was 1.00% at June 30, 2014. The interest rate is adjusted February of each year and cannot exceed 15% per annum. As of June 30, 2014, the outstanding balance of the note payable was \$14,328. Annual debt service requirements to maturity for fiscal year 2015 are \$14,399, including interest of \$71.

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

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Notes payable	\$ 43,189	\$ -	\$ (28,861)	\$ 14,328	\$ 14,328
Compensated absences	6,148	-	(638)	5,510	551
Total long-term liabilities	\$ 49,337	\$ -	\$ (29,499)	\$ 19,838	\$ 14,879

Compensated absences are generally liquidated by the general fund and notes payable are liquidated by the building reserve fund.

NOTE 3. OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; professional liability (i.e., errors and omissions); workers compensation (i.e., employee injuries); medical insurance costs; and environmental damages. A

SCHOOL DISTRICT NUMBER 43  
NOTES TO BASIC FINANCIAL STATEMENTS

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

Interlocal Cooperative

The government participates with other school districts located in Gallatin and Madison County in the Gallatin-/Madison County Special Education Cooperative. The Cooperative provides special education services to its member schools.

Commitments and Contingencies

At year-end, the government had commitments outstanding, in the form of purchase orders, of approximately \$10,505, primarily for supplies. The following schedule displays encumbrances:

	General Fund
Assigned:	
Instruction	\$ 5,118
Support services:	
School administration	49
Operation and maintenance	5,338
	\$ 10,505

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

Retirement Plans

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

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

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

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

SCHOOL DISTRICT NUMBER 43  
NOTES TO BASIC FINANCIAL STATEMENTS

TRS:

A "tier 1 member" is a person who became a member before July 1, 2013 and who has not withdrawn his/her account balance. A "tier 2 member" is a person who became a member on or after July 1, 2013 or who, after withdrawing his/her account balance, became a member again on or after July 1, 2013. Effective July 1, 2013, the Tier 1 member supplemental contribution may be decreased, and a Tier 2 member may be required to contribute a supplemental contribution, under circumstances described in Section 19-20-608, MCA. Also, the employer supplemental contribution may be decreased under circumstances described in Section 19-20-609, MCA.

PERS:

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

The State of Montana contributes .37% and 2.49% per year to the PERS and TRS plans, respectively, on behalf of the employer. The State of Montana TRS contributions (\$7,913) has been recorded in the financial statements.

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

	2014	2013	2012
TRS	\$ 52,817	\$ 44,589	\$ 43,684
PERS	7,696	5,884	5,792
	\$ 60,513	\$ 50,473	\$ 49,476

Postemployment Benefits Other Than Pensions

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

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

*Annual OPEB Cost and Net OPEB Obligation.* The government's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The government has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers with plans that have fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the government's net OPEB obligation to the plan:

Annual required contribution	\$ 10,718
Interest on net OPEB obligation	2,143
Adjustment to annual required contribution	(2,125)
Annual OPEB cost (expense)	10,736
Contributions made	(3,277)
Increase in net OPEB obligation	7,459
Net OPEB obligation - beginning of year	50,421
Net OPEB obligation - end of year	\$ 57,880

SCHOOL DISTRICT NUMBER 43  
NOTES TO BASIC FINANCIAL STATEMENTS

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

Year Ending June 30,	Annual OPEB Cost (AOC)	Percentage of Annual AOC Contributed	Net OPEB Obligation (NOO)
2012	\$ 15,321	0%	\$ 44,099
2013	9,461	0%	50,421
2014	10,736	0%	57,880

*Funded Status and Funding Progress.* As of July 1, 2013, the Plan was 0% funded. The actuarial accrued liability for benefits was \$60,913, and the actuarial value of assets is \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$60,913.

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

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

*Assumptions About Employees and Members:* Based on the historical average retirement age of the covered group, active plan members were assumed to retire at age 65 or the first year thereafter in which the member would qualify for benefits. Marital status as of the calculation date was assumed to continue throughout retirement. Life expectancy was based on the RP2000 Healthy Combined Generational Table. The probability of remaining employed until the assumed retirement age and employees' expected future working lifetimes were developed using non-group-specific age-based turnover data from GASB Statement No. 45.

*Assumptions About Healthcare Costs:* The 2014 health insurance premiums for retirees were used to calculate the present value of total benefits to be paid. The expected rate of increase in health insurance premiums initially used a select rate of 4.39 percent, with reduction to the ultimate rate of 5 percent.

*Other Assumptions and Methods:* The inflation rate was assumed to be 4 percent (less than 65 years of age) and 3 percent (older than 65 years of age). Based on the historical and expected returns of the government's investments, the investment rate of return was assumed to be 4.25%. Estimated participation is based on the assumption that 45 percent of future retirees will elect medical coverage. The UAAL is amortized over a thirty-year period using a 4.25 interest rate and a 2.5 percent payroll growth rate.

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

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

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT NUMBER 43  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL  
GENERAL FUND  
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
<b>REVENUES</b>					
Property taxes	\$ 205,243	\$ 205,243	\$ 203,326	\$ -	\$ 203,326
Intergovernmental:					
State aid	261,451	261,451	261,451	-	261,451
State other	57,413	57,413	57,413	7,913	65,326
Tuition	4,500	4,500	5,000	-	5,000
Interest	823	823	832	-	832
<b>Total revenues</b>	<u>529,430</u>	<u>529,430</u>	<u>528,022</u>	<u>7,913</u>	<u>535,935</u>
<b>EXPENDITURES</b>					
<b>Total expenditures</b>	<u>529,430</u>	<u>529,430</u>	<u>529,430</u>	<u>1,958</u>	<u>531,388</u>
<b>Net change in fund balance</b>	<u>\$ -</u>	<u>\$ -</u>	(1,408)	5,955	4,547
Fund balances - beginning			54,031	4,550	58,581
Fund balances - ending			<u>\$ 52,623</u>	<u>\$ 10,505</u>	<u>\$ 63,128</u>

**NOTES TO THE BUDGET AND ACTUAL SCHEDULES**

State law requires budgets be prepared for certain funds - generally those supported by property tax revenues. Budgets are prepared on the modified accrual basis. State law requires only that a fund's total expenditures not exceed total budgeted expenditures. Budgets may be amended as defined by State law.

The general fund budget is based on the State of Montana's foundation program which is based primarily on enrollment. Budgets of other funds are based on expected revenues and expenditures. The Board of Trustees approves the original budget not later than August 25th.

State law permits the inclusion of obligations (encumbrances) for construction in progress and the purchase of personal property as expenditures for budget purposes. The budget to GAAP differences above consist of the state of Montana on-behalf TRS payment and encumbrances for the current and prior years.

Budgetary information is not presented for the Miscellaneous Programs fund because it is a non-budgeted fund and as such is not required to be presented.

SCHOOL DISTRICT NUMBER 43  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL  
 RETIREMENT FUND  
 For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
<b>REVENUES</b>					
Intergovernmental:					
County	\$ 77,584	\$ 77,584	\$ 77,584	\$ -	\$ 77,584
Interest	-	-	155	-	155
Total revenues	<u>77,584</u>	<u>77,584</u>	<u>77,739</u>	<u>-</u>	<u>77,739</u>
<b>EXPENDITURES</b>					
Total expenditures	<u>99,400</u>	<u>99,400</u>	<u>83,209</u>	<u>-</u>	<u>83,209</u>
Net change in fund balances	<u>\$ (21,816)</u>	<u>\$ (21,816)</u>	(5,470)	-	(5,470)
Fund balances - beginning			<u>41,695</u>	<u>-</u>	<u>41,695</u>
Fund balances - ending			<u>\$ 36,225</u>	<u>\$ -</u>	<u>\$ 36,225</u>

See notes to the budget and actual schedules on page 23.

SCHOOL DISTRICT NUMBER 43  
 SCHEDULE OF FUNDING PROGRESS-OTHER POST EMPLOYMENT BENEFITS  
 For the Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UALL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UALL as a Percentage of Covered Payroll [(b-a)/c]
6/30/2014	\$ -	\$ 60,913	\$ 60,913	-	\$ 412,833	0.147548767
6/30/2013	-	53,486	53,486	-	396,690	0.134830724
6/30/2012	-	53,624	53,624	-	389,843	0.137552810

This schedule is based on the actuarial values as of July 1, 2012

OTHER SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT NUMBER 43  
 EXTRACURRICULAR FUND  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 For the Year Ended June 30, 2014

Activity	Balance July 1, 2013	Revenues	Expenditures	Balance June 30, 2014
8th Grade Fundraisers	\$ 2,459	\$ 7,346	\$ 9,339	\$ 466
Mathathon	354	-	-	354
Fundraisers	847	-	-	847
Library/Book Fair	882	-	-	882
Student Council	732	-	-	732
Yearbook	308	280	170	418
Interest	250	39	-	289
	<u>\$ 5,832</u>	<u>\$ 7,665</u>	<u>\$ 9,509</u>	<u>\$ 3,988</u>

SCHOOL DISTRICT NUMBER 43  
 SCHEDULE OF SCHOOL DISTRICT ENROLLMENT  
 For the Year Ended June 30, 2014

	<u>Reported Enrollment</u>	<u>Enrollment per Records</u>	<u>Difference</u>
FALL ENROLLMENT - October 2013			
<u>Elementary District</u>			
Kindergarten	9	9	-
Grades one through six	45	45	-
Grades seven and eight	11	11	-
	<u>65</u>	<u>65</u>	<u>-</u>
WINTER ENROLLMENT - December 2013			
<u>Elementary District</u>			
Kindergarten	9	9	-
Grades one through six	42	42	-
Grades seven and eight	11	11	-
	<u>62</u>	<u>62</u>	<u>-</u>
SPRING ENROLLMENT - February 2014			
<u>Elementary District</u>			
Kindergarten	9	9	-
Grades one through six	41	41	-
Grades seven and eight	11	11	-
	<u>61</u>	<u>61</u>	<u>-</u>

# OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Trustees  
School District Number 43  
Bozeman, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District Number 43, Bozeman, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated November 11, 2014.

### Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses. (Findings 2014-001 and 2014-002)

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the government's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### The Government's Response to Findings

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

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*O'Leary & Associates, PC*

Billings, Montana  
November 11, 2014

SCHOOL DISTRICT NUMBER 43  
SCHEDULE OF FINDINGS  
For the Year Ended June 30, 2014

2014-001. FINANCIAL STATEMENT PREPARATION

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

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

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

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

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

2014-002. SEGREGATION OF DUTIES

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

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

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

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

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

SCHOOL DISTRICT NUMBER 43  
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

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