

**SCHOOL DISTRICT NUMBER 4
ROSEBUD COUNTY
FORSYTH, MONTANA**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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SCHOOL DISTRICT NUMBER 4

ORGANIZATION

June 30, 2014

BOARD OF TRUSTEES

Layton Salsbery	Chairperson
Dennis Kopitzke	Vice-Chairperson
Jerry Hagadone	Trustee
Gerald Killen	Trustee
Ginger Roll	Trustee
Donald John Cameron	Trustee

OFFICIALS

Bob Whalen	Superintendent
Robert Martelle	District Clerk/Business Manager

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

ERNEST J. OLNESS, CPA

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
School District Number 4
Forsyth, 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 4, Forsyth, 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.

Basis for Qualified Opinion

Management has not recorded the other post employment benefit (OPEB) liability and related expense in the governmental activities. Accounting principles generally accepted in the United States of America require that the OPEB liability and related expense be recorded, which would increase the liabilities, decrease net position and change expenses in the governmental activities. The amount by which this departure would affect the liabilities, net position and expenses has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the government, as of June 30, 2014, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the government as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity 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 and budgetary comparison information identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The extracurricular fund schedule and schedule of school district enrollment are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the extracurricular fund schedule and schedule of school district enrollment are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 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'neal & Associates, PC

Billings, Montana
November 26, 2014

SCHOOL DISTRICT NUMBER 4
MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis of School District Number 4'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 \$78,405 as a result of this year's operations
- During the year, our government had expenses that were \$739,867 more than the \$4,059,697 generated in revenues for the governmental activities.
- Total cost of all of programs increased by \$363,385, or 8 percent, with no new programs added this year.
- The general fund reported an increase in fund balance this year of \$268,794.
- There were no significant budget variances. Expenditures for all funds were within the adopted budgets.

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 the changes in it. You can think of net position—the difference between assets and liabilities—as one way to measure the financial health, or financial position of the district. 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).

Proprietary fund - We use internal service funds to report activities related to a district owned vehicle and self-insured dental costs.

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 4
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 \$8,913,692 as of June 30, 2014. Following are schedules of net position and changes in net position:

NET POSITION:	2014	2013
Current and other assets	\$ 3,335,900	\$ 3,449,984
Capital assets	5,801,146	5,643,504
Total assets	9,137,046	9,093,488
Other liabilities	1,288	5,344
Long-term liabilities	222,066	252,857
Total liabilities	223,354	258,201
Net position:		
Net investment in capital assets	5,801,146	5,643,504
Restricted	1,366,882	1,696,161
Unrestricted	1,745,664	1,495,622
Total net position	\$ 8,913,692	\$ 8,835,287
CHANGE IN NET POSITION:	2014	2013
Revenues:		
Program revenues:		
Charges for services	\$ 67,503	\$ 59,705
Operating grants and contributions	750,769	824,889
General revenues:		
Taxes	1,178,733	1,165,212
State sources	2,259,345	2,133,329
County sources	546,413	340,396
Miscellaneous	53,101	21,960
Interest	22,105	40,074
Total revenues	4,877,969	4,585,565
Expenses:		
Instruction	2,506,891	2,261,698
Support services-students	59,592	49,622
Support services-instructional staff	287,230	256,253
Support services-general administration	175,966	207,172
Support services-administration	299,618	300,327
Support services-business	159,876	147,155
Operation and maintenance	500,142	462,063
Student transportation	388,072	357,071
Food services	176,740	168,237
Community services	2,000	2,000
Extracurricular	243,437	224,581
Total expenses	4,799,564	4,436,179
Change in net position	78,405	149,386
Net position, beginning	8,835,287	8,685,901
Net position, ending	\$ 8,913,692	\$ 8,835,287

Revenues increased \$292,000 or 6 percent, while expenditures increased \$363,000 or 8 percent. Net position increased \$78,405 or less than 1 percent over the prior year.

SCHOOL DISTRICT NUMBER 4
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, 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, the main operating fund, increased \$268,794. The increase is mainly attributable to combining the multi-district cooperative fund with the general fund for financial reporting purposes.

CAPITAL ASSET AND DEBT ADMINISTRATION

During the year, we continued with our boiler project, purchased two buses, a copier and a keyless entry system. With the exception of compensated absences, the district is debt free.

THE GOVERNMENT'S FUTURE

Funding will continue to be an issue for public schools in Montana. Enrollment in grades K – 12 continues to decline, but more slowly than in the past. The biggest issue with enrollment is the small "bubble" classes that create funding shortages when they reach grades 7 – 12 because these classes are funded at the high school Per ANB level and often replace a class with a larger population which results in a lower budget. The funding mechanism used by the State of Montana often requires that a mill levy election be conducted in order to raise a sum of money that only a small portion of which is an actual increase in budget authority. The taxpayers are annually asked to fill in the gap between the maximum budget and the prior year's budget (over maximum) through voted levies. It is imperative that the budget levels are maintained in order to comply with the various and expanded unfunded mandates from regulatory agencies (both state and federal).

The aftermath of the 2013 Montana Legislative Session continued the trend of increasing the unfunded burdens on schools. In addition to the "transparency" legislation of the 2011 session which was implemented by the Office of Public Instruction during the fall of 2013 and continues to be in a developmental status, there was the adoption of "common core" curriculum. Materials that meet the criteria of the curriculum are scarce and expensive. The district has adopted new curriculum in Language Arts and Math. There did not appear to be any materials for the Math program that met the district's expectations at this time, so only supplemental materials were purchased. A complete Language Arts curriculum was purchased at a cost exceeding \$80,000.

The cost of health insurance went down by approximately 22% for the 2014 – 2015 plan year. This is because the average age of the insured population of the district is lowering resulting in lower claims paid to premiums collected by the insurance company. The resulting savings was used to hire additional teachers to even out the student loads in the elementary classrooms.

After three years, the elementary building boiler replacement project has been completed. It appears that the building comfort level is more even and that utility consumption will be decreased.

Other building issues involve the potential need to replace the Middle School Building roof within the next 3 – 7 years and the need to replace unit heaters in the 1959 addition to the High School Building. Work has started on planning HV improvements to the high school building.

The 2011 Montana Legislature enacted the possibility of School Districts entering into "Multi-District Agreements". The Board of Trustees authorized such an agreement between the Forsyth Elementary District and the Forsyth High School District. This agreement allows for the transfer of money into a common fund to be used for such purposes as determined appropriate by the Board of Trustees. As funds accumulate, they will be used for major repairs and purchases.

In addition to enrollment and funding issues, concern has been expressed regarding the status of senior administrative staff. The K – 6 Principal resigned in July 2012 after 10 years of service. She took a position in a different school. The 7 – 12 Principal retired at the end of June 2013 after 12 years of service. The Superintendent retired October 1, 2013 after 10 years of service. The Payroll/Claims Clerk retired May 31, 2014 after 35 years of service. The Business Manager is approaching retirement age, though he has not expressed when he may retire. It is hoped that an orderly exit occurs for all of these individuals and that the transition of their replacements is successful. To date, the individuals hired to replace those who have retired seem to be adjusting into the positions and it is expected that they will be fairly long term employees.

SCHOOL DISTRICT NUMBER 4
STATEMENT OF NET POSITION
June 30, 2014

ASSETS	
Cash and cash equivalents	\$ 3,146,550
Receivables:	
Property taxes	85,181
Governments	41,771
Prepays	62,398
Capital assets:	
Not being depreciated - land	675,681
Capital assets, net of accumulated depreciation	<u>5,125,465</u>
 Total assets	 <u>9,137,046</u>
 LIABILITIES	
Accounts payable	1,288
Long-term liabilities:	
Due within one year:	
Compensated absences	22,207
Due in more than one year:	
Compensated absences	<u>199,859</u>
 Total liabilities	 <u>223,354</u>
 NET POSITION	
Net investment in capital assets	5,801,146
Restricted:	
Nonexpendable:	
Permanent endowment	20,608
Instruction	359,866
Support services:	
Instructional staff	107,007
Student transportation	603,791
Food services	13,297
Capital projects	262,313
Unrestricted	<u>1,745,664</u>
 Total net position	 <u>\$ 8,913,692</u>

SCHOOL DISTRICT NUMBER 4
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	\$ 2,506,891	\$ 15,365	\$ 499,635	\$ (1,991,891)
Support services:				
Students	59,592	-	39,615	(19,977)
Instructional staff	287,230	-	31,042	(256,188)
General administration	175,966	-	-	(175,966)
School administration	299,618	-	-	(299,618)
Business services	159,876	-	-	(159,876)
Operation and maintenance	500,142	-	-	(500,142)
Student transportation	388,072	-	125,882	(262,190)
Food services	176,740	52,138	53,595	(71,007)
Community services	2,000	-	1,000	(1,000)
Extracurricular	243,437	-	-	(243,437)
Total	\$ 4,799,564	\$ 67,503	\$ 750,769	(3,981,292)
General revenues:				
Property taxes				1,178,733
Intergovernmental:				
State aid				1,554,383
State other				704,962
County				546,413
Interest				22,105
Miscellaneous				32,913
Gain on disposal of capital assets				20,188
Total general revenues				4,059,697
Change in net position				78,405
Net position - beginning				8,835,287
Net position - ending				\$ 8,913,692

SCHOOL DISTRICT NUMBER 4
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General	Total Nonmajor Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,327,289	\$ 1,803,372	\$ 3,130,661
Receivables:			
Property taxes	62,492	22,689	85,181
Governments	-	41,771	41,771
Prepaid items	44,929	16,481	61,410
Total assets	\$ 1,434,710	\$ 1,884,313	\$ 3,319,023
LIABILITIES			
Accounts payable	\$ 276	\$ 1,012	\$ 1,288
Total liabilities	276	1,012	1,288
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-property taxes	62,492	22,689	85,181
Total deferred inflows of resources	62,492	22,689	85,181
FUND BALANCES			
Nonspendable:			
Prepaid items	44,929	16,481	61,410
Endowment	-	20,608	20,608
Restricted:			
Instruction	-	358,989	358,989
Support services:			
Instructional staff	-	100,469	100,469
Student transportation	-	572,293	572,293
Food services	-	13,297	13,297
Capital projects	-	262,056	262,056
Committed:			
Instruction	-	481,741	481,741
Support services:			
General administration	-	11,559	11,559
School administration	-	11,559	11,559
Operation and maintenance	-	11,560	11,560
Assigned:			
Instruction	55,807	-	55,807
Support services:			
Instructional staff	7,778	-	7,778
General administration	336	-	336
School administration	6,316	-	6,316
Operation and maintenance	8,663	-	8,663
Extracurricular	3,603	-	3,603
Unassigned	1,244,510	-	1,244,510
Total fund balances	1,371,942	1,860,612	3,232,554
Total liabilities, deferred inflows of resources and fund balances	\$ 1,434,710	\$ 1,884,313	\$ 3,319,023

SCHOOL DISTRICT NUMBER 4
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2014

Total fund balances - governmental funds	\$ 3,232,554
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.	5,773,532
Other long-term assets are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the funds.	85,181
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	44,491
Long term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(222,066)</u>
Net position of governmental activities	<u>\$ 8,913,692</u>

SCHOOL DISTRICT NUMBER 4
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General	Total Nonmajor Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 878,767	\$ 276,984	\$ 1,155,751
Intergovernmental:			
County	-	609,354	609,354
State aid	1,554,383	-	1,554,383
State other	646,081	402,364	1,048,445
Federal	-	343,345	343,345
Charges for services	-	57,503	57,503
Interest	9,113	12,907	22,020
Miscellaneous	4,871	39,042	43,913
Total revenues	3,093,215	1,741,499	4,834,714
EXPENDITURES			
Current:			
Instruction	1,730,706	654,889	2,385,595
Support services:			
Students	33,377	24,214	57,591
Instructional staff	109,776	176,854	286,630
General administration	137,407	72,385	209,792
School administration	252,892	35,958	288,850
Business services	134,924	25,477	160,401
Operation and maintenance	423,122	56,367	479,489
Student transportation	1,362	275,741	277,103
Food services	48,000	121,845	169,845
Community services	-	2,000	2,000
Extracurricular	209,028	26,664	235,692
Capital outlay	-	442,597	442,597
Total expenditures	3,080,594	1,914,991	4,995,585
Excess (deficiency) of revenues over expenditures	12,621	(173,492)	(160,871)
OTHER FINANCING SOURCES (USES)			
Disposal of capital assets	-	25,000	25,000
Transfers in	256,173	-	256,173
Transfers out	-	(256,173)	(256,173)
Total other financing sources (uses)	256,173	(231,173)	25,000
Net change in fund balances	268,794	(404,665)	(135,871)
Fund balances - beginning	1,103,148	2,265,277	3,368,425
Fund balances - ending	\$ 1,371,942	\$ 1,860,612	\$ 3,232,554

SCHOOL DISTRICT NUMBER 4
 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 \$ (135,871)

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

Governmental funds report capital outlays as 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 capital outlay (\$442,597) exceeded depreciation (\$277,416) in the current period. 165,181

The net effect of various transactions involving capital assets (i.e., sales, donations and trade-ins) is to decrease net position. (4,812)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. 22,982

Compensated absences 30,791

The internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported with the governmental activities. 134

Change in net position of governmental activities \$ 78,405

SCHOOL DISTRICT NUMBER 4
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2014

	<u>Governmental Activities- Internal Service Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 15,889
Prepaid items	<u>988</u>
Total current assets	<u>16,877</u>
Non-current assets:	
Capital Assets:	
Buildings	10,000
Vehicles	25,262
Less: accumulated depreciation	<u>(7,648)</u>
Total non-current assets	<u>27,614</u>
Total assets	<u>44,491</u>
NET POSITION	
Net investment in capital assets	27,614
Unrestricted	<u>16,877</u>
Total net position	<u><u>\$ 44,491</u></u>

SCHOOL DISTRICT NUMBER 4
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2014

	<u>Governmental Activities- Internal Service Fund</u>
OPERATING REVENUES	
Charges for services	<u>\$ 5,402</u>
Total operating revenues	<u>5,402</u>
OPERATING EXPENSES	
Professional and technical services	1,031
Other purchased services	135
Supplies and materials	1,466
Depreciation	<u>2,727</u>
Total operating expenses	<u>5,359</u>
Operating income	<u>43</u>
NON-OPERATING REVENUES	
Interest revenue	<u>91</u>
Total non-operating revenue	<u>91</u>
Change in net position	134
Net position - beginning	<u>44,357</u>
Net position - ending	<u><u>\$ 44,491</u></u>

SCHOOL DISTRICT NUMBER 4
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2014

	<u>Governmental Activities- Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from interfund services	\$ 5,402
Cash paid to suppliers for goods and services	<u>(2,589)</u>
Net cash provided by operating activities	<u>2,813</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	<u>91</u>
Net cash provided by investing activities	<u>91</u>
Change in cash and cash equivalents	2,904
Cash and cash equivalents - beginning	<u>12,985</u>
Cash and cash equivalents - ending	<u><u>\$ 15,889</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 43
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation	2,727
Decrease in prepaid items	<u>43</u>
Net cash provided by operating activities	<u><u>\$ 2,813</u></u>

SCHOOL DISTRICT NUMBER 4
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
June 30, 2014

	Private Purpose Trust Fund- Extracurricular	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 90,418	\$ 72,064
Prepaid items	9,711	-
Total assets	100,129	\$ 72,064
LIABILITIES		
Accounts payable	-	\$ 72,064
Total liabilities	-	\$ 72,064
NET POSITION		
Net position held in trust	\$ 100,129	

SCHOOL DISTRICT NUMBER 4
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND
For the Year Ended June 30, 2014

	<u>Private Purpose Trust Fund- Extracurricular</u>
ADDITIONS	
Student extracurricular activities	<u>\$ 221,238</u>
Total additions	<u>221,238</u>
DEDUCTIONS	
Student extracurricular activities	<u>222,091</u>
Total deductions	<u>222,091</u>
Change in net position	(853)
Net position - beginning	<u>100,982</u>
Net position - ending	<u><u>\$ 100,129</u></u>

SCHOOL DISTRICT NUMBER 4
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 two legally separate entities: an elementary district and a high school district. Both are 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.

Although the government consists of two separate statutory entities, it is managed and operated as a single primary government. 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. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. 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, proprietary 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 proprietary fund and 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 4
NOTES TO BASIC FINANCIAL STATEMENTS

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges for the use of a vehicle. Operating expenses for the internal service fund include vehicle operating expenses, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 fund:

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.

Additionally, the government reports the following fund types:

The internal service funds account for the financing of services provided by one department or agency to other departments or agencies on a cost reimbursement basis.

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

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

Receivables

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

Inventories and Prepaid Items

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., 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 4
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>
Improvements	20
Buildings	7-80
Machinery and equipment	5-25

Collections Not Capitalized

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

Compensated Absences

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

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

Sick leave is accumulated for classified employees at the rate of 12 days per year with no limit on the carry over amount. Leave for certified personnel (teachers) is awarded at 15 days per year up to a cumulative maximum of 85 days. Upon retirement or resignation, classified and certified employees are eligible for sick leave compensation at one fourth of the accumulated amount.

Administrators with at least five years of service with the government accrue a longevity stipend of 1% of their final salary for each year of service.

Long-term Obligations

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

Deferred Inflows of Resources

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

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

Net Position

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

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

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

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

Proprietary fund equity is classified the same as in the government-wide statements.

SCHOOL DISTRICT NUMBER 4
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 clerk to assign fund balance. There was no assigned fund balance in the general fund.

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

Use of Estimates

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

NOTE 2. DETAILED NOTES ON ALL FUNDS

Equity in Pooled Cash and Investments

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

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

SCHOOL DISTRICT NUMBER 4
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	\$ 434,012	\$ -	\$ -	\$ 434,012
Construction-in-progress	49,852	191,817	-	241,669
Total capital assets, not being depreciated	<u>483,864</u>	<u>191,817</u>	<u>-</u>	<u>675,681</u>
Capital assets, being depreciated				
Buildings/improvements	7,696,569	-	-	7,696,569
Improvements other than buildings	313,290	-	-	313,290
Machinery and equipment	1,566,023	258,780	(195,152)	1,629,651
Total capital assets, being depreciated	<u>9,575,882</u>	<u>258,780</u>	<u>(195,152)</u>	<u>9,639,510</u>
Less accumulated depreciation for:				
Buildings/improvements	(3,257,932)	(138,629)	-	(3,396,561)
Improvements other than buildings	(268,899)	(4,944)	-	(273,843)
Machinery and equipment	(889,411)	(136,570)	182,340	(843,641)
Total accumulated depreciation	<u>(4,416,242)</u>	<u>(280,143)</u>	<u>182,340</u>	<u>(4,514,045)</u>
Total capital assets, being depreciated, net	<u>5,159,640</u>	<u>(21,363)</u>	<u>(12,812)</u>	<u>5,125,465</u>
Capital assets, net	<u>\$ 5,643,504</u>	<u>\$ 170,454</u>	<u>\$ (12,812)</u>	<u>\$ 5,801,146</u>

Depreciation expense was charged as follows:

Instruction	\$ 113,667
Support services-students	2,353
Support services-instructional staff	7,510
Support services-general administration	1,691
Support services-administration	6,214
Support services-business	1,585
Operation and maintenance	18,288
Student transportation	111,350
Food services	6,999
Extracurricular	7,759
Internal service fund	2,727
	<u>\$ 280,143</u>

Interfund Transfers

Interfund transfers consisted of the following:

	Transfers In	Transfers Out
Governmental activities:		
General	\$ 256,173	\$ -
Nonmajor governmental funds	<u>-</u>	<u>(256,173)</u>
Total governmental activities	<u>\$ 256,173</u>	<u>\$ (256,173)</u>

Transfers consisted of funding compensated absences and the multi-district cooperative fund as allowed by Section 20-3-363, MCA.

SCHOOL DISTRICT NUMBER 4
NOTES TO BASIC FINANCIAL STATEMENTS

Long-Term Debt

Compensated absences decreased \$30,791 from \$252,857 to \$222,066 as of June 30, 2014. Compensated absences are generally liquidated by the general 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 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.

Commitments and Contingencies

At year-end, the government had commitments outstanding, in the form of purchase orders, of approximately \$101,330, primarily for supplies and equipment. The following schedule displays encumbrances by major funds and nonmajor funds in the aggregate.

	General Fund	Total Nonmajor Funds	Total Governmental Funds
Restricted:			
Instruction	\$ -	\$ 1,901	\$ 1,901
Support services:			
Instructional staff	-	5,663	5,663
Student transportation	-	5,380	5,380
Capital projects	-	5,883	5,883
Assigned:			
Instruction	55,807	-	55,807
Support services:			
Instructional staff	7,778	-	7,778
General administration	336	-	336
School administration	6,316	-	6,316
Operation and maintenance	8,663	-	8,663
Extracurricular	3,603	-	3,603
	\$ 82,503	\$ 18,827	\$ 101,330

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.

Interlocal Cooperative

The government participates with other school districts located in Custer, Garfield, Carter, Fallon and Rosebud counties in the Big Country Educational Cooperative. The Cooperative provides special education services to its member schools.

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,

SCHOOL DISTRICT NUMBERS 52& 52C
NOTES TO BASIC FINANCIAL STATEMENTS

disability, and death benefits to plan members and beneficiaries.

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

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

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

TRS:

A "tier 1 member" is a person who became a member before July 1, 2013 and who has not withdrawn his/her account balance. A "tier 2 member" is a person who became a member on or after July 1, 2013 or who, after withdrawing his/her account balance, became a member again on or after July 1, 2013. Effective July 1, 2013, the Tier 1 member supplemental contribution may be decreased, and a 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 (\$43,240) contribution 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	\$ 310,238	\$ 264,686	\$ 258,367
PERS	95,942	80,186	76,348
	\$ 406,180	\$ 344,872	\$ 334,715

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 4
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
General Fund
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
REVENUES					
Property taxes	\$ 908,491	\$ 908,491	\$ 878,767	\$ -	\$ 878,767
Intergovernmental:					
State aid	1,554,383	1,554,383	1,554,383	-	1,554,383
State other	602,841	602,841	602,841	43,240	646,081
Interest	5,338	5,338	4,845	4,268	9,113
Miscellaneous	1,085	1,085	4,871	-	4,871
Total revenues	<u>3,072,138</u>	<u>3,072,138</u>	<u>3,045,707</u>	<u>47,508</u>	<u>3,093,215</u>
EXPENDITURES					
Total expenditures	<u>3,105,861</u>	<u>3,105,861</u>	<u>3,033,420</u>	<u>47,174</u>	<u>3,080,594</u>
Excess (deficiency) of revenues over expenditures	<u>(33,723)</u>	<u>(33,723)</u>	<u>12,287</u>	<u>334</u>	<u>12,621</u>
OTHER FINANCING SOURCES					
Transfers in	<u>-</u>	<u>-</u>	<u>6,173</u>	<u>250,000</u>	<u>256,173</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>6,173</u>	<u>250,000</u>	<u>256,173</u>
Net change in fund balances	<u>\$ (33,723)</u>	<u>\$ (33,723)</u>	<u>18,460</u>	<u>250,334</u>	<u>268,794</u>
Fund balances - beginning			<u>519,481</u>	<u>583,667</u>	<u>1,103,148</u>
Fund balances - ending			<u>\$ 537,941</u>	<u>\$ 834,001</u>	<u>\$ 1,371,942</u>

SCHOOL DISTRICT NUMBER 4
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2014

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

The general fund budget is based on the State of Montana's foundation program which is based primarily on enrollment. Budgets of other funds are based on expected revenues and expenditures. The Board of Trustees approves the original budget 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 consist of encumbrances for the current and prior year, the state of Montana on-behalf TRS contribution and the adjustment to combine the multi-district cooperative fund with the general fund for financial reporting purposes.

OTHER SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT NUMBER 4
EXTRACURRICULAR FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2014

Activity	Balance July 1, 2013	Revenues	Expenditures	Transfers	Balance June 30, 2014
7-12 Athletics	\$ 17,744	\$ 66,737	73,606	\$ 3,200	\$ 14,075
7-12 Student Council	1,371	1,523	1,666	-	1,228
9-12 Cheerleaders	1,159	1	-	-	1,160
FFA	2,821	15,668	18,817	1,299	971
Annual	19,200	6,932	2,378	(262)	23,492
BPA	8,741	8,421	9,649	2,225	9,738
Weight Room	1,035	1,111	812	-	1,334
Arbor Day	348	-	104	-	244
Class of 2013	1,328	-	-	(1,328)	-
Class of 2014	2,973	3	2,003	-	973
Class of 2015	616	1,327	2,260	3,461	3,144
Class of 2016	1,331	2	121	931	2,143
Class of 2017	369	856	53	374	1,546
Class of 2018	655	267	77	836	1,681
Class of 2019	665	107	-	1,460	2,232
7-12 Shop	(325)	920	132	-	463
FCCLA	23,089	22,974	28,326	930	18,667
7-12 Library	975	469	175	-	1,269
Masquers	3,337	290	154	-	3,473
Band	974	63,985	65,412	581	128
Choir	922	1	379	(30)	514
National Honor Society	384	-	189	-	195
Concessions	866	27,790	12,570	(13,956)	2,130
Resource Room	5	-	-	-	5
7-12 Activities	253	651	169	-	735
Triple A	398	1	-	-	399
Elementary Activities	4,810	906	2,181	-	3,535
Elementary Library	640	292	66	-	866
Wrestling Equity	97	-	-	-	97
Girls Equity	169	-	-	-	169
Concessions Maintenance	4,011	4	792	279	3,502
Scholarship	21	-	-	-	21
Total	\$ 100,982	\$ 221,238	\$ 222,091	\$ -	\$ 100,129

SCHOOL DISTRICT NUMBER 4
 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	32	32	-
Grades one through six	172	172	-
Grades seven and eight	61	61	-
	<u>265</u>	<u>265</u>	<u>-</u>
 <u>High School District</u>			
Grades nine through twelve	<u>112</u>	<u>112</u>	<u>-</u>
 WINTER ENROLLMENT - December 2013			
<u>Elementary District</u>			
Kindergarten	31	31	-
Grades one through six	161	161	-
Grades seven and eight	60	60	-
	<u>252</u>	<u>252</u>	<u>-</u>
 <u>High School District</u>			
Grades nine through twelve	<u>110</u>	<u>110</u>	<u>-</u>
 SPRING ENROLLMENT - February 2014			
<u>Elementary District</u>			
Kindergarten	33	33	-
Grades one through six	163	163	-
Grades seven and eight	62	62	-
	<u>258</u>	<u>258</u>	<u>-</u>
 <u>High School District</u>			
Grades nine through twelve	<u>108</u>	<u>108</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 4
Forsyth, 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 4, Forsyth, 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 26, 2014. The report on governmental activities was qualified because the government did not record its other post employment benefit (OPEB) liability and related expense.

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 and responses, 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 and responses to be material weaknesses. (Findings 2014-001 through 2014-003)

Compliance and Other Matters

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

The Government's Response to Findings

The government's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The government's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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'Neil & Associates, PC

Billings, Montana
November 26, 2014

SCHOOL DISTRICT NUMBER 4
SCHEDULE OF FINDINGS AND RESPONSES
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.

Response: We believe that by hiring a highly qualified audit firm with expertise in governmental audits that the financial statements will be prepared in accordance with all laws, rules, regulations and principles that should apply. It should be noted, that this firm has a state-wide reputation of maintaining high audit standards and therefore, we choose to rely on their expertise and judgment rather than change to a firm whose professional judgment is more liberal.

We disagree, however, that we do not have specific controls in place to review the selection and application of accounting principles and resulting disclosures and presentations within the financial statements. We believe that review of the draft financial statements and ongoing dialog with the auditor provide the necessary controls to reasonably ensure the quality of the document and preparer. As for the selection of accounting principles, there really is no choice involved as the principles are dictated by GAAP, as promulgated by GASB, FASB and State Statute rather than whether they are appropriate for the size of the entity or understandable by the ultimate user (taxpayers) of the financial statements.

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.

Response: We believe that the segregation of duties that are in place by the school district is appropriate for the size and number of personnel available. Duties such as reporting, reviewing, approving and reconciliation transactions are done by different individuals within the business office. One person does not handle substantially all aspects of any transaction. In the event that errors or irregularities occur, they would be discovered in a timely manner and would be corrected at that time. It was contemplated to include a chart of duties in this response, but it is lengthier and more complex than one would expect.

2014-003. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED

Criteria: U.S. generally accepted accounting principles require the OPEB liability and related expense be recorded in the financial statements.

Condition: The government did not record the other post employment benefit (OPEB) liability and related expense (GASB Statement No. 45) in the financial statements.

SCHOOL DISTRICT NUMBER 4
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2014

Cause: The government did not engage an actuarial firm to assist in determining the OPEB liability and related expense as of and for the year ended June 30, 2014.

Effect: The governmental activities fund liabilities are understated, net position is overstated and expenses would change.

Recommendation: The government should engage an actuarial firm to determine the OPEB liability and related expense.

Response: We recognize the criteria requiring that OPEB liabilities and expenses be recorded in the financial statements. We believe that the engagement of an actuary to determine these estimated amounts would not be cost effective. It is our estimate that the cost of the study would exceed the estimated liabilities and expenses. Twenty four years of data indicates that of all employees who retire from employment and who elect to stay on the district's group health insurance plan, most of them are individuals who are enrolled in Medicare and therefore, it is our understanding that the premium associated with these individuals would not be included in the calculation of OPEB. Currently, there are three retired individuals on our group health plan that are not enrolled in Medicare and no individuals who are eligible for Medicare. It is our belief that the impact these individuals' continued participation in the plan would have less effect on the rates than the cost of an actuarial study.

In addition, it is our belief that the continued imposition of newly promulgated accounting principles constitutes unfunded mandates as defined in Sections 1-2-112 & 113, MCA.

SCHOOL DISTRICT NUMBER 4
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

<u>PRIOR YEAR FINANCIAL STATEMENT FINDINGS</u>	<u>STATUS</u>
2013-1. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2013-2. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE
2013-3. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED	NOT IMPLEMENTED