

**KINSEY ELEMENTARY SCHOOL
SCHOOL DISTRICT NO. 63
KINSEY, MONTANA**

FINANCIAL REPORT

**FOR THE YEAR ENDED
JUNE 30, 2014**

JAMES J. WOSEPKA, PC
Certified Public Accountant
Baker, Montana

**KINSEY ELEMENTARY SCHOOL
KINSEY, MONTANA
JUNE 30, 2014**

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**KINSEY SCHOOL DISTRICT #63
MANAGEMENT'S DISCUSSION & ANALYSIS
2013-2014**

This section of Kinsey School's annual financial report presents our discussion and analysis of the Districts' financial performance for the fiscal year which ended June 30, 2014. Please read in conjunction with the Districts' basic financial statements which begin on page 5.

OVERVIEW OF THE FINANCIAL STATEMENTS

Statement of Net Position and the Statement of Activities

The Statement of Position and the Statement of Activities answer the question, "How did we do financially during 2013-2014?" These government-wide statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This accrual basis takes into account all of the current years' revenues and expenses regardless of when cash is received or paid. It also includes depreciation on capital assets.

This annual report consists of three parts; management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statement includes two kinds of statements that present different views of the District.

The first two statements are Government wide financial statements that provide both short-term and long-term information about the District's overall financial status. The other statements are fund financial statements that focus on individual parts of the District, report the District's operation in more detail than the Government-wide financial statements.

Governmental fund financial statements present a short-term view of the District's activities (they only include current assets expected to be collected in the very near future and liabilities expected to be paid in the very near future). They present detailed information about the District's general fund and the other governmental funds.

This section of the audit provides additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Information in the government-wide financial statements helps to determine whether the District is better or worse off as a result of the years' activities. The change in net position (the difference between total assets and total liabilities) over time is one indicator of whether the District's financial health is improving or deteriorating. However, you need to consider other non-financial factors in making an assessment of the District's health, such as changes in enrollment, changes in the State's funding of

educational costs, changes in the economy, changes in the District's tax base, etc. to assess the overall health of the District.

The following discussion and analysis of the School District #63 financial performance provides an overview of the government's financial activities for the year ended June 30, 2014.

Financial Highlights

The District received \$11,641 from Big Country Educational Cooperative for the year 2012-2013 for the Districts IDEA B money. This money was not received in the correct fiscal year, but was accomplished in fiscal year 2014-2015.

The Government's Future

Kinsey School has held its enrollment steady; we typically have between 67-72 students. We accept out of district students which keep the enrollment strong.

Our technology department is strong with a mobile laptop computer station, a computer room, and two smart boards.

Staffing is one of our biggest challenges. We see a decrease in qualified applicants each time we recruit for new certified staff.

Kinsey School is stable educational force in our area. Parents like the smaller classrooms and the family like atmosphere. The students who go on to high school from Kinsey are well qualified to meet the challenges of their next step in education.

You may contact the school management or business staff for more information.

**SCHOOL DISTRICT #63
STATEMENT OF NET POSITION**

ASSETS	2012-2013	2013-2014
Cash and Cash Equivalents	174,749.00	175,743.00
Taxes Receivable	6,178.00	4,033.00
Capital Assets not being Depreciated		
Construction in Progress	-	
Due from other Governments	11,641.00	-
Capital Assets being Depreciated (net of accumulated depreciation)	794,650.00	768,323.00
TOTAL ASSETS	\$ 987,218.00	\$ 948,099.00
LIABILITIES		
Noncurrent Liabilities:		
Due within one year	500.00	500.00
Due in more than one year	7,668.00	7,991.00
TOTAL LIABILITIES	\$ 8,168.00	\$ 8,491.00
NET ASSETS		
Invested in Capital Assets	794,650.00	768,323.00
Unrestricted Net Assets	151,401.00	80,807.00
Restricted Net Assets		
Food Service	5,880.00	6,837.00
Technology	1,946.00	2,850.00
Transportation	12,486.00	9,855.00
Retirement	12,375.00	1,001.00
Capital Projects	312.00	312.00
School Operations	-	69,623.00
TOTAL NET POSITION	\$ 979,050.00	\$ 939,608.00

**KINSEY SCHOOL DISTRICT #63
COMPARATIVE OPERATING STATEMENT**

STATEMENT OF REVENUES

	2012-2013	2013-2014
Property Taxes	69,096.00	62,403.00
Earnings on Investments	936.00	900.00
School Lunch Sales	22,466.00	23,126.00
Other Local Sources	117,245.00	61,655.00
State Aid	330,296.00	324,732.00
Federal Aid	33,018.00	39,866.00
TOTAL REVENUES	\$ 573,057.00	\$ 512,682.00

STATEMENT OF EXPENDITURES

Current		
Instructional Services	277,259.00	289,955.00
Supporting Services		
Students	-	-
Instructional Staff	736.00	-
District Administration	4,712.00	4,744.00
Student Administration	5,240.00	3,687.00
Business	18,892.00	22,072.00
Operation & Maintenance of Facilities	50,315.00	49,674.00
Transportation	65,600.00	68,480.00
Community Service	2,268.00	430.00
Special Education	48,518.00	46,625.00
Vocational Programs		
Food Service	35,196.00	38,912.00
Capital outlay	4,144.00	1,728.00
Unallocated depreciation	25,816.00	25,817.00
TOTAL EXPENDITURES	538,696.00	552,124.00
CHANGE IN NET POSITION	\$ 34,361.00	\$ (39,442.00)

**KINSEY ELEMENTARY SCHOOL
SCHOOL DISTRICT NO. 63
KINSEY, MONTANA**

ORGANIZATION

June 30, 2014

BOARD OF TRUSTEES

Dan Fox
Troy Muri
Jennifer Muscha

Chairperson
Trustee
Trustee

OFFICIALS

Geneal Bott
Wyatt A. Glade
Doug Ellingson

Clerk of the Board
County Attorney
County Superintendent
of Schools



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Baker, MT 59313-0602
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James J. Wosepka, PC – Certified Public Accountant

Licensed in North Dakota and Montana

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Kinsey Elementary School
School District No. 63
Kinsey, Montana 59338

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 Kinsey Elementary School, Kinsey, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the District'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 Kinsey Elementary School, Kinsey, Montana, as of June 30, 2014, and the respective changes in financial position 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 and budgetary comparison information on pages i – iv and 23 - 27 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 Kinsey Elementary School, Kinsey, Montana's basic financial statements. The supplemental schedules on pages 29 – 30 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules on pages 29 – 30 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 supplemental schedules on pages 29 – 30 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 October 29, 2014, on our consideration of Kinsey Elementary School, Kinsey, Montana'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 Kinsey Elementary School, Kinsey, Montana's internal control over financial reporting and compliance.

James J. Wosepka, PC

By  *James J. Wosepka*
CPA

Baker, Montana
October 29, 2014

**KINSEY ELEMENTARY SCHOOL
STATEMENT OF NET POSITION
June 30, 2014**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 175,743
Taxes receivable	4,033
Capital assets being depreciated (net of accumulated depreciation)	768,323
Total Assets	948,099
LIABILITIES	
Noncurrent liabilities:	
Due within one year	500
Due in more than one year	7,991
Total Liabilities	8,491
NET POSITION	
Net Investment in Capital Assets	768,323
Unrestricted	80,807
Restricted	
Capital Projects	312
Food Service	6,837
Technology	2,850
Transportation	9,855
Retirement	1,001
School Operations	69,623
Total Net Position	\$ 939,608

The notes to the financial statements are an integral part of this statement.

**KINSEY ELEMENTARY SCHOOL
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services, Fines, Forfeitures, etc.	Operating Grants and Contributions	
Primary government:	\$ 289,955	\$ -	\$ 29,763	\$ (260,192)
Instructional services	-	-	-	-
Supporting services:	-	-	-	-
Students	-	-	-	-
Instructional staff	-	-	-	-
District administration	4,744	-	-	(4,744)
School administration	3,687	-	-	(3,687)
Business	22,072	-	-	(22,072)
Operation & maintenance of facility	49,674	-	-	(49,674)
Transportation	68,480	-	31,476	(37,004)
Community service	430	-	-	(430)
Special education	46,625	-	11,641	(34,984)
School lunch services	38,912	23,126	11,310	(4,476)
Capital outlay	1,728	-	-	(1,728)
Unallocated depreciation	25,817	-	-	(25,817)
Total governmental activities	\$ 552,124	\$ 23,126	\$ 84,190	\$ (444,808)
General revenues:				
Property taxes				62,403
Unrestricted Federal/State shared revenues				41,627
Unrestricted grants and contributions revenue				290,756
Unrestricted investment earnings				900
Miscellaneous				9,680
Total general revenues and transfers				405,366
Change in net position				(39,442)
Total net position - July 1, 2013				979,050
Total net position - June 30, 2014				\$ 939,608

The notes to the financial statements are an integral part of this statement.

**KINSEY ELEMENTARY SCHOOL
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014**

Description	Major Funds				Total Governmental Funds
	General	Miscellaneous	Transportation	Other Governmental Funds	
ASSETS					
Cash and cash equivalents	\$ 84,015	\$ 69,623	\$ 8,358	\$ 13,747	\$ 175,743
Tax/assessment receivable	2,536	-	1,497	-	4,033
Total Assets	86,551	69,623	9,855	13,747	179,776
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-property taxes	2,536	-	1,497	-	4,033
FUND BALANCES					
Restricted	-	69,623	8,358	10,688	88,669
Assigned	9,827	-	-	3,059	12,886
Unassigned	74,188	-	-	-	74,188
Total fund balances	84,015	69,623	8,358	13,747	175,743
Total deferred inflows of resources and fund balances	\$ 86,551	\$ 69,623	\$ 9,855	\$ 13,747	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Certain property taxes collections are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources in the funds.

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

768,323

4,033

(8,491)

\$ 939,608

Total Net Position - Governmental Funds

KINSEY ELEMENTARY SCHOOL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
June 30, 2014

Description	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Miscellaneous	Transportation		
REVENUES					
Property taxes	\$ 36,341	\$ -	\$ 28,207	\$ -	\$ 64,548
Earnings on investments	885	-	-	15	900
School lunch sales	-	-	-	23,126	23,126
Other local sources	-	21,321	15,738	24,596	61,655
State revenue	305,154	-	18,371	1,207	324,732
Federal revenue	-	28,859	-	11,007	39,866
Total Revenues	342,380	50,180	62,316	59,951	514,827
EXPENDITURES					
Current					
Instructional services	225,167	32,160	-	32,305	289,632
Supporting services					
Students					
Instructional staff	-	-	-	-	-
District administration	4,744	-	-	-	4,744
Student administration	3,687	-	-	-	3,687
Business					
Operation & Maintenance of facilities	21,071	-	-	1,001	22,072
Transportation	48,257	660	-	757	49,674
Community service	4,284	-	64,009	187	68,480
Special education	-	430	-	-	430
Vocational programs	34,503	11,641	-	481	46,625
Food services	-	-	-	-	-
Capital outlay	3,684	-	-	34,718	38,402
	1,728	-	-	-	1,728
Total Expenditures	347,125	44,891	64,009	69,449	525,474
Excess of revenues (under) expenditures	(4,745)	5,289	(1,693)	(9,498)	(10,647)
OTHER FINANCING SOURCES (USES)					
Transfers In	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balances	(4,745)	5,289	(1,693)	(9,498)	(10,647)
Fund balances - July 1, 2013	88,760	64,334	10,051	23,245	186,390
Fund balances - June 30, 2014	\$ 84,015	\$ 69,623	\$ 8,358	\$ 13,747	\$ 175,743

**KINSEY ELEMENTARY SCHOOL
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014**

Net change in fund balances - total governmental funds (page 8)	<u>\$ (10,647)</u>
Amounts reported for governmental activities in the statement of activities (page 6) are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets purchased	-
Depreciation expense	<u>(26,327)</u>
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Unavailable property taxes	<u>(2,145)</u>
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 governmental funds	
Accrued compensated absences	<u>(323)</u>
Change in Net Position in Governmental Activities	<u><u>\$ (39,442)</u></u>

**KINSEY ELEMENTARY SCHOOL
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2014**

Description	Trust Funds	Agency Funds
	Private Purpose Trust Funds	Agency Composite
ASSETS		
Cash and cash equivalents	\$ 5,717	\$ 21,691
Total Assets	5,717	21,691
LIABILITIES		
Warrants payable		21,691
Total Liabilities	-	\$ 21,691
NET POSITION		
Held for student activities	\$ 5,717	

The notes to the financial statements are an integral part of this statement.

**KINSEY ELEMENTARY SCHOOL
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2014**

	Trust Funds
Description	Private Purpose Trust Funds
ADDITIONS:	
Student activities revenue	\$ 3,517
Total Additions	3,517
DEDUCTIONS:	
Student activities	3,553
Total Deductions	3,553
Change in net position	(36)
Total net position - July 1, 2013	5,753
Total net position - June 30, 2014	\$ 5,717

The notes to the financial statements are an integral part of this statement.

**KINSEY ELEMENTARY SCHOOL
SCHOOL DISTRICT NO. 63
CUSTER COUNTY
KINSEY, MONTANA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

1. Summary of Significant Accounting Principles

The financial statements of Kinsey Elementary School (District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting financial reporting principles. The District's significant accounting policies are described below.

Reporting Entity

All operations of the District are controlled by a Board of Trustees, elected in district-wide elections, and responsible for all of the District's activities. The financial statements include all of the District's operations controlled by the Board of Trustees. The District is considered to be an independent reporting entity. The following activity is not controlled by the Board and is not included:

Big Country Educational Cooperative - The District and seven other districts belong to this special education cooperative. The state's contribution for the District's special education students was paid directly to the Co-op and is not included in the District's financial statements.

Custer County Rural School Association – The District and several other rural school districts comprise the Association. The Association was formed for the purpose of purchasing text books and school supplies at bulk rates and to obtain group health insurance coverage for the members' employees.

There are no other organizations that are financially dependent on the District or otherwise could be considered component units of the District.

Kinsey Elementary School, Custer County, Montana, provides education services from kindergarten through the eighth grade. The District consists of one legally separate District, an Elementary District, organized under the laws of Montana. The District is managed by a Board of Trustees elected in a district-wide election.

The County government of Custer County provides substantial services to the District. Taxes are levied and collected by the County. Cash is maintained and invested by the County Treasurer. The County does not significantly influence the operations of the District; thus, the District is treated as a separate and independent unit of local government.

1. **Summary of Significant Accounting Principles - cont.**

Basis of Presentation and Basis of Accounting

Government-wide Statements - The Statement of Net Position and the Statement of Activities show information about the overall financial position and activities of the School District with the exception of the student activity fund.

These statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the District are generally financed through property taxes, state equalization funding, and federal and state grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred regardless of when the related cash flows take place. On the accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which eligibility requirements have been met.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function. The District does not charge indirect expenses to programs or functions. Program revenues include fees for services (primarily school lunch and breakfast charges) and grants and contributions that are restricted to a particular program. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

Fund Financial Statements - These statements provide information about the District's funds. Each major fund is displayed in a separate column. All of the remaining funds are aggregated and reported in a single column as other governmental funds.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected soon after year-end are recognized as revenue.

Most current property taxes receivable are delinquent at June 30 and amounts collected soon after year-end are not significant. Deferred inflows are recorded for these receivables.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and payments for compensated absences, which are recognized as expenditures when paid. General capital asset acquisitions are reported as expenditures in governmental funds.

1. **Summary of Significant Accounting Principles - cont.**

Under the terms of the District's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the District applies cost-reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

Major Funds - Generally accepted accounting principles require that the General Fund be reported as a major fund and that all other governmental funds whose assets, liabilities, revenues, or expenditures exceed 10% or more of the total for all governmental funds also be reported as major funds. Accordingly, the District reports the following major governmental funds:

General Fund - This is the District's primary operating fund and it accounts for all financial resources of the District except those required to be accounted for in other funds.

Miscellaneous Programs Fund – Authorized by Section 20-9-507, MCA, for the purpose of accounting for local, state, or federal grants and reimbursements. Donations that allow the expenditure of both principal and interest for support of District programs are deposited in this fund.

Transportation Fund – Authorized by Section 20-10-143, MCA, for the purpose of financing the maintenance and operation of District owned school buses, contracts with private carriers for school bus service, individual transportation contracts, and any amount necessary for the purchase, rental, or insurance of yellow school buses or operation of the transportation program. The fund may be used only to support costs of home-to-school transportation.

Cash and Investments

All funds deposited are pooled and invested in accordance with state law. Interest earnings are allocated to the District based on average month-end balances. Funds are withdrawn as needed to pay warrants.

It is not practical for the District to determine the investment risk (including amounts invested in financial derivatives), collateral, or insurance coverage for its share of the County's pooled investments. Information as to the County's investment pool can be obtained from the County's annual financial report.

Warrants Payable

The District makes expenditures by means of warrants. These warrants are orders to the County Treasurer to pay specified sum to the person named or to the bearer.

Capital Assets

Capital assets are carried at actual or estimated historical cost based on appraisals. Major additions and betterments with a cost in excess of \$5,000 are recorded as additions to capital assets. Repair and maintenance costs are not capitalized.

1. **Summary of Significant Accounting Principles - cont.**
Capital Assets – cont.

Depreciation is computed using the straight-line method and the estimated useful lives are as follows:

Buildings and improvements	80 years
Equipment	10 years
Heating and cooling	25 years

Taxes

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts. Management does not believe that the accounting method being used results in any material differences.

Inventories

Inventories of materials and supplies are expensed at the time of purchase. Inventories of materials and supplies on hand as of June 30, 2014 are maintained and are stated at cost, first-in, first-out. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Vacation and Sick Leave

Liabilities incurred because of unused vacation and sick leave accumulated by employees, which is payable upon termination, are reflected in the financial statements. Expenditures for these liabilities are recognized when paid.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all investments of the nonexpendable fund types to be highly liquid investments and, therefore, cash equivalents.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted is available.

Interfund Transactions

Interfund transactions are reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided deemed to be at market or near market rates are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost,

1. **Summary of Significant Accounting Principles - cont.**
Interfund Transactions – cont.

charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are eliminated in the government-wide financial statements.

Fund Balance Reporting

Implementation of GASB 54 is required for fiscal years beginning after June 15, 2010. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the District's financial statements. The reporting standard establishes a hierarchy for fund balances classifications and the constraints imposed on the uses of those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and the principal (corpus) of an endowment fund. The District does not have any prepaid items or nonspendable funds to endowments.

In addition to the nonspendable fund balances, GASB 54 has provided a hierarchy of spendable fund balances based on a hierarchy of spending constraints.

- **Restricted**: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- **Committed**: fund balances that contain self-imposed constraints by a formal action of the government from its highest level of decision making authority.
- **Assigned**: fund balances that contain self-imposed constraints of government to be used for a particular purpose.
- **Unassigned**: fund balances of the General Fund that is not constrained for any particular purpose.

Assigned and committed funds are at the discretion of the Board of Trustees.

1. **Summary of Significant Accounting Principles - cont.**
Fund Balance Reporting – cont.

	<u>Major Funds</u>			<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Misc. Fund</u>	<u>Transportation Fund</u>		
Restricted:					
Technology	\$ -	\$ -	\$ -	\$ 2,850	\$ 2,850
Transportation	-	-	8,358	-	8,358
Food Service	-	-	-	6,837	6,837
Retirement	-	-	-	1,001	1,001
School Operations	-	69,623	-	-	69,623
Assigned:					
School Operations	9,827	-	-	2,747	12,574
Capital Projects	-	-	-	312	312
Unassigned	74,188	-	-	-	74,188
Total Fund Balance	<u>\$ 84,015</u>	<u>\$ 69,623</u>	<u>\$ 8,358</u>	<u>\$ 13,747</u>	<u>\$ 175,743</u>

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any of this type of item.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

2. **Reconciliation of Government-Wide and Fund Financial Statements**

Explanation of certain differences between governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes reconciliation between fund balance—total governmental funds, and net position—governmental activities as reported in the government-wide statement net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.” The details of this difference are as follows:

Compensated absences	<u>\$ (8,491)</u>
Net adjustment to reduce fund balance-total governmental funds to arrive at net position-governmental activities	<u>\$ (8,491)</u>

2. **Reconciliation of Government-Wide and Fund Financial Statements – cont.**
Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances—total governmental funds, and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “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.” The details of this difference are as follows:

Capital outlay	\$ -
Depreciation expense	<u>(26,327)</u>
Net adjustment to increase net changes in fund balances-total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (26,327)</u>

Another element of that reconciliation states that “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 governmental funds.” The details of this difference are as follows:

Compensated absences	<u>\$ (323)</u>
Net adjustment to decrease net changes in fund balances-total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (323)</u>

3. **Property Taxes**

Property tax levies are set in August, in connection with the budget process, and are based on taxable values listed as of January 1 for all property located in the District. Taxable values are established by the State Department of Revenue based on market values. A revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by state statute as a fixed percentage of market value.

Real property taxes are generally billed in October and are payable 50% by November 30 and 50% by May 31. After these dates, taxes become delinquent and become a lien on the property. Personal property is assessed and personal property taxes are billed throughout the year with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

The District is permitted by the state statutes to levy taxes for various purposes. The taxes levied by the District for the year ended June 30, 2014 were properly established and were within the legal limits or approved by the voters.

4. **Cash and Investments**

Cash and investments are held by the County Treasurer in an agency fund. The County Treasurer invests the cash as directed by the District.

Authorized investments allowed by Section 20-9-213, MCA, include direct obligations of the United States government; savings or time deposits in a state or national bank, building or loan association, or credit union insured by the FDIC or NCUA located in the state, repurchase agreements, and the State Unified Investment Program.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. All of the deposits either in the District's name or Custer County Treasurer's name are held as authorized by the State of Montana.

Custodial Credit Risk

The investment policy of the District does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits other than the provision of state law.

Custodial risk for deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Montana law requires 50% security of deposits with financial institutions in excess of the depository insurance coverage limits. Governmental entities' money is insured for each "public unit" based on how the account is titled at the financial institution. The District's Certificate of Deposit is titled in the name of the County Treasurer as the Custodian for the District; therefore, the District has separate FDIC coverage from the other funds under the control of the Custer County Treasurer. The Custer County government is considered to have \$250,000 FDIC coverage for demand deposits and \$250,000 FDIC coverage for time and savings deposits in each bank in the state.

Credit, Interest Rate, and Foreign Currency Risk

The District has no interest rate risk, credit risk, or foreign currency risk of debt securities as there are no debt securities owned by the District nor does the District own any foreign investments.

5. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 880,790	\$ -	\$ -	880,790
Furniture and equipment	5,100	-	-	5,100
Total capital assets, being depreciated	<u>885,890</u>	<u>-</u>	<u>-</u>	<u>885,890</u>
Accumulated depreciation for:				
Buildings and improvements	(89,613)	(25,817)	-	(115,430)
Furniture and equipment	(1,627)	(510)	-	(2,137)
Total accumulated depreciation	<u>(91,240)</u>	<u>(26,327)</u>	<u>-</u>	<u>(117,567)</u>
Total capital assets, being depreciated, net	<u>794,650</u>			<u>768,323</u>
Governmental activities capital assets, net	\$ <u>794,650</u>			\$ <u>768,323</u>

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

Food service	\$ 510
Unallocated	25,817
	<u>\$ 26,327</u>

6. Compensated Absences Payable

Compensated absences payable, which represent vacation and sick leave earned by employees which is payable upon termination, were as follows:

	<u>Total</u>
Compensated Absences 6/30/13	\$ 8,168
Increase (Decrease)	323
Compensated Absences 6/30/14	<u>\$ 8,491</u>

The changes in compensated absences are shown as a net change because changes in salary prohibit exact calculations of additions and reductions.

7. Statewide Retirement Plan

The District participates in a statewide cost-sharing multiple-employer defined benefit retirement plan which covers all teaching employees except certain substitute teachers. The Teachers Retirement System (TRS) covers certified teaching employees. The plan is established by state law and is administered by the Department of Administration of the State of Montana. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan issues publicly available annual reports that include financial statements and required supplemental information for the plans.

7. **Statewide Retirement Plan – cont.**

The reports may be obtained from the following:

Teachers Retirement System
P.O. Box 200139
1500 Sixth Avenue
Helena, MT 59620-0139
Phone: 406-444-3134

Contribution rates for the plan is required and determined by state law. The contribution rates, expressed as a percentage of covered payrolls, were as follows:

	Employer	Employee	Total
TRS	8.47	8.15	16.62

The covered payroll for this plan is as follows:

	TRS
Covered Payroll	\$ 184,627
Employee Contributions	\$ 15,047
Employer Contributions	\$ 15,638

The District's contributions for the years ended June 30, 2012 and 2013 were \$14,344 and \$14,849 for TRS respectively.

8. **Pending Litigation**

There was no pending or threatened litigation or unasserted claims or assessments against the District.

9. **Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District participates in the Montana School Groups Worker's Compensation Risk Retention Program, a statewide public risk pool currently operating as a common risk management and insurance program for the member school districts. The District pays quarterly premiums for its employer 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.

The District carries commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. **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.

11. Subsequent Events

The District has evaluated subsequent events through the date of this report.

**REQUIRED
SUPPLEMENTAL SCHEDULES**

KINSEY ELEMENTARY SCHOOL
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
General Fund
Year Ended June 30, 2014

	<u>Original Budget Amounts</u>	<u>Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenues:				
Property taxes	\$ 39,005	\$ 39,005	\$ 36,341	\$ (2,664)
Earnings on investments	924	924	885	(39)
Other local sources	-	-	-	-
State revenue	304,854	304,854	305,154	300
Federal aid	-	-	-	-
Total revenues	<u>344,783</u>	<u>344,783</u>	<u>342,380</u>	<u>(2,403)</u>
Expenditures:				
Current:				
Instructional services	239,703	239,703	224,089	15,614
Supporting services:				
Students	-	-	-	-
Instructional staff	-	-	-	-
District administration	4,750	4,750	4,744	6
School administration	5,530	5,530	3,687	1,843
Business services	20,700	20,700	21,071	(371)
Operation and maintenance of facilities	63,866	63,866	48,257	15,609
Transportation	4,000	4,000	4,284	(284)
Special education	33,681	33,681	34,503	(822)
Food services	9,000	9,000	3,684	5,316
Capital outlay	3,000	3,000	1,728	1,272
Total expenditures	<u>384,230</u>	<u>384,230</u>	<u>346,047</u>	<u>38,183</u>
Excess of revenues over expenditures	<u>(39,447)</u>	<u>(39,447)</u>	<u>(3,667)</u>	<u>35,780</u>
Other Financing Sources (Uses):				
Transfers	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ (39,447)</u>	<u>\$ (39,447)</u>	<u>(3,667)</u>	<u>\$ 35,780</u>
Fund balance - beginning - Budget basis			<u>77,855</u>	
Fund balance - ending - Budget basis			<u>74,188</u>	
Current year encumbrances			<u>9,827</u>	
Fund balance - ending - GAAP basis			<u>\$ 84,015</u>	

KINSEY ELEMENTARY SCHOOL
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
Transportation Fund
Year Ended June 30, 2014

	<u>Original Budget Amounts</u>	<u>Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenues:				
Property taxes	\$ 30,281	\$ 30,281	\$ 28,207	\$ (2,074)
Earnings on investments	-	-	-	-
Other local sources	18,043	18,043	15,738	(2,305)
State revenue	<u>20,676</u>	<u>20,676</u>	<u>18,371</u>	<u>(2,305)</u>
Total local sources	<u>69,000</u>	<u>69,000</u>	<u>62,316</u>	<u>(6,684)</u>
Expenditures:				
Current:				
Instructional services	-	-	-	-
Supporting services:				
Students	-	-	-	-
Instructional staff	-	-	-	-
District administration	-	-	-	-
School administration	-	-	-	-
Business services	-	-	-	-
Operation and maintenance of facilities	-	-	-	-
Transportation	69,000	69,000	64,009	4,991
Community service	-	-	-	-
Special education	-	-	-	-
Adult education	-	-	-	-
Extracurricular	-	-	-	-
Food service program	-	-	-	-
Total expenditures	<u>69,000</u>	<u>69,000</u>	<u>64,009</u>	<u>4,991</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(1,693)</u>	<u>(1,693)</u>
Other Financing Sources (Uses):				
Transfer out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(1,693)</u>	<u>\$ (1,693)</u>
Fund balance - beginning - Budget and GAAP basis			<u>10,051</u>	
Fund balance - ending - Budget and GAAP basis			<u>\$ 8,358</u>	

**KINSEY ELEMENTARY
SCHOOL DISTRICT NO. 63
CUSTER COUNTY
KINSEY, MONTANA**

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

JUNE 30, 2014

Encumbrances

All appropriations, except for construction in progress, lapse at the end of the fiscal year. The District does utilize a formal encumbrance accounting system. Encumbrance accounting, which is an extension of the budgetary accounting in the General, Special Revenue, and Capital Projects Funds, enables the District to record purchase orders, contracts, and other commitments for the expenditure of monies in order to reserve that portion of the applicable appropriation. Encumbrances at year end are shown as expenditures in the budget-to-actual statements and as reservations of fund balance on the balance sheet. The encumbrances have been recorded as expenditures since they meet the "valid obligation criteria" established by the Office of Public Instruction in the Montana School Accounting Manual and as defined in the Administrative Rules of Montana (ARM 10.10.101). The valid obligation criteria are:

1. The costs of personal property including materials, supplies, and equipment ordered, but not received, may be encumbered if a valid purchase order was issued prior to June 30.
2. The cost of commitments related to construction in progress may be encumbered if a legally binding contract was signed and effective or a valid purchase order was issued prior to June 30. If the contract is complete or virtually complete, the entire cost of the contract should be accrued.

As of June 30, 2014, there was \$9,827 in encumbrances.

Budgets

An annual appropriated budget is adopted by the Board of Trustees each fiscal year for the General Fund and those other governmental fund types classified by state law as budgeted funds. All budgets are formulated in accordance with state law and are prepared on the basis of accounting described above for Fund Financial Statements.

The General Fund budget is based on the State's Foundation Program which is designed to equalize taxing effort throughout the state and bases the budgets primarily on enrollment. Budgets of other funds are based primarily on estimated revenues and expenditures. Budgeted fund expenditures are limited by state law to budgeted amounts, except that they can be increased for emergencies as defined by state law. Transfers may be made between expenditure objects and/or

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION – cont.

Budgets – cont.

functions within the same fund. The budgeted amounts as shown in the financial statements are as originally adopted or as revised by legal budget transfers, if applicable.

Preliminary budgets must be adopted by August 15 and the final budget on the fourth Monday in August. Budget appropriations not expended or obligated (as described above) lapse at the end of the fiscal year.

The Miscellaneous Fund is also a major fund, but not a budgeted fund.

SUPPLEMENTAL SCHEDULES

**KINSEY ELEMENTARY
SCHOOL DISTRICT NO. 63
CUSTER COUNTY
KINSEY, MONTANA**

SCHEDULE OF STUDENT ENROLLMENT

FOR THE YEAR ENDED JUNE 30, 2014

FALL ENROLLMENT 10\13	Audit Per District Records	Enrollment Report
Total	<u>69</u>	<u>69</u>
WINTER ENROLLMENT 12\13	Audit Per District Records	Enrollment Report
Total	<u>69</u>	<u>69</u>
SPRING ENROLLMENT 2\14	Audit Per District Records	Enrollment Report
Total	<u>70</u>	<u>70</u>

EXTRA CURRICULAR FUND ACTIVITY

	Beginning <u>Balance</u>	<u>Receipts</u>	<u>Disbursements</u>	Ending <u>Balance</u>
One Activity Fund	\$ 5,754	\$ 3,517	\$ 3,554	\$ 5,717

KINSEY ELEMENTARY SCHOOL
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual - Non-Major
Budgeted Special Revenue Funds
Year Ended June 30, 2014

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Earnings on investments	-	-	15	15
Other local sources	24,677	24,677	24,596	(81)
State revenue	904	904	904	-
Total local sources	<u>25,581</u>	<u>25,581</u>	<u>25,515</u>	<u>(66)</u>
Expenditures:				
Current:				
Instructional services	39,264	39,264	32,305	6,959
Supporting services:				
Students	-	-	-	-
Instructional staff	-	-	-	-
District administration	-	-	-	-
School administration	-	-	-	-
Business services	-	-	1,001	(1,001)
Operation and maintenance of facilities	599	599	757	(158)
Transportation	200	200	187	13
Community service	-	-	-	-
Special education	850	850	481	369
Adult education	-	-	-	-
Extracurricular	-	-	-	-
Food service program	640	640	1,239	(599)
Total expenditures	<u>41,553</u>	<u>41,553</u>	<u>35,970</u>	<u>5,583</u>
Excess of revenues over expenditures	<u>(15,972)</u>	<u>(15,972)</u>	<u>(10,455)</u>	<u>5,517</u>
Other Financing Sources (Uses):				
Transfer out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ (15,972)</u>	<u>\$ (15,972)</u>	<u>(10,455)</u>	<u>\$ 5,517</u>
Fund balance - beginning - Budget and GAAP basis			17,053	
Fund balance - ending - Budget and GAAP basis			<u>\$ 6,598</u>	



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Licensed in North Dakota and Montana

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

Board of Trustees
Kinsey Elementary School
Kinsey, Montana 59338

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 Kinsey Elementary School, Kinsey, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Kinsey Elementary School, Kinsey, Montana's basic financial statements, and have issued our report thereon dated October 29, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kinsey Elementary School, Kinsey, Montana'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 Kinsey Elementary School, Kinsey, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of Kinsey Elementary School, Kinsey, Montana's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

James J. Wosepka, PC



Baker, Montana
October 29, 2014