

**UNIFIED SCHOOL DISTRICT NUMBER 1
CUSTER COUNTY
MILES CITY, MONTANA**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

**2810 CENTRAL AVENUE, SUITE B
BILLINGS, MONTANA 59102
(406) 252-6230
FAX (406) 245-6922**

TABLE OF CONTENTS

	<u>Page No.</u>
ORGANIZATION	1
INDEPENDENT AUDITOR'S REPORT	2
REQUIRED SUPPLEMENTARY INFORMATION:	
Management's Discussion & Analysis	3
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet - Governmental Funds	9
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	10
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Statement of Net Position - Proprietary Fund	13
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund	14
Statement of Cash Flows - Proprietary Fund	15
Statement of Net Position - Fiduciary Funds	16
Statement of Changes in Net Position - Fiduciary Fund	17
Notes to Basic Financial Statements	18
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual – General Fund	26
OTHER SUPPLEMENTARY INFORMATION:	
Elementary Extracurricular Fund - Schedule of Revenues, Expenditures and Changes in Fund Balances	27
High School Extracurricular Fund - Schedule of Revenues, Expenditures and Changes in Fund Balances	28
Schedule of School District Enrollment	29
Schedule of Expenditures of Federal Awards	31
SUMMARY SCHEDULE OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS	33
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 <i>GOVERNMENT AUDITING STANDARDS</i>	34
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133	36
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	38
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS	41

UNIFIED SCHOOL DISTRICT NUMBER 1

ORGANIZATION

June 30, 2014

BOARD OF TRUSTEES

Bob Wagner	Chairperson
Jack McNamee	Vice-Chairperson
Carol Bartholomew	Trustee
Garve Gierke	Trustee
Jeff Donnelly	Trustee
Monte Lesh	Trustee
Ted Herzog	Trustee
Eric Doeden	Trustee
Donald Hofmann	Trustee
Dave Fiechtner	Trustee
Scot Robinson	Trustee

OFFICIALS

Keith Campbell	District Superintendent
Lenore Pfaff-Bricco	District Clerk

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

BRENT D. OLNESS, CPA
CURT D. WYSS, CPA

ERNEST J. OLNESS, CPA

2810 CENTRAL AVENUE, SUITE B
BILLINGS, MONTANA 59102
(406) 252-6230
FAX (406) 245-6922

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Unified School District Number 1
Miles City, 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 Unified School District Number 1, Miles City, 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 Opinions

Management has not recorded the service credit and termination pay benefit liability and related expense in the governmental activities. Accounting principles generally accepted in the United States of America require that the service credit and termination pay benefit 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.

Management has not recorded the other post employment benefit (OPEB) liability and related expense in the governmental activities and the aggregate remaining fund information. 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 and the aggregate remaining fund information. The amount by which this departure would affect the liabilities, net position and expenses has not been determined.

Qualified Opinions

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinions" paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the aggregate remaining fund information of the government, as of June 30, 2014, and the 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.

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 of the government as of June 30, 2014, and the respective changes in financial position 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 schedules and schedule of school district enrollment are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 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
October 24, 2014

UNIFIED SCHOOL DISTRICT NUMBER 1
MANAGEMENT'S DISCUSSION & ANALYSIS

Our discussion and analysis of the financial performance provides an overview of the government's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with our financial statements which begin on page 7.

FINANCIAL HIGHLIGHTS

- Assets exceeded liabilities as of June 30, 2014 by \$11,842,439 (net position).
- Total net position increased \$546,505 as the result of this years' operations.
- Total revenue and expenses increased \$516,343 and \$298,780, respectively.
- As of the close of the fiscal year, the governmental funds reported combined fund balances of \$4,151,151, an increase of \$737,657 over the prior year.

USING THIS AUDIT REPORT

This audit report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities 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 the 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 district's financial health, or financial position. Over time, increases or decreases in net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial 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 funds—Fees are charged to customers for the services provided—whether to outside customers or to other units of the government—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for other programs and activities—such as the Self-Insurance fund.

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.

UNIFIED SCHOOL DISTRICT NUMBER 1
MANAGEMENT'S DISCUSSION & ANALYSIS

THE GOVERNMENT AS A WHOLE

The following net position and change in net position schedules provide summaries of the district's activities:

NET POSITION:	2014	2013	Inc (Dec)
Current and other assets	\$ 6,509,481	\$ 6,036,584	\$ 472,897
Capital assets	7,087,068	6,642,429	444,639
Total assets	<u>13,596,549</u>	<u>12,679,013</u>	917,536
Other liabilities	217,866	633,178	(415,312)
Long-term liabilities	1,536,244	749,901	786,343
Total liabilities	<u>1,754,110</u>	<u>1,383,079</u>	371,031
Net position			
Net investment in capital assets	6,185,447	6,642,429	(456,982)
Restricted	1,698,083	1,524,330	173,753
Unrestricted	3,958,909	3,129,175	829,734
	<u>\$ 11,842,439</u>	<u>\$ 11,295,934</u>	<u>\$ 546,505</u>
CHANGE IN NET POSITION:	2014	2013	Inc (Dec)
Revenues:			
Program revenues:			
Charges for services	\$ 185,588	\$ 170,741	\$ 14,847
Operating grants and contributions	2,821,508	2,635,203	186,305
Capital grants and contributions	-	156,203	(156,203)
General revenues:			
Taxes	3,355,206	3,026,662	328,544
State sources	7,128,338	7,145,325	(16,987)
County sources	1,433,333	1,282,794	150,539
Interest	33,110	25,013	8,097
Miscellaneous	4,565	3,364	1,201
Total revenues	<u>14,961,648</u>	<u>14,445,305</u>	516,343
Expenses:			
Instruction	8,505,894	8,365,604	140,290
Support services-students	1,161,396	1,041,381	120,015
Support services-instructional staff	359,417	329,500	29,917
Support services-general administration	298,045	284,526	13,519
Support services-administration	1,221,932	1,373,053	(151,121)
Support services-business	257,398	260,458	(3,060)
Operation and maintenance	1,342,000	1,274,485	67,515
Student transportation	370,783	315,230	55,553
Food services	398,985	389,305	9,680
Extracurricular	494,222	482,821	11,401
Interest	5,071	-	5,071
Total expenses	<u>14,415,143</u>	<u>14,116,363</u>	298,780
Change in net position	546,505	328,942	217,563
Net position, beginning	<u>11,295,934</u>	<u>10,966,992</u>	328,942
Net position, ending	<u>\$ 11,842,439</u>	<u>\$ 11,295,934</u>	<u>\$ 546,505</u>

Net position increased \$546,505 or 4.8%. The increase can be attributed to conservative spending.

UNIFIED SCHOOL DISTRICT NUMBER 1
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, deferred inflows, revenues, or expenditures of an individual fund must be at least 10 percent of the corresponding element total (assets, liabilities, etc.) for all funds. The general fund is always reported as a major fund.

Revenues exceeded expenditures in the general fund by \$149,571. Revenues in the general fund increased \$56,915 and expenditures decreased \$85,492 over the prior year. General fund balance increased \$149,571 as the result of current and prior year encumbrances and conservative spending.

In the general fund, there were no budget amendments.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital asset additions included construction in progress for the Lincoln school improvements, a bus, and various roofing projects. As of June 30, 2014, the district had an outstanding loan through the Montana Board of Investments. For more information on capital assets and debt, see the notes to the financial statements.

THE GOVERNMENT'S FUTURE

The Miles City Unified School District is in great shape, due to the quality of educators, students and community. For the first time in at least three years, our district is experiencing some population growth in both elementary and high school enrollment. The increase in enrollment at the high school was predictable, but a bit of a surprise in the elementary. If our district continues to grow, several factors will come into play. One of these is the ability to recruit and retain quality teachers and the other has to do with maintaining our current facilities.

There was a day when teaching applications poured into our district office and only the highest quality applicant was considered. Those days have passed. Several positions have yet to be filled and programs were only maintained by crunching classes and moving teachers from one building to the next. Many positions had no more than two applicants and even elementary applications were minimal. Competition with the Bakken and Wyoming has really diminished the appeal and made it extremely difficult to compete financially with wages earned elsewhere. Many people are simply "refusing to come to the Bakken" area even though Miles City really isn't within this realm. What has made it worse is that the financial attributes of this wealth haven't followed our woes. The whole concentric circle idea did nothing for Miles City and without this revenue; there really is no "new money". Once again, everything is tied to ANB and many people move here to work without their kids or families jump over Miles City and leave families behind in Billings.

As it is right now our district has maintained buildings and improved them, but doing so in the future could be much more costly. If growth actually does hit this portion of eastern Montana, then our buildings must once again undergo transformation. There is little room for expansion in our current facilities. It will be very difficult to go back to taxpayers anytime soon to ask for more funding. Somewhere, somehow the state or federal entities must come up some way to help improve the infrastructure of existing facilities.

I am sure our difficulties are easy to predict and are common in most places. The cost of doing business is rising all the time. The cost of living is also increasing. Funding increases (although appreciated) by the legislature, just cannot keep up with demands placed on public educational institutions. Each year, we see the bigger and better educational devices pass us by and it is frustrating not to be able to give our students equal access to these tools. Cost of insurance goes up, cost of technology goes up and cost of operations always increases as well. Again, I am being repetitious and on the verge of whining when there is little that can be done. I will stop here for it does little good to complain in such a forum. Though frustrated with our current state of affairs, I take comfort in knowing that I am surrounded by caring, devoted professionals who care little about anything other than meeting the needs of our students and community. As I mentioned in the first sentence, "we are in great shape here in Miles City".

UNIFIED SCHOOL DISTRICT NUMBER 1
STATEMENT OF NET POSITION
June 30, 2014

ASSETS	
Cash and cash equivalents	\$ 6,135,731
Receivables:	
Property taxes	220,590
Governments	22,408
Stop loss reimbursement	55,440
Other	10,000
Inventories	42,987
Prepays	22,325
Capital assets:	
Land and construction in progress	491,917
Capital assets, net of accumulated depreciation	<u>6,595,151</u>
 Total assets	 <u>13,596,549</u>
 LIABILITIES	
Accounts payable:	
Vendors	126,502
IBNR	87,360
Due to other governmental agencies	4,004
Long-term liabilities:	
Due within one year:	
Notes	197,020
Compensated absences:	73,462
Due in more than one year:	
Notes	604,601
Compensated absences:	<u>661,161</u>
 Total liabilities	 <u>1,754,110</u>
 NET POSITION	
Net investment in capital assets	6,185,447
Restricted for:	
Instruction	601,146
Support services:	
Students	28,366
Instructional staff	9,839
General administration	120,878
School administration	52,905
Business services	8,105
Operation and maintenance	218,519
Student transportation	384,077
Food services	9,046
Extracurricular	14,577
Capital projects	250,625
Unrestricted	<u>3,958,909</u>
 Total net position	 <u>\$ 11,842,439</u>

UNIFIED SCHOOL DISTRICT NUMBER 1
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	\$ 8,505,894	\$ 21,250	\$ 1,964,311	\$ (6,520,333)
Support services:				
Students	1,161,396	-	517,445	(643,951)
Instructional staff	359,417	-	37,069	(322,348)
General administration	298,045	-	-	(298,045)
School administration	1,221,932	-	33,154	(1,188,778)
Business services	257,398	-	-	(257,398)
Operation and maintenance	1,342,000	1,921	3,425	(1,336,654)
Student transportation	370,783	-	53,142	(317,641)
Food services	398,985	162,417	192,740	(43,828)
Extracurricular	494,222	-	20,222	(474,000)
Interest	5,071	-	-	(5,071)
Total	\$ 14,415,143	\$ 185,588	\$ 2,821,508	(11,408,047)
General revenues:				
Property taxes				3,355,206
Unrestricted intergovernmental:				
State aid				6,551,057
State other				577,281
County				1,433,333
Interest				33,110
Miscellaneous				4,565
Total general revenues				11,954,552
Change in net position				546,505
Net position - beginning				11,295,934
Net position - ending				\$ 11,842,439

UNIFIED SCHOOL DISTRICT NUMBER 1
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General	Total Nonmajor funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,054,802	\$ 2,129,135	\$ 4,183,937
Receivables:			
Property taxes	198,188	22,402	220,590
Governments	-	22,408	22,408
Other	-	10,000	10,000
Inventories	40,972	2,015	42,987
Prepaid items	-	22,325	22,325
	<u>\$ 2,293,962</u>	<u>\$ 2,208,285</u>	<u>\$ 4,502,247</u>
LIABILITIES			
Accounts payable-vendors	\$ 119,800	\$ 6,702	\$ 126,502
Payable to other governments	-	4,004	4,004
	<u>119,800</u>	<u>10,706</u>	<u>130,506</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-property taxes	198,188	22,402	220,590
	<u>198,188</u>	<u>22,402</u>	<u>220,590</u>
FUND BALANCES (DEFICITS)			
Nonspendable:			
Inventory	40,972	2,015	42,987
Prepaid items	-	22,325	22,325
Restricted for:			
Instruction	-	573,220	573,220
Support services:			
Students	-	28,366	28,366
Instructional staff	-	9,839	9,839
General administration	-	120,878	120,878
School administration	-	52,905	52,905
Business services	-	8,105	8,105
Operation and maintenance	-	218,519	218,519
Student transportation	-	374,787	374,787
Food services	-	7,031	7,031
Extracurricular	-	14,577	14,577
Capital projects	-	243,114	243,114
Committed to:			
Instruction	-	367,427	367,427
Support services:			
General administration	-	89,444	89,444
Assigned to:			
Instruction	80,519	43,596	124,115
Support services:			
Instructional staff	2,588	-	2,588
School administration	9,466	-	9,466
Business services	52	-	52
Operation and maintenance	137,566	-	137,566
Student transportation	4,211	-	4,211
Extracurricular	8,482	-	8,482
Capital projects	273,590	-	273,590
Unassigned	1,418,528	(971)	1,417,557
	<u>1,975,974</u>	<u>2,175,177</u>	<u>4,151,151</u>
Total fund balances (deficits)			
Total liabilities, deferred inflows of resources and fund balances (deficits)	<u>\$ 2,293,962</u>	<u>\$ 2,208,285</u>	<u>\$ 4,502,247</u>

See notes to basic financial statements.

UNIFIED SCHOOL DISTRICT NUMBER 1
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2014

Total fund balances, governmental funds	\$ 4,151,151
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.	7,087,068
Other long-term assets are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the funds.	220,590
The internal service fund is used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position.	1,919,874
Long-term liabilities, including notes payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,536,244)</u>
Net position of governmental activities	<u><u>\$ 11,842,439</u></u>

UNIFIED SCHOOL DISTRICT NUMBER 1
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	\$ 2,926,791	\$ 415,362	\$ 3,342,153
Intergovernmental:			
County	-	1,459,904	1,459,904
State aid	6,551,057	-	6,551,057
State other	1,597,360	571,626	2,168,986
Federal	-	1,072,309	1,072,309
Tuition	-	7,808	7,808
Charges for services	-	185,142	185,142
Interest	12,406	10,333	22,739
Miscellaneous	1,218	126,908	128,126
Total revenues	11,088,832	3,849,392	14,938,224
EXPENDITURES			
Current:			
Instruction	6,218,227	2,128,886	8,347,113
Support services:			
Students	620,260	531,808	1,152,068
Instructional staff	281,521	69,286	350,807
General administration	248,724	28,595	277,319
School administration	1,066,566	169,860	1,236,426
Business services	222,709	29,249	251,958
Operation and maintenance	1,245,212	83,514	1,328,726
Student transportation	208,394	150,987	359,381
Food services	4,345	374,299	378,644
Extracurricular	372,928	66,543	439,471
Capital outlay	190,856	684,348	875,204
Debt service:			
Principal	100,000	98,379	198,379
Interest and other charges	5,071	-	5,071
Total expenditures	10,784,813	4,415,754	15,200,567
Excess (deficiency) of revenues over expenditures	304,019	(566,362)	(262,343)
OTHER FINANCING SOURCES (USES)			
Long-term debt issued	-	1,000,000	1,000,000
Transfers in	-	154,448	154,448
Transfers out	(154,448)	-	(154,448)
Total other financing sources (uses)	(154,448)	1,154,448	1,000,000
Net change in fund balances	149,571	588,086	737,657
Fund balances - beginning	1,837,808	1,589,281	3,427,089
Change in inventory	(11,405)	(2,190)	(13,595)
Fund balances - ending	\$ 1,975,974	\$ 2,175,177	\$ 4,151,151

See notes to basic financial statements.

UNIFIED SCHOOL DISTRICT NUMBER 1
 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	\$ 737,657
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>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.</p>	
This is the amount by which capital outlay (\$875,204) exceeded depreciation (\$430,565) in the current period.	444,639
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	13,053
<p>Governmental funds report debt proceeds as current financial resources. In contrast, the statement of activities treats such issuance of debt as a liability. Governmental funds report repayment of debt principal as an expenditure. In contrast, the statement of activities treats such repayments as a reduction in long-term liabilities. This is the amount by which long-term debt issued exceeded debt repayments.</p>	
	(801,621)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:</p>	
<p>Inventories are recorded as expenses in the governmental-wide financial statements when consumed rather than when purchased. Inventories are recorded as expenditures when purchased in the fund financial statements.</p>	
	(13,595)
Compensated absences	15,278
<p>The internal service fund is used by management to charge the costs of certain activities to individual funds. The change in net position of the internal service fund is reported with the governmental activities.</p>	
	<u>151,094</u>
Change in net position of governmental activities	<u>\$ 546,505</u>

UNIFIED SCHOOL DISTRICT NUMBER 1
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2014

	<u>Governmental Activities- Internal Service Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,951,794
Accounts receivable	<u>55,440</u>
Total assets	<u>2,007,234</u>
LIABILITIES	
Current liabilities:	
Accounts payable-IBNR	<u>87,360</u>
Total liabilities	<u>87,360</u>
NET POSITION	
Unrestricted	<u>1,919,874</u>
Total net position	<u><u>\$ 1,919,874</u></u>

UNIFIED SCHOOL DISTRICT NUMBER 1
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>\$ 1,876,060</u>
Total operating revenues	<u>1,876,060</u>
OPERATING EXPENSES	
Fees and stop-loss insurance	502,139
Insurance claims	<u>1,233,198</u>
Total operating expenses	<u>1,735,337</u>
Operating income	<u>140,723</u>
NON-OPERATING REVENUE	
Interest revenue	<u>10,371</u>
Total non-operating revenue	<u>10,371</u>
Change in net position	151,094
Net position - beginning	<u>1,768,780</u>
Net position - ending	<u><u>\$ 1,919,874</u></u>

UNIFIED SCHOOL DISTRICT NUMBER 1
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2014

	<u>Governmental Activities- Internal Service Fund</u>
CASH FLOWS FROM OPERATIONS:	
Cash received from health insurance premiums	\$ 1,876,060
Medical claims paid	(1,203,666)
Cash paid to suppliers for goods and services	<u>(502,139)</u>
Net cash provided by operating activities	<u>170,255</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	<u>10,371</u>
Net cash provided by investing activities	<u>10,371</u>
Change in cash and cash equivalents	180,626
Cash and cash equivalents - beginning	<u>1,771,168</u>
Cash and cash equivalents - ending	<u><u>\$ 1,951,794</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 140,723
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in accounts receivable	30,292
Decrease in accounts payable	<u>(760)</u>
Net cash provided by operating activities	<u><u>\$ 170,255</u></u>

UNIFIED SCHOOL DISTRICT NUMBER 1
 STATEMENT OF NET POSITION
 FIDUCIARY FUNDS
 June 30, 2014

	Private Purpose Trust Fund- Extracurricular	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 291,470	\$ 43,086
Total assets	291,470	43,086
LIABILITIES		
Accounts payable	-	43,086
Total liabilities	-	\$ 43,086
NET POSITION		
Held in trust	\$ 291,470	

UNIFIED SCHOOL DISTRICT NUMBER 1
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND
For the Year Ended June 30, 2014

	Private Purpose Trust Fund- Extracurricular
ADDITIONS	
Student extracurricular activities	\$ 604,064
Total additions	604,064
DEDUCTIONS	
Student extracurricular activities	611,376
Total deductions	611,376
Change in net position	(7,312)
Net position - beginning	298,782
Net position - ending	\$ 291,470

UNIFIED SCHOOL DISTRICT NUMBER 1
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 county-wide 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.

UNIFIED SCHOOL DISTRICT NUMBER 1
NOTES TO BASIC FINANCIAL STATEMENTS

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with the internal service fund's principal ongoing operations. Operating expenses in the internal service fund include claims and purchased services. All other revenues and expenses 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 funds:

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

Additionally, the government reports the following fund types:

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 and flexible benefits 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

All inventories are valued at cost. Inventories are recorded as expenditures in the fund financial statements. Inventories are recorded as expenses in the government-wide financial statements when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., 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 \$10,000 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.

UNIFIED SCHOOL DISTRICT NUMBER 1
NOTES TO BASIC FINANCIAL STATEMENTS

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

<u>Assets</u>	<u>Years</u>
Land improvements	20
Building and improvements	10-50
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 and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

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

Sick leave is accumulated for classified employees at the rate of 12 days per year with no limit on the carry over amount. Sick leave for certified personnel (teachers) is awarded at 18 days per year up to a cumulative maximum of 125 days. Upon retirement or resignation, classified employees are eligible for sick leave compensation at one fourth of the accumulated amount and certified employees are eligible for sick leave compensation at one third of the accumulated amount after fifteen years of service or ten years of service if the employee has reached age 55.

Administrative, certified, paraprofessionals and custodians/support staff, upon retirement or resignation, receive \$125, \$250, \$200 and \$250, respectively, for each year of service. Additionally, upon leaving the district, administrative employees receive severance pay equal to one-quarter of their current contract. This liability has not been recorded in the financial statements.

Long-term Obligations

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

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."

UNIFIED SCHOOL DISTRICT NUMBER 1
NOTES TO BASIC FINANCIAL STATEMENTS

Proprietary fund equity is classified the same as in the government-wide 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 and proprietary fund 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. Assigned fund balance in the general fund represents year-end encumbrances.

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

Use of Estimates

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

NOTE 2. DETAILED NOTES ON ALL FUNDS

Cash and Cash Equivalents

The government's cash and cash equivalents are reported as follows:

Governmental activities	\$	6,135,731
Fiduciary funds		334,556
	\$	6,470,287

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2014, the government's bank balances were covered by federal deposit insurance.

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. Risk classification of the government's deposits and pooled investments can be obtained from the Custer County Treasurer.

UNIFIED SCHOOL DISTRICT NUMBER 1
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	\$ 426,117	\$ -	\$ -	\$ 426,117
Construction-in-progress	476,186	65,800	(476,186)	65,800
Total capital assets, not being depreciated	<u>902,303</u>	<u>65,800</u>	<u>(476,186)</u>	<u>491,917</u>
Capital assets, being depreciated				
Buildings/improvements	11,101,187	1,234,092	-	12,335,279
Improvements other than buildings	97,313	-	-	97,313
Machinery and equipment	1,433,776	51,498	-	1,485,274
Total capital assets, being depreciated	<u>12,632,276</u>	<u>1,285,590</u>	<u>-</u>	<u>13,917,866</u>
Less accumulated depreciation for:				
Buildings/improvements	(6,001,917)	(332,104)	-	(6,334,021)
Improvements other than buildings	(82,818)	(1,527)	-	(84,345)
Machinery and equipment	(807,415)	(96,934)	-	(904,349)
Total accumulated depreciation	<u>(6,892,150)</u>	<u>(430,565)</u>	<u>-</u>	<u>(7,322,715)</u>
Total capital assets, being depreciated, net	<u>5,740,126</u>	<u>855,025</u>	<u>-</u>	<u>6,595,151</u>
Capital assets, net	<u>\$ 6,642,429</u>	<u>\$ 920,825</u>	<u>\$ (476,186)</u>	<u>\$ 7,087,068</u>

Depreciation expense was charged as follows:

Instruction	\$ 244,696
Support services-students	16,246
Support services-instructional staff	10,384
Support services-general administration	10,070
Support services-administration	30,954
Support services-business	6,960
Operation and maintenance	22,716
Student transportation	13,139
Food services	19,621
Extracurricular	55,779
	<u>\$ 430,565</u>

Interfund Transfers

The general fund transferred money (\$28,900) to the compensated absences funds to pay for accumulated sick and vacation leave that a nonteaching or administrative employee is owed upon termination of employment. Additionally, \$125,548 was transferred from the general fund to the elementary and high school building reserve funds. These transfers were authorized under Senate Bill 348.

Long-Term Debt

In fiscal year 2014, the government borrowed \$1,000,000 from the Montana Board of Investments. The loan is payable over 5 years with an interest rate of one percent, adjusted annually to a maximum of fifteen percent. The balance outstanding as of June 30, 2014 was \$801,621.

UNIFIED SCHOOL DISTRICT NUMBER 1
NOTES TO BASIC FINANCIAL STATEMENTS

Annual debt service requirements to maturity for notes payable are as follows:

Year ending June 30,	Principal	Interest	Total
2015	\$ 197,020	\$ 8,017	\$ 205,037
2016	198,996	5,546	204,542
2017	200,989	3,562	204,551
2018	203,005	1,536	204,541
2019	1,611	8	1,619
	<u>\$ 801,621</u>	<u>\$ 18,669</u>	<u>\$ 820,290</u>

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

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Notes payable	\$ -	\$ 1,000,000	\$ (198,379)	\$ 801,621	\$ 197,020
Compensated absences	749,901	-	(15,278)	734,623	73,462
Total	<u>\$ 749,901</u>	<u>\$ 1,000,000</u>	<u>\$ (213,657)</u>	<u>\$ 1,536,244</u>	<u>\$ 270,482</u>

Compensated absences are generally liquidated in the fund the employees' wage is charged. Notes payable are liquidated with elementary building reserve resources.

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. 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.

Self-Insurance Plan

During the year ended June 30, 2014, employees of the government were covered by a medical self-insurance plan (the "plan"). The government contributed approximately \$933 per month per employee to the plan and employees, at their option, authorized payroll withholdings to pay contributions for dependents. Claims were paid by a third party administrator acting on behalf of the government. The administrative contract between the government and the third party administrator is renewable annually and administrative fees and stop-loss premiums are included in the contractual provisions. The government was protected against unanticipated catastrophic individual and aggregate loss by stop-loss coverage through Montana Joint Powers Trust (MJPT). Stop-loss coverage was in effect for individual claims exceeding \$60,000. Aggregate stop-loss coverage was \$2,335,558.

The costs associated with the medical self-insurance plan are reported as interfund transactions. Accordingly, they are treated as operating revenues in the internal service fund and as operating expenditures of the governmental funds. The liability of the medical self-insurance plan includes incurred but not reported claims. The liability as of June 30, 2014, is based on the requirements of Governmental Accounting Standards, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability includes an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Changes in the claims liability amount during fiscal years 2013 and 2014 were as follows:

UNIFIED SCHOOL DISTRICT NUMBER 1
NOTES TO BASIC FINANCIAL STATEMENTS

	Liability July 1,	Current Year Claims and Changes in Estimates	Claims Payments	Liability June 30,
2012-13	\$ 102,603	\$ 1,429,504	\$ (1,443,987)	\$ 88,120
2013-14	88,120	1,233,198	(1,233,958)	87,360

Commitments and Contingencies

At year-end, the government had commitments outstanding, in the form of contracts and purchase orders, of approximately \$531,463, primarily for construction projects 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	\$ -	\$ 9,093	\$ 9,093
Support services:			
Operation and maintenance	-	1,733	1,733
Committed:			
Instruction	-	4,163	4,163
Assigned:			
Instruction	80,519	-	80,519
Support services:			
Instructional staff	2,588	-	2,588
School administration	9,466	-	9,466
Business services	52	-	52
Operation and maintenance	137,566	-	137,566
Student transportation	4,211	-	4,211
Extracurricular	8,482	-	8,482
Capital projects	273,590	-	273,590
	<u>\$ 516,474</u>	<u>\$ 14,989</u>	<u>\$ 531,463</u>

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

Retirement Plans

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

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

UNIFIED SCHOOL DISTRICT NUMBER 1
NOTES TO BASIC FINANCIAL STATEMENTS

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 (\$169,366) contributions 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	\$ 1,314,088	\$ 1,295,501	\$ 1,396,673
PERS	176,082	152,122	152,293
	\$ 1,490,170	\$ 1,447,623	\$ 1,548,966

Post Employment Health Care Benefits

The district provides post retirement health care benefits to administrators and certified staff who have retired with at least 20 years of service. Currently, 13 retirees have met the eligibility requirement. The benefit continues until the retiree becomes eligible for an employer sponsored plan or Medicare. Expenses for post retirement benefits are recognized as the retirees report claims. The amount of expense incurred totaled \$101,060.

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

UNIFIED SCHOOL DISTRICT NUMBER 1
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	\$ 2,961,966	\$ 2,961,966	\$ 2,926,791	\$ -	\$ 2,926,791
Intergovernmental:					
State aid	6,551,057	6,551,057	6,551,057	-	6,551,057
State other	1,428,023	1,428,023	1,427,994	169,366	1,597,360
Interest	9,933	9,933	12,406	-	12,406
Miscellaneous	1,038	1,038	1,218	-	1,218
Total revenues	<u>10,952,017</u>	<u>10,952,017</u>	<u>10,919,466</u>	<u>169,366</u>	<u>11,088,832</u>
EXPENDITURES					
Total expenditures	<u>10,952,017</u>	<u>10,952,017</u>	<u>10,797,568</u>	<u>(12,755)</u>	<u>10,784,813</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	(32,550)	182,121	149,571
Fund balances - beginning			1,503,455	334,353	1,837,808
Decrease in inventory			(11,405)	-	(11,405)
Fund balances - ending			<u>\$ 1,459,500</u>	<u>\$ 516,474</u>	<u>\$ 1,975,974</u>

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION:

State law requires budgets be prepared for certain funds - generally those supported by property tax revenues. Budgets are prepared on the modified accrual basis. State law requires only that a fund's total expenditures not exceed total budgeted expenditures. Budgets may be amended as defined by State law. 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 no later than August 25th.

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

OTHER SUPPLEMENTARY INFORMATION

UNIFIED SCHOOL DISTRICT NUMBER 1
ELEMENTARY EXTRACURRICULAR FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2014

Fund	Balance July 1, 2013	Revenues	Expenditures	Transfers In/(Out)	Balance June 30, 2014
Athletics	\$ 21,716	\$ 14,036	\$ 17,814	\$ 1,970	\$ 19,908
Activity Tickets	11,256	7,575	6,336	(2,000)	10,495
Student Council	1,142	1,598	1,167	-	1,573
Fundraising	5,671	9,434	11,282	-	3,823
Drama	515	730	1,049	155	351
Library	136	1,491	1,386	-	241
FHA	367	-	-	-	367
Pep Club	3,361	1,443	1,043	-	3,761
Technology	1,645	1,804	1,317	-	2,132
Science	118	-	-	-	118
Builders Club	251	2,243	2,357	(50)	87
Instrument Repair	573	618	-	-	1,191
Music	1,317	654	773	-	1,198
MBI	96	-	-	-	96
Radio Club	214	57	44	(75)	152
Totals	\$ 48,378	\$ 41,683	\$ 44,568	\$ -	\$ 45,493

UNIFIED SCHOOL DISTRICT NUMBER 1
HIGH SCHOOL EXTRACURRICULAR FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2014

Fund	Balance July 1, 2013	Revenues	Expenditures	Transfers In (Out)	Balance June 30, 2014
Student Activity	\$ 4,427	\$ 19,135	\$ 7,914	\$ (15,648)	\$ -
Softball	916	903	8,297	8,000	1,522
Boys Basketball	4,845	14,380	21,264	3,493	1,454
Cross Country	2,144	-	3,027	2,000	1,117
Football	5,861	32,066	23,853	(8,541)	5,533
Girls Basketball	5,082	13,922	19,846	2,956	2,114
Golf	1,145	287	2,599	3,000	1,833
Volleyball	1,516	9,868	11,823	1,937	1,498
Tennis	1,688	252	2,108	1,500	1,332
Track	1,770	2,499	12,119	9,000	1,150
Wrestling	1,950	14,945	12,373	(1,785)	2,737
Adult All Sport Tickets	11,185	10,627	5,259	(11,642)	4,911
Track Repair	3,563	-	-	-	3,563
Track Resurfacing	17,467	-	-	-	17,467
Weight Program	4,829	8,187	858	-	12,158
CCDHS Sports Boosters	7,253	22,746	22,671	(2,075)	5,253
Cheerleaders	7,731	22,051	26,675	(2,389)	718
Pep Club	48	-	-	-	48
Forensics	1,570	1,267	2,423	1,320	1,734
CCDHS Dance Team	7,945	14,083	16,056	(2,332)	3,640
Matadors	114	797	1,262	1,415	1,064
SC Special Project	6,149	1,276	1,081	(1,923)	4,421
Class of 2004	79	-	-	-	79
Class of 2008	106	-	-	-	106
Class of 2009	408	-	-	-	408
Class of 2013	500	-	500	-	-
Class of 2014	3,453	1,656	5,109	-	-
Class of 2015	4,139	3,202	4,395	-	2,946
Class of 2016	2,042	3,310	805	(484)	4,063
Class of 2017	-	853	375	(70)	408
Club International	140	-	-	-	140
Drama Club	1,187	1,480	1,240	-	1,427
FFA	14,090	84,951	66,752	(9,230)	23,059
FCCLA	-	10	-	-	10
Key Club	1,572	14,460	12,429	155	3,758
Photo Club	115	-	-	-	115
Caps and Gowns	1,324	-	-	-	1,324
Graduation	582	-	680	98	-
Instrumental Music	2,960	7,058	13,175	3,522	365
Vocal Music	776	4,824	4,626	(22)	952
Chorale Trip	164	14,086	12,800	-	1,450
Branding Iron	-	12,145	13,451	1,306	-
Signal Butte	556	3,231	1,792	-	1,995
Art Club	264	30,291	23,162	(1,890)	5,503
Auto Shop/VICA	2,863	8,983	8,462	(1,805)	1,579
Welding Shop	1,155	367	68	6	1,460
Wood Shop	-	3,260	4,848	1,588	-
Home Economics	40	589	381	30	278
Wood Shop Equipment	40,463	-	-	(1,897)	38,566
Auto Shop	908	10	151	-	767
Student Council	43	28,741	21,591	5	5,198
Close Up	8	-	-	-	8
Revolving	21,026	15,177	14,560	(123)	21,520
Media	62	-	-	-	62
Mentor	1,601	-	115	-	1,486
National Honor Society	167	-	85	-	82
Art Supplies	535	10	263	-	282
Library Friends	48	219	203	-	64
Accrued CD Interest	23,227	1,893	-	-	24,920
Wendy's Foundation	827	-	60	(300)	467
SADD	693	966	1,422	-	237
Tournament Account	7,979	63,006	61,740	-	9,245
District Music Festival	8,552	15,542	13,308	-	10,786
Concessions	6,073	3,470	25,252	20,825	5,116
Youth Alive	479	-	-	-	479
Totals	\$ 250,404	\$ 510,881	\$ 515,308	\$ -	\$ 245,977

UNIFIED SCHOOL DISTRICT NUMBER 1
 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	118	118	-
Grades one through six	671	671	-
Grades seven and eight	237	237	-
	<u>1,026</u>	<u>1,026</u>	<u>-</u>
Part-time students included in kindergarten-300 hrs/yr	<u>-</u>	<u>1</u>	<u>(1)</u>
<u>High School District</u>			
Grades nine through twelve	<u>504</u>	<u>504</u>	<u>-</u>
Part-time students included in grade nine through twelve			
180-359 hrs/yr	<u>1</u>	<u>1</u>	<u>-</u>
540-719 hrs/yr	<u>1</u>	<u>1</u>	<u>-</u>
19 year old students included in grade nine through twelve	<u>1</u>	<u>1</u>	<u>-</u>
WINTER ENROLLMENT - December 2013			
<u>Elementary District</u>			
Kindergarten	116	116	-
Grades one through six	668	669	(1)
Grades seven and eight	235	235	-
	<u>1,019</u>	<u>1,020</u>	<u>(1)</u>
Part-time students included in kindergarten-300 hrs/yr	<u>-</u>	<u>1</u>	<u>(1)</u>
<u>High School District</u>			
Grades nine through twelve	<u>499</u>	<u>499</u>	<u>-</u>
Part-time students included in grade nine through twelve			
180-359 hrs/yr	<u>1</u>	<u>1</u>	<u>-</u>
540-719 hrs/yr	<u>1</u>	<u>1</u>	<u>-</u>
19 year old students included in grade nine through twelve	<u>1</u>	<u>1</u>	<u>-</u>

UNIFIED SCHOOL DISTRICT NUMBER 1
 SCHEDULE OF SCHOOL DISTRICT ENROLLMENT
 For the Year Ended June 30, 2014

	<u>Reported Enrollment</u>	<u>Enrollment per Records</u>	<u>Difference</u>
SPRING ENROLLMENT-February 2014			
<u>Elementary District</u>			
Kindergarten	116	116	-
Grades one through six	660	660	-
Grades seven and eight	234	234	-
	<u>1,010</u>	<u>1,010</u>	<u>-</u>
Part-time students included in kindergarten-300 hrs/yr	<u>-</u>	<u>1</u>	<u>(1)</u>
<u>High School District</u>			
Grades nine through twelve	<u>504</u>	<u>504</u>	<u>-</u>
Part-time students included in grades nine through twelve			
360-539 hrs/yr	<u>1</u>	<u>1</u>	<u>-</u>
540-719 hrs/yr	<u>1</u>	<u>1</u>	<u>-</u>
19 year old students included in grades nine through twelve	<u>1</u>	<u>1</u>	<u>-</u>

UNIFIED SCHOOL DISTRICT NUMBER 1
SUMMARY SCHEDULE OF PRIOR YEAR FEDERAL
AWARD FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF EDUCATION:

2013-7. ALL MAJOR FEDERAL AWARD PROGRAMS

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

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

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.

Current Status: This finding is repeated in the schedule of findings and questioned costs.

2013-8. TITLE I GRANTS TO LOCAL EDUCATION AGENCIES, CFDA NO. 84.010, GRANT NO. 09-0172-3113

Criteria: Under the Period of Availability criteria, Federal awards may specify a time period during which the non-Federal entity (the district) may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. Further, per Federal Acquisition Regulations (FAR) section 32.703-3, a contract that is funded by an annual appropriation may not cross fiscal years. The period of availability for the district's 2013 Title I program is July 1, 2012 to September 30, 2013.

Condition: The district purchased a digital subscription to a core curriculum program where the subscription period is from January 1, 2014 to December 31, 2016.

Cause: Unknown.

Questioned Costs: \$26,790

Effect: Noncompliance with federal regulations.

Recommendation: The auditors recommended we develop a system to ensure that Federal funds are obligated within the period of availability.

Current Status: Implemented

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

BRENT D. OLNESS, CPA
CURT D. WYSS, CPA

ERNEST J. OLNESS, CPA

2810 CENTRAL AVENUE, SUITE B
BILLINGS, MONTANA 59102
(406) 252-6230
FAX (406) 245-6922

INDEPENDENT AUDITOR'S REPORT 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
Unified School District Number 1
Miles City, 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 Unified School District Number 1, Miles City, 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 October 24, 2014. The report on the governmental activities and the aggregate remaining fund information was qualified because the service credit and termination pay benefit liability and related expense (GASB No. 27) and the other post employment benefit (OPEB) liability and related expense (GASB No. 45) were not recorded.

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 questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 questioned costs to be material weaknesses. (Findings 2014-1 through 2014-4)

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. (Findings 2014-5 and 2014-6)

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2014-5 and 2014-6.

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)

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 questioned costs. 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.

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'neal & Associates, PC

Billings, Montana
October 24, 2014

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

ERNEST J. OLNESS, CPA

BRENT D. OLNESS, CPA
CURT D. WYSS, CPA

2810 CENTRAL AVENUE, SUITE B
BILLINGS, MONTANA 59102
(406) 252-6230
FAX (406) 245-6922

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Trustees
Unified School District Number 1
Miles City, Montana

Report on Compliance for Each Major Federal Program

We have audited Unified School District Number 1, Miles City, Montana's (the government) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the government's major federal programs for the year ended June 30, 2014. The government's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the government's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the government's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the government's compliance.

Opinion on Each Major Federal Program

In our opinion, the government, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the government is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the government's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the government's internal control over compliance.

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133 (CONTINUED)

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-7 to be a material weakness.

The government's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The government's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

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

O'Neil & Associates, PC

Billings, Montana
October 24, 2014

UNIFIED SCHOOL DISTRICT NUMBER 1
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS:

Type of auditor's report issued: qualified

Internal control over financial reporting:

- Material weakness(es) identified? √ yes no
- Significant deficiency(ies) identified? √ yes none reported

Noncompliance material to the financial statements noted? √ yes no

FEDERAL AWARDS:

Internal control over major programs:

- Material weaknesses identified? √ yes no
- Significant deficiency(ies) identified? yes √ none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? √ yes no

Identification of major programs:

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>
84.010	Title I Grants to Local Education Agencies
84.027 and 84.173	Special Education Cluster

Dollar threshold used to distinguish between type A and type B programs? \$300,000

Auditee qualified as low-risk auditee? yes √ no

SECTION II - FINANCIAL STATEMENT FINDINGS

2014-1. 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: Due to budget constraints, the district is unable to hire a second accounting firm to prepare the financial

UNIFIED SCHOOL DISTRICT NUMBER 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2014

statements, including footnote disclosures, and then have the present firm audit those statements. The district will continue to review the draft statements to ensure the quality of the document.

2014-2. SEGREGATION OF DUTIES

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

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

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: The district strives for segregation of duties including reporting, reviewing and approving reconciliations and approval and control of documents.

2014-3. SERVICE CREDIT AND TERMINATION PAY BENEFIT LIABILITY NOT RECORDED

Criteria: U.S. generally accepted accounting principles require the service credit and termination pay benefit liability and related expense be recorded in the financial statements.

Condition: The government did not record the service credit and termination pay benefit liability and related expense (GASB Statement No. 27) in the financial statements.

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

Effect: The governmental activities liabilities are understated, net position are overstated and expenses are understated.

Recommendation: Biannually, the government should engage an actuarial firm to determine the service credit and termination benefit liability and related expense.

Response: After researching the costs associated with an actuarial valuation of Miles City Public School's termination pay benefits in order to comply with GASB 27, we have found the cost far exceeds the benefit. Due to budget constraints, the district is unable to comply.

2014-4. 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.

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 and internal service fund liabilities are understated, net position are overstated and expenses are understated.

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

Response: After researching the costs associated with an actuarial valuation of Miles City Public School's OPEB liability and related expenses in order to comply with GASB 45, we have found the cost far exceeds the benefit. Due to budget constraints, the district is unable to comply.

UNIFIED SCHOOL DISTRICT NUMBER 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2014

2014-5. ENROLLMENT UNDER REPORTED

Criteria: Average Number Belonging (ANB) is the key figure in calculating the financial support that a school district will receive under the school BASE Funding Program. ANB for each district is obtained from the enrollment counts reported to the OPI as of the first Monday in October, December and February.

Condition: The district underreported Jefferson School kindergarten enrollment by one on the fall, winter and spring enrollment counts and underreported Highland Park 3rd grade enrollment by one on the winter enrollment counts submitted to the OPI.

Cause: A special education child was kindergarten eligible, but was not reported correctly and a late enrollee was not reported correctly.

Effect: Increase in the financial support that the district will receive under the school BASE Funding Program.

Recommendation: Before each enrollment report is submitted to the OPI, the reports should be agreed to the detail supporting enrollment data and reviewed by someone independent of their preparation.

Response: The district will strive to strengthen independent review procedures to ensure the accuracy of enrollment figures reported to the OPI.

2014-6. ENCUMBRANCES

Criteria: Section 20-9-209(1), MCA defines an encumbrance as an obligation for the purchase of personal property ordered but not paid for during the current fiscal year.

Condition: The district encumbered non-tangible service items such as a boiler service agreement, architect services and tree trimming in fiscal year 2014.

Cause: Unknown.

Effect: Noncompliance with state law.

Recommendation: The district should develop a system to ensure that only items that are eligible are encumbered.

Response: The district will develop a system to ensure that only items that are eligible are encumbered.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF EDUCATION

2014-7. ALL MAJOR FEDERAL AWARD PROGRAMS

Finding 2014-2 applies to these federal award programs.

UNIFIED SCHOOL DISTRICT NUMBER 1
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. SERVICE CREDIT AND TERMINATION PAY BENEFIT LIABILITY NOT RECORDED	NOT IMPLEMENTED
2013-4. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED	NOT IMPLEMENTED
2013-5. ENROLLMENT UNDER REPORTED	NOT IMPLEMENTED
2013-6. TITLE I PERIOD OF AVAILABILTIY	IMPLEMENTED