

**SUNBURST SCHOOL DISTRICT NO. 2**

**TOOLE COUNTY  
SUNBURST, MONTANA**

**FINANCIAL AND COMPLIANCE REPORT**

**Fiscal year Ended June 30, 2014**

**Strom & Associates, P. C.**  
PO BOX 1980  
Billings, Montana 59103

Sunburst School District No. 2  
Toole County  
Sunburst, MT 59482

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Sunburst School District No. 2  
Toole County  
Sunburst, MT 59482

ORGANIZATION

BOARD OF TRUSTEES

James D. Nagy	Chair
Marigail Sveum	Vice Chair
Jason Hanson	Trustee
Lisa Kearns	Trustee
Jonette Johannsen	Trustee

OFFICIALS

Tim Tharp	Superintendent
Peggy Tobin	District Clerk
Boyd Jackson	County Superintendent
Merle Raph	County Attorney

**SUNBURST PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 2C, TOOLE COUNTY  
SUNBURST, MT  
Management Discussion and Analysis (MD&A)**

**JUNE 30, 2014**

The Superintendent and Business Manager of Sunburst School District #2 have provided this management's discussion and analysis to give the reader of these statements an overview of the financial position and activities of the school district for the year covered by this audit report.

**FINANCIAL HIGHLIGHTS**

The District's financial position was stable in 2013-2014, with the Fund Budget at \$2,037,877 which was a slight decrease of 1% over the prior year. As in the prior year, due to the current school funding, the School District did not have to vote for a levy.

The district continues to operate two Hutterite Colony attendance centers outside of Sunburst and Sweet Grass. The combined student count is now 27 students. This is a decrease from the prior year's count of 4 – Hillside down 3 (graduated 2 with no new 1<sup>st</sup> graders and had 1 left after 7<sup>th</sup>); Rimrock down 1 (graduated 2 with 1 new first grader). Sunburst School District places two certified teachers and two aides at the colonies.

Federal and State funding receipts were down almost \$20,000 or 16.3% from the prior year with decreases for every category. One time state grants were received in both years, but were \$11,412 less in 2014 than 2013.

**USING THIS FINANCIAL REPORT**

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

**Reporting the School District as a Whole**

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

A. The **Statement of Net Position** (page 9) shows the "assets" (what is owned), "liabilities" (what is owed) and the "net position" (the resources that would remain if all obligations were settled) of the school district. The statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in "fixed" or "capital" assets, such as buildings, equipment, and other long-lived property, and some assets are available to fund budgets of the following year.

B. The **Statement of Activities**, (page 10) shows the amounts of program-specific and general school district revenues used to support the school district's various functions.

The Statement of Net Position and the Statement of Activities show the activities of the school district all in one category:

Governmental activities - The school functions, including instruction, student services, administration, etc. Property taxes, state and federal revenues usually support most of these functions of the district.

**Reporting the District's Most Significant Funds**

The fund statements provide detailed information about the funds used by the school district. State law and Generally Accepted Accounting Principles (GAAP) establish the fund structure of school districts. State law generally requires school districts to segregate money generated for certain specific purposes, like transportation and debt service, in separate fund accounts.

The fund statements report balances and activities of the most significant, or "major" funds separately and combine the activities of less significant funds under a single category. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the school district's operations, and the existence of legal budget requirements. Internal Service funds are never reported as major funds, but are combined and presented in a separate column.

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

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows are shown for proprietary (business-type) funds, covering district activities that generally provide services on a cost-recovery basis between various funds of the district, such as printing services provided by the district's Copy Center. Proprietary funds use the accrual basis of accounting.

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

**Reporting the District's Trust and Fiduciary Responsibilities**

The district is the trustee, or fiduciary, for the student extracurricular fund. This report includes the activities in a separate Statement of Fiduciary Net Position and Changes in Fiduciary Net Position (page 15) because the district cannot use these assets to fund its operations. The district is responsible for ensuring these assets are used for their intended purpose.

**Budget-to-Actual Comparisons**

The budgetary comparison schedules on page 25 - 26 shows how actual expenditures compared to the original and final budgeted expenditures for the general fund. This report also reflects the higher than budgeted income into the General Fund from Oil & Gas allowing the district to significantly increase its reserves. The district did not experience any significant variances between the original and final expenditure budget and the final budget and actual expenditures.

**THE DISTRICT AS A WHOLE**

**1. Changes in Net Position**

The listing of capital assets was thoroughly reviewed and assets that were no longer in use were removed. The District Clerk is the custodian of the fixed asset records. She keeps an accurate inventory of not only fixed assets, but other major items that come into the district. Items are recorded as soon as they are received and all items leaving the building for disposal are also recorded.

The district has no program for asset maintenance and improvement. Equipment and fixtures are repaired and replaced as needed to keep the facility in good condition for the learning and recreational activities in the school. The District did a major renovation of the boiler system and also upgraded the entire network to accommodate newer technology. Some of the funds were provided by a State One Time Capital Improvement/Maintenance grant. No new buses were purchased but the District is fortunate to have the ability to purchase new buses when needed and pay for them outright.

**NET POSITION**

**Governmental Activities**

	<u>2014</u>	<u>2013</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
Current Assets	1,019,967	1,267,840	(247,873)	-19.55%
Capital Assets, net	<u>1,396,083</u>	<u>1,188,706</u>	<u>207,377</u>	<u>17.45%</u>
Total Assets	2,416,050	2,456,546	(40,496)	-1.65%
Current Liabilities	14,281	14,336	(55)	-.38%
Long Term Liabilities	<u>105,235</u>	<u>98,001</u>	<u>7,234</u>	<u>7.38%</u>
Total Liabilities	119,516	112,337	7,179	6.39%
Net Position:				
Invested in Capital Assets				
Net of Related Debt	1,396,083	1,188,706	207,377	17.45%
Restricted	630,233	946,602	(316,369)	-33.42%
Unrestricted	<u>270,218</u>	<u>208,901</u>	<u>61,317</u>	<u>29.35%</u>
Total Net Position	2,296,534	2,344,209	(524,558)	-2.03%

## 2. General and Program Revenues

The District's total General Fund revenues for the fiscal year ended June 30, 2014 were \$2,348,088, an increase of \$297,798 over the prior year. Expenses increased from \$2,072,367 to \$2,280,140, an increase of \$207,773. Twenty-Eight percent of the revenues were supported by District taxpayers (\$665,625). The remainder was financed primarily through state revenues (\$1,674,442). The schedule of changes in net position provides a snapshot of the changing finances in the Sunburst Schools.

### CHANGES IN NET POSITION

### Governmental Activities

	2014	2013	CHANGE	% CHANGE
Revenues				
Program Revenues:				
Charges for Services	35,335	36,257	(922)	-2.54%
Operating Grants	373,943	300,147	73,796	24.59%
General Revenues:				
District Levies	759,733	424,367	335,366	79.03%
State Equalization	827,966	821,752	6,214	0.76%
Other State Revenues	865,369	1,020,814	(155,445)	-15.23%
County	350,000	290,000	60,000	20.69%
Interest	657	(31,080)	31,737	-102.11%
Other	<u>5,433</u>	<u>18,586</u>	<u>(13,153)</u>	<u>-70.77%</u>
Total Revenues	3,218,436	2,880,843	337,593	11.72%
Program Expenses				
Instructional Services	1,856,975	1,753,828	103,147	5.88%
Support Services	89,308	79,026	10,282	13.01%
Educational Media Services	61,424	68,974	(7,550)	-10.95%
General Administrative Services	398,922	388,390	10,532	2.71%
Operation & Maintenance Services	360,588	574,262	(213,674)	-37.21%
Transportation Services	280,564	296,544	(15,980)	-5.39%
School Food Services	97,433	102,942	(5,509)	-5.35%
Extracurricular	125,996	109,060	16,936	15.53%
OPEB	-	1,104	(1,104)	-100.00%
Loss on Asset	-	<u>7,997</u>	<u>(7,997)</u>	<u>-100.00%</u>
Total Expenses	<u>3,271,210</u>	<u>3,382,127</u>	<u>(110,917)</u>	<u>-3.28%</u>
Change in Net Position	(52,774)	(501,284)	448,510	

### ANALYSIS OF FINANCIAL INFORMATION

The following analysis is provided to help the reader understand the major operations of the school district, where the resources come from, what the resources are used for, and trends, decisions and events that are expected to affect the district's financial situation in the future.

#### 1. What Does the School Do?

Sunburst School District #2's main purpose is to educate children in grades Kindergarten through 12<sup>th</sup> grade; therefore the costs revolve around instruction and supporting the instruction of students, transporting children to and from school, providing breakfast and lunch to these students along with various extracurricular activities.

#### 2. Where Do the Resources Come From?

The majority of Sunburst School District #2's revenues come from local property taxes and state aid. The District participates in many federal programs including all of the Elementary and High School programs which are funded based upon free and reduced lunch eligibility. Sunburst's North Toole County High School also receives funding through Carl Perkins program, state vocational and REAP (Rural Education Achievement Program) grants.

3. What Does It Cost?

Sunburst School District #2 spent \$3,366,273 to educate 203 students in FY 2014. The average cost per student was \$16,583. Of the total expenditures, 56.9 percent was spent on regular education instructional services to students; 12.2 percent for administration costs; 10.9 percent for operation and maintenance of the facility; 8.5 percent for transportation costs, 3.9 percent for extracurricular costs, 3.0 percent for food costs and 2.7 percent was support, and 1.9 percent for media activities.

4. What are the Capital Assets and Debt of the District?

The capital assets of Sunburst School District #2 are valued at \$1,396,083. The district has no debt.

5. Fund Deficits

Sunburst School District #2 has no fund deficits at year end.

6. What Changes and Trends Affect the District's Future?

The enrollment in the Sunburst School District continued to decrease with enrollment dropping 19 students. Although the District relies heavily on the employment of patrons at the International Border, the District has received an influx of students from the Shelby Public School District. The District is also involved in distant learning programs which aids the District's curriculum in a positive manner.

School districts are required to begin moving to meet the Common Core State Standards which go into effect in 2014. The cost to transition to these standards are currently being absorbed by the general fund but the cost of full implementation remains unknown at this time.

In addition, subsequent funding for the various Title Programs continues to decline, and other State and Federal Programs (Perkins, Gifted & Talented, Vocational) seem to have annual reductions.

SUPERINTENDENT'S NOTE—Declining enrollment continues to affect Sunburst Schools and as such, the maximum budget allowed under state law will drop as well. To meet these tightening budgets, we have left positions unfilled and absorbed duties in-house. This trend will likely continue.

**CONTACT FOR FURTHER INFORMATION**

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STROM & ASSOCIATES, PC  
Certified Public Accountants  
P.O. Box 1980  
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**INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Sunburst School District No. 2  
Toole County  
Sunburst, MT 59482

**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 Sunburst School District No. 2 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Sunburst School District No. 2 as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3 - 6), the schedule of funding for other post-employment benefits other than pensions (page 24) and budgetary comparison information (pages 25 - 28) 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 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 inquires 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 Sunburst School District No. 2's basic financial statements. The accompanying schedule of reported enrollment (page 29) and schedule of revenues, expenses and balances student activity funds (page 30) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedule of reported enrollment and schedule of revenues, expenses and balances student activity funds 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 accompanying schedule of reported enrollment and schedule of end of year revenues and expenses student activity funds 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 10, 2014 on our consideration of Sunburst School District No. 2 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 Sunburst School District No. 2 internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC  
Billings, Montana  
October 10, 2014

Sunburst School District No. 2  
 Toole County  
 Sunburst, Montana 59482

STATEMENT OF NET POSITION  
 as of June 30, 2014

	<u>Governmental Activities</u>
<b>ASSETS:</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 888,979
Taxes Receivable	128,762
Due From Other Governments	<u>2,225</u>
Total Current Assets	<u>1,019,966</u>
Noncurrent Assets:	
Capital Assets:	
Land	60,030
Net Depreciable Assets	<u>1,336,053</u>
Total noncurrent assets	<u>1,396,083</u>
Total Assets	<u>\$ 2,416,049</u>
<b>LIABILITIES:</b>	
Current Liabilities	
Current Portions Compensated Absences	<u>\$ 14,281</u>
Total Current Liabilities	<u>14,281</u>
Noncurrent Liabilities:	
Long-Term Obligations	2,208
Compensated Absences	<u>103,027</u>
Total noncurrent Liabilities	<u>105,235</u>
Total Liabilities	<u>119,516</u>
<b>NET POSITION:</b>	
Net Investment in Capital Assets	1,396,083
Restricted	630,232
Unrestricted (deficit)	<u>270,218</u>
Total Net Position	<u>2,296,533</u>
Total Liabilities and Net Position:	<u>\$ 2,416,049</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF ACTIVITIES  
 as of June 30, 2014

	Program Revenues			Net (Expenses) Revenues
	Expenses	Charge for Services	Operating Grants and Contributions	Changes in Net Primary Government
				Governmental Activities
<b>GOVERNMENT OPERATIONS</b>				
Instructional Services	\$ 1,856,975	\$ 1,625	\$ 239,279	\$ (1,616,071)
Support Services	89,308	-	-	(89,308)
Educational Media Services	61,424	-	-	(61,424)
General Administrative Services	398,922	-	-	(398,922)
Operation & Maintenance Services	360,588	-	-	(360,588)
Transportation Services	280,564	-	104,885	(175,679)
School Food Services	97,433	33,710	29,779	(33,944)
Extracurricular	125,996	-	-	(125,996)
Total Governmental Activities	<u>3,271,210</u>	<u>35,335</u>	<u>373,943</u>	<u>(2,861,932)</u>
<b>GENERAL REVENUES</b>				
District Levies				759,733
State Equalization				827,966
Other State Revenues				865,369
County				350,000
Interest				657
Other				5,433
Total General Revenues				<u>2,809,158</u>
Change in Net Position				<u>(52,774)</u>
<b>Net Position</b>				
Beginning of the Year				2,344,209
Prior Period Adjustments				5,098
End of the Year				<u>\$ 2,296,533</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Sunburst School District No. 2  
 Toole County  
 Sunburst, Montana 59482

BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 as of June 30, 2014

	MAJOR				
	General Fund	Bus Depreciation	Retirement	Miscellaneous Programs	Building Reserve
<b>ASSETS:</b>					
<b>Current Assets:</b>					
Cash and Cash Equivalents	\$ 281,380	\$ 230,199	\$ 37,837	\$ 158,681	\$ 101,724
Taxes Receivable	108,354	5,707	-	-	6,410
Due From Other Governments	-	-	-	406	-
<b>Total Assets</b>	<b>\$ 389,734</b>	<b>\$ 235,906</b>	<b>\$ 37,837</b>	<b>\$ 159,087</b>	<b>\$ 108,134</b>
<b>LIABILITIES:</b>					
Total Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Property Taxes Receivable	108,354	5,707	-	-	6,410
<b>Total Deferred Inflows of resources</b>	<b>108,354</b>	<b>5,707</b>	<b>-</b>	<b>-</b>	<b>6,410</b>
<b>FUND BALANCE:</b>					
<b>Fund Balances:</b>					
Restricted	-	230,199	37,837	159,087	101,724
Unassigned:	281,380	-	-	-	-
<b>Total Fund Balance</b>	<b>281,380</b>	<b>230,199</b>	<b>37,837</b>	<b>159,087</b>	<b>101,724</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 389,734</b>	<b>\$ 235,906</b>	<b>\$ 37,837</b>	<b>\$ 159,087</b>	<b>\$ 108,134</b>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 as of June 30, 2014

	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 79,158	\$ 888,979
Taxes Receivable	8,291	128,762
Due From Other Governments	<u>1,819</u>	<u>2,225</u>
Total Assets	<u>\$ 89,268</u>	<u>\$ 1,019,966</u>
<b>LIABILITIES:</b>		
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable Property Taxes Receivable	<u>8,291</u>	<u>128,762</u>
Total Deferred Inflows of resources	<u>8,291</u>	<u>128,762</u>
<b>FUND BALANCE:</b>		
Fund Balances:		
Restricted	80,977	609,824
Unassigned:	<u>-</u>	<u>281,380</u>
Total Fund Balance	<u>80,977</u>	<u>891,204</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 89,268</u>	<u>\$ 1,019,966</u>

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 891,204
Governmental Capital Assets	1,396,083
Long-term Liabilities	
Long-Term Obligations	(2,208)
Compensated Absences	(117,308)
Unavailable Property Taxes Receivable	<u>128,762</u>
Net Position of Governmental Activities	<u>\$ 2,296,533</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 as of June 30, 2014

	MAJOR					Other Governmental Funds	Total Governmental Funds
	General Fund	Bus Depreciation	Retirement	Miscellaneous Programs	Building Reserve		
<b>REVENUES:</b>							
District Levies	\$ 665,625	\$ 15,620	\$ -	\$ -	\$ 169	\$ 82,289	\$ 763,703
Interest	5,312	(628)	178	-	(4,068)	(137)	657
Charges for Services	-	-	-	-	-	35,335	35,335
Other	2,709	-	-	2,724	-	-	5,433
County	-	-	350,000	-	-	55,151	405,151
State	1,674,442	-	-	17,336	65,088	142,243	1,899,109
Federal	-	-	-	83,503	-	29,515	113,018
<b>Total Revenues</b>	<b>2,348,088</b>	<b>14,992</b>	<b>350,178</b>	<b>103,563</b>	<b>61,189</b>	<b>344,396</b>	<b>3,222,406</b>
<b>EXPENDITURES:</b>							
<b>Current</b>							
Instructional Services	1,462,290	-	224,075	115,693	-	42,393	1,844,451
Support Services	79,981	-	9,327	-	-	-	89,308
Educational Media Services	32,590	-	16,834	12,000	-	-	61,424
General Administrative Services	306,688	-	37,898	18,426	-	32,951	395,963
Operation & Maintenance Services	249,987	-	15,604	8,319	21,622	12,353	307,885
Transportation Services	9,043	-	17,415	-	-	182,599	209,057
School Food Services	23,724	-	6,620	-	-	67,053	97,397
Extracurricular	115,837	-	10,159	-	-	-	125,996
<b>Total Current Outlays</b>	<b>2,280,140</b>	<b>-</b>	<b>337,932</b>	<b>154,438</b>	<b>21,622</b>	<b>337,349</b>	<b>3,131,481</b>
Capital Outlay	-	-	-	82,193	257,734	-	339,927
<b>Total Expenditures</b>	<b>2,280,140</b>	<b>-</b>	<b>337,932</b>	<b>236,631</b>	<b>279,356</b>	<b>337,349</b>	<b>3,471,408</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>67,948</b>	<b>14,992</b>	<b>12,246</b>	<b>(133,068)</b>	<b>(218,167)</b>	<b>7,047</b>	<b>(249,002)</b>
<b>FUND BALANCE:</b>							
Beginning of the Year	209,539	215,207	25,591	291,314	319,527	73,930	1,135,108
Prior Period Adjustments	3,893	-	-	841	364	-	5,098
<b>End of the Year</b>	<b>\$ 281,380</b>	<b>\$ 230,199</b>	<b>\$ 37,837</b>	<b>\$ 159,087</b>	<b>\$ 101,724</b>	<b>\$ 80,977</b>	<b>\$ 891,204</b>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Sunburst School District No. 2  
Toole County  
Sunburst, Montana 59482

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
as of June 30, 2014

Net Changes in Fund Balance		\$	(243,763)
Revenues on the Statement of Activity not included in governmental funds statement:			
Increase (decrease) in taxes receivable			(3,970)
Expenses on the Statement of Activity not included in the governmental funds statement:			
Depreciation Expense	(132,550)		
(Increase) decrease in Other Post Employment Benefits	(1,104)		
(Increase) decrease in compensated absence liability	<u>(6,075)</u>	(139,729)	
Expenditures reported in the governmental funds statement not included in the Statement of Activity			
Capital outlays		<u>339,927</u>	
Change in net position reported on the Statement of Activity		\$	<u>(47,535)</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Sunburst School District No. 2  
 Toole County  
 Sunburst, Montana 59482

STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 as of June 30, 2014

	Private Purpose	
	Trust Funds	Agency Funds
<b>ASSETS:</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 289,062	\$ 65,207
Total Assets	<u>289,062</u>	<u>65,207</u>
<b>LIABILITIES:</b>		
Current Liabilities		
Warrants Payable	-	65,207
Total Liabilities	<u>-</u>	<u>65,207</u>
<b>NET POSITION:</b>		
Restricted for Endowment	192,270	
Restricted for Student Activities	96,792	
Total Net Position	<u>\$ 289,062</u>	

STATEMENT OF CHANGES IN FIDUCIARY NET  
 FIDUCIARY FUNDS  
 as of June 30, 2014

	Private Purpose Trust Funds
<b>ADDITIONS:</b>	
Revenues from Student Activities	\$ 152,748
Contributions to Endowment	173,691
Total Additions	<u>326,439</u>
<b>DEDUCTIONS:</b>	
Expenses of Student Activities	133,300
Student Scholarships	3,000
Total Deductions	<u>136,300</u>
CHANGE IN NET POSITION	190,139
<b>NET POSITION:</b>	
Beginning of the Year	98,923
End of the Year	<u>\$ 289,062</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

SUNBURST SCHOOL DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS  
Fiscal Year-Ended June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of School District No. 2 have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana, which conforms to generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

- GASB Statement No. 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The amendment revised existing guidance for financial report of pension systems for state and local government. The statement is applicable for fiscal year 2014. This statement affects the applicable retirement plan administration at the State level and did not have any effect on the district.
- GASB Statement No. 69 – Government Combinations and Disposals of Government Operations. The statement is applicable for fiscal year 2014. The statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The district is not merging with another district or ceasing to exist. This statement has no effect on the financial statements.
- GASB Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees. The statement is applicable for fiscal year 2014. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The district has not extend any financial guarantees to other parties. This statement has no effect on the financial statements.

School District No. 2 consists of a district which provides education for kindergarten through twelfth grade. The board of trustees is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations.

The criteria for including organizations as component units within the District's reporting entity is set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) "Codification of Government Accounting and Financial Reporting Standards." The basic criteria include appointing a voting majority of an organization's governing body, as well as the District's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the District. Based on those criteria this district has no component units.

1. b. BASIS OF PRESENTATION AND ACCOUNTING

1. b. 1 GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the District as a whole except for the fiduciary funds. The fiduciary funds are reported as a private purpose trust fund in the fund financial statements.

The government-wide financial statements and fiduciary fund statements report using the economic resource measurement focus and the accrual basis of accounting generally including the elimination of internal activity between or within funds. 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 in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. Expenses which are not directly related to a function, indirect expenses, are not charges to a function. Program revenues include:

- Charges for services such as school lunch fees and facility rental fees and
- Operating grants that are restricted to a particular functional program.

Property taxes, investment earnings, state equalization payments, and other revenue sources not properly included with program revenue are reported as general revenues.

SUNBURST SCHOOL DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

1. b. 2 FUND ACCOUNTING

Fund financial statements provide information on the districts major governmental funds and a combined column for all other non-major funds. The student activity fund and endowment fund are displayed as fiduciary funds. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the entity-wide statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balance are included on the balance sheet. Operating statement of these funds present net increases and de-creases in current assets. Revenues are recorded when they are both measurable and available. Available means collectible within the current period anything collected after June 30 are generally not material. Unavailable income are recorded in governmental funds for delinquent taxes. Expenditures are recorded when the related fund liability is incurred except for compensated absence payments which are recognized when due. Capital assets are functional expenditures in governmental funds.

Revenues from local sources consist primarily of property taxes. Property tax revenue and revenues received from the State of Montana are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. Cost reimbursement grant funds are considered to be both measurable and available to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received and the expenditure has not been incurred they are recorded as unearned grant revenues because the revenues are available.

GASB Statement No. 34 requires the general fund be reported as a major fund. Other individual governmental funds should be reported in separate columns as major funds based on these criteria:

Total assets, liabilities, revenues, or expenditures of that individual governmental fund are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category or type (that is, total governmental funds),

In addition to funds that meet the major fund criteria, any other governmental that government officials believe is particularly important to financial statement users may be reported as a major fund. The following funds are major funds of School District No. 2:

- General Fund – The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. On the GASB 34 financial statements the general fund also includes the activities of the flexibility fund since the restrictions on this fund is similar to the general fund.
- Bus Depreciation Fund – This fund is used to account for financing the replacement of yellow school buses and two-way radio equipment owned by a school. Deposits made to the fund are limited by depreciation percentages of current busses and two-way radio equipment owned by the district.
- Retirement Fund – This fund is used to account for financing the employer's contribution to the Teachers' Retirement System (TRS), the Public Employees' Retirement System (PERS), Unemployment Compensation, Social Security and Medicare benefits for district employees. County wide levies to this fund are to be based upon projected salaries for the fiscal year.
- Miscellaneous Fund – This fund is used to account for local, state or federal grants and reimbursements. Donations that allow the expenditure of both principal and interest for support of district programs are deposited in this fund.
- Building Reserve Fund – This fund is used to account for financing voter approved building or construction projects funded with district mill levies. This includes raising money for the future construction, equipping, or enlarging of school buildings and for the purpose of purchasing land needed for school purposes in the district.

1. b. 3 OTHER FUND TYPES

Trust Funds – The Trust Fund accounts for the receipt and disbursement of monies from student activity organizations, as well as any donated scholarship funds. These organizations exist with the explicit approval of and are subject to revocation by the District's Board of Trustees. This accounting reflects the District's trust relationship with the student activity organizations and any scholarship commitments.

SUNBURST SCHOOL DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

Agency Funds – The Agency Funds generally are used to account for assets that the School District holds on behalf of others as their agent in the payroll and claims clearing funds. Cash is held for warrants which were written but have not been paid by the County Treasurer.

1. c. ASSETS, LIABILITIES AND NET POSITION (FUND BALANCE)

1. c. 1 CASH AND INVESTMENTS

Cash includes amounts in demand deposits, as well as short-term investments as authorized by State statutes. Montana Code Annotated (MCA) allows Montana local governments to invest public money not necessary for immediate use in United States government treasure bills, notes, bonds; certain United States treasury obligations; United States government security money market fund if investments consist of those listed above; time or savings deposits with a bank, savings and loan association, or credit union which is FDIC, FSLIC, or NCUA insured and are located in the state; or in repurchase agreements as authorized by MCA, or Montana Board of Investments Short Term Investment Pool (STIP). Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. Investments are recorded at fair market value.

Information regarding the collateral and security for cash is not available to the District. However, State statute requires that United State government securities or agencies be held as collateral to secure deposits of public funds in excess of Federal Deposit Insurance Corporation (FDIC) insurance. The external investment pool is audited as part of Toole County's financial statements. This investment pool is not registered with or monitored by the Securities and Exchange Commission (SEC).

1. c. 2 TAXES

Property taxes are collected by the County Treasurer who credits to the School District funds their respective share of the collections. The tax levies are collectible in two installments, which become delinquent after November 30 and May 31. Property taxes are liens upon the property being taxed. After a period of three years, the County may begin foreclosure proceedings and sell the property at auction. The School District receives its share of the sale proceeds of any such auction.

1. c. 3 INVENTORIES

Materials, supplies and food inventory at year end was not material so all inventory was included as expenditures at the time of purchase.

1. c. 4 CAPITAL ASSETS

The District's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Historical cost was established at the initial booking of the capital assets by determining actual costs or estimating using standard costing procedures. The District considers capital assets to be items in excess of \$5,000 with a useful life in excess of one year. The costs of normal maintenance and repair are not capitalized. Depreciation on capital assets is provided over their estimated useful lives on the straight-line method. The useful lives of these assets have been estimated as follows:

Buildings	10 – 50 years
Machinery and Equipment	5 – 10 years

1.c. 5 VACATION AND SICK LEAVE

School District employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. School District employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave at the current rate of pay. School District employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of unused sick leave. However, upon termination, only 25% of accumulated sick leave is paid.

Liabilities incurred because of unused vacation and sick leave accumulated by employees are reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the statement of activities. The amount expected to be paid within one year is \$14,281 and it is generally paid out of the general fund. The accrued liability for sick and vacation leave at June 30, 2014 was \$117,308.

SUNBURST SCHOOL DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

1.c.6 NET POSITION AND FUND BALANCE

Statement of Net Position include the following:

- Net Investment in Capital Assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of these capital assets.
- Restricted – The component of net position that is either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – The difference between the assets and liabilities that is not reported in the other element of net position.

Governmental fund financial statements include the following fund balances:

- Restricted - Includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Unassigned - Amounts that are available for any purpose; these amounts are reported only in the general fund.

As of June 30, 2014, fund balance components other than unassigned fund balance consist of the following:

<u>Purpose</u>	<u>Restricted</u>
Instructional - Regular	\$ 13,173
Student Transportation	60,323
School Food	343
Third Party Grantor Restrictions	159,087
Employer Retirement Benefits	43,656
Future Capital Costs	<u>333,242</u>
Total	<u>\$ 609,824</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first.

1. d. OTHER  
1. d. 1 USE OF ESTIMATES

The preparation of the 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. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2014, the summary of cash, cash equivalents and other investments for governmental and fiduciary funds is as follows:

<u>Account Type</u>	<u>Governmental</u> <u>Activities</u>	<u>Fiduciary</u> <u>Funds</u>	<u>Total</u>
Cash and Cash Equivalents	<u>\$ 888,979</u>	<u>\$ 354,269</u>	<u>\$ 1,243,248</u>

The carrying amount of cash on hand, deposits and investments at June 30, 2014, is as follows:

	<u>Amount</u>
Cash on Hand	\$ 500
Demand Accounts	96,792
County Investment Pool	<u>1,145,956</u>
Total	<u>\$ 1,243,248</u>

Cash resources of the District are held and managed by the Toole County treasurer. They are combined with cash resources of other governmental entities within Toole County to form a pool of cash and cash equivalents. Investments of pooled cash consist primarily of demand deposits, U.S. government securities, and STIP and are carried at fair value.

The cash of the extracurricular funds is held separately by the school district, not at the county, and is covered by FDIC.

SUNBURST SCHOOL DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

NOTE 3. TAXES RECEIVABLE

The assessed value of the roll as of January 1, 2013, upon which the levy for the 2014 fiscal year was based, was \$10,389,854. The tax rates assessed for the year ended June 30, 2014 to finance District operations and applicable taxes receivable for the district follows:

	<u>Mill Levies</u>	<u>Taxes Receivable</u>
General*	64.63	\$ 108,354
Transportation	7.98	7,667
Bus Depreciation*	1.52	5,707
Tuition	0	80
Adult Education	0	544
Building Reserve*	<u>0</u>	<u>6,410</u>
Total	<u>74.13</u>	<u>\$ 128,762</u>

\* Denotes Major Funds

NOTE 4. DUE FROM OTHER GOVERNMENTS

<u>Fund</u>	<u>Amount</u>	<u>Due From</u>	<u>Reason</u>
School Food Services	264	State of MT	Matching Payment
Miscellaneous*	406	State of MT	Industrial arts grant
Traffic Education	<u>1,556</u>	State of MT	Per pupil reimbursement
Total	<u>\$ 2,225</u>		

\* Denotes Major Funds

NOTE 5. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

5. a. At June 30, 2014, the schedule of changes in general capital assets follows:

<u>Governmental Activities:</u>	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments/ Transfers</u>	<u>Balance June 30, 2014</u>
<u>Non-Depreciable:</u>					
Land	\$ 60,030	\$ 0	\$ 0	\$ 0	\$ 60,030
Construction In Progress	<u>4,936</u>	<u>0</u>	<u>0</u>	<u>(4,936)</u>	<u>0</u>
Total Non-Depreciable	<u>\$ 64,966</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (4,936)</u>	<u>\$ 60,030</u>
<u>Depreciable:</u>					
Buildings	\$ 2,027,260	\$ 313,686	\$ 0	\$ 4,936	\$ 2,345,882
Major Equipment	<u>791,876</u>	<u>26,241</u>	<u>0</u>	<u>0</u>	<u>818,117</u>
Total Depreciable	<u>\$ 2,819,136</u>	<u>\$ 339,927</u>	<u>\$ 0</u>	<u>\$ 4,936</u>	<u>\$ 3,163,999</u>
<u>Accumulated Depreciation:</u>					
Buildings	\$ (1,399,202)	\$ (56,385)	\$ 0	\$ 0	\$ (1,455,587)
Major Equipment	<u>(296,194)</u>	<u>(76,165)</u>	<u>0</u>	<u>0</u>	<u>(372,359)</u>
Total Depreciation	<u>\$ (1,695,396)</u>	<u>\$ (132,550)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (1,827,946)</u>
Net Depreciable Assets	<u>1,123,740</u>	<u>207,377</u>	<u>0</u>	<u>0</u>	<u>1,336,053</u>
Net Govt. Capital Assets	<u>\$ 1,188,706</u>	<u>\$ 207,377</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,396,083</u>

5. b. General capital asset depreciation expense was charged to governmental functions as follows:

<u>Function</u>	<u>Amount</u>
School Administration	\$ 1,976
Operation & Maintenance	64,384
Transportation	<u>66,190</u>
Total Depreciation Expense	<u>\$ 132,550</u>

SUNBURST SCHOOL DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

NOTE 6. RISK MANAGEMENT

The School District is exposed to various types of risk of loss, including: a) damage to and loss of property and contents; b) employee torts; c) professional liability, i.e. errors and omissions; d) environmental damage; e) workers' compensation, i.e. employee injuries and f) medical insurance costs of employees. Several methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and contents damage, employee torts, professional liabilities, and employee medical insurance. The district has joined with other districts throughout the state into an interlocal common risk pool to insure workers compensation for all participating districts in a self-insurance pool. The Workers Compensation Risk Retention Program is managed by a board of directors elected annually. Members are responsible for fully funding the Workers Compensation Risk Retention Program through the payment of annual premiums accessed. There is no other liability to the district other than timely payments of premiums. The district can withdraw from the Workers Compensation Risk Retention Program with 60 days' notice at any time. The District has no coverage for potential losses from environmental damages. Levels of insurance have not changed materially from the prior year and settlements have not exceeded insurance coverage limits during the current or each of the two previous years.

NOTE 7. EMPLOYEE RETIREMENT SYSTEM

The School District participates in two state-wide, cost-sharing multiple employer defined benefit retirement plans which cover all School District employees, except certain substitute teachers and part-time, non-teaching employees. The Teachers' Retirement System (TRS) covers teaching employees, including administrators and aides. The Public Employee Retirement System (PERS) covers nonteaching employees. The plans are established under State law and are administered by the State of Montana.

Both plans issue publicly available annual reports that include financial statements and required supplemental in-formation for the plans. Those reports may be obtained from the following:

Teachers Retirement System  
P.O. Box 200139  
1500 Sixth Avenue  
Helena, MT 59620-0139  
Phone: 406-444-3134  
www.trs.doa.state.mt.us

Public Employees Retirement System  
P.O. Box 200131  
1712 Ninth Avenue  
Helena, MT 59620-0131  
Phone: 406-444-3154  
www.state.mt.us/da/perb/prb.htm

The PERS rates for employees was 7.9%. The PERS rate for the State was set at .37%. For the defined contribution plan the rates are the same except only 4.19% of the employer amount is added to the employee account. Employees who elect the defined contribution plan are in control of their investments and the retirement is based upon the cash in their fund. The PERS rate for employers was 7.8%. The TRS rates for employees was 8.15% and the State was set at 2.49%. The TRS rate for employers was 8.47%. The State's contribution to the retirement system qualifies as an on-behalf payment and has not been reported in the District's financial statements.

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>
TRS	\$ 190,400	\$ 202,403	\$ 274,442
PERS	<u>46,228</u>	<u>56,051</u>	<u>52,774</u>
Total	<u>\$ 236,628</u>	<u>\$ 258,454</u>	<u>\$ 327,216</u>

NOTE 8. CHANGES IN LONG-TERM DEBT

8. a At June 30, 2014, the schedule of changes in general Long-Term debt follows:

<u>Governmental Activities</u>	<u>Balance</u>	<u>Other</u>	<u>Other</u>	<u>Balance</u>	<u>Due within</u>
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2014</u>	<u>One Year</u>
<u>Other Liabilities:</u>					
Compensated Absences	\$ 111,233	\$ 6,075	\$ 0	\$ 117,308	\$ 14,281
OPEB	<u>1,104</u>	<u>1,104</u>	<u>0</u>	<u>2,208</u>	<u>0</u>
Total Other Liabilities	<u>\$ 112,337</u>	<u>\$ 7,179</u>	<u>\$ 0</u>	<u>\$ 119,516</u>	<u>\$ 14,281</u>

SUNBURST SCHOOL DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

NOTE 9. DEFERRED INFLOWS OF RESOURCES

9. a. PROPERTY TAXES

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
General*	\$ 108,354	Taxes Receivable
Transportation	7,667	Taxes Receivable
Bus Depreciation*	5,707	Taxes Receivable
Tuition	80	Taxes Receivable
Adult Education	544	Taxes Receivable
Building Reserve*	<u>6,410</u>	Taxes Receivable
Total	<u>\$ 128,762</u>	

\* Denotes Major Funds

NOTE 10. PRIOR PERIOD ADJUSTMENTS

<u>Fund</u>	<u>Amount</u>	<u>REASON</u>
General*	\$ 3,893	Void warrants
Miscellaneous*	841	Void warrants
Building Reserve*	<u>364</u>	Void warrants
Total	<u>\$ 5,098</u>	

\* Denotes Major Funds

NOTE 11. OTHER POST EMPLOYMENT BENEFITS

Plan Description - The District provides the same health care plan to all of its members. The implicit subsidy is \$3,300 per member and \$6,600 per member and spouse. The District had fewer than 100 plan participants and thus qualified to use an Alternative Measurement Method instead of an actuarial valuation to determine the OPEB liability. Valuations involve estimates of the reported amounts and assumptions about the probability of events far into the future and estimated amounts are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for the plan are based on types of benefits provided under the current plan. The valuation assumed that 10% of plan participants would elect to continue coverage after retirement.

Funding Policy - The government pays OPEB liabilities on a pay as you go basis. The trust fund for future liabilities has not been established.

Funding status and progress as of June 30, 2014 was as follows:

Actuarial Accrued Liability (AAL)	\$ 16,398
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>16,398</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 1,830,294
UAAL as a percentage of covered payroll	1%

Annual OPEB Cost and Net OPEB Obligations - The government's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the government's net OPEB obligation for the valuation performed at July 1, 2012.

Annual Required Contribution (ARC)	\$ 1,104
Interest on net OPEB obligation	0
Adjustment to ARC	<u>0</u>
Annual OPEB cost (expense)	1,104
Contribution made	<u>0</u>
Increase in net OPEB obligation	1,104
Net OPEB obligation - beginning of year	<u>1,104</u>
Net OPEB obligation - end of year	<u>\$ 2,208</u>

SUNBURST SCHOOL DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

Actuarial Methods and Assumptions - The following actuarial methods and assumptions were used:

Actuarial Cost Method		Unit Credit Cost Method
Average age of retirement (based on historical data)		67
Discount rate (average anticipated rate)		4.0%
Average Salary Increase		2.0%
Health care cost rate trend		
Year	% Increase	
2015 and after	3.0%	

NOTE 12. COOPERATIVE

12. a. SPECIAL EDUCATION

The Sunburst School District No. 2 is a member of the Big Sky Special Needs Coop, a Special Education Cooperative. The financial records of the Cooperative are prepared and maintained by the Cooperative Clerk. The financial records of the Cooperative are separate from those of Sunburst School District No. 2, and the financial statements of the Cooperative are not included in the School Districts' financial statements. The Cooperative's financial statements are audited separately from those of the District. All revenue received, including Federal, State, or other types of grant payments, and the financial support provided by each of the Cooperative's members are deposited into the Cooperative's funds, which are maintained in the custody of the Pondera County Treasurer. The Superintendent of Public Instruction may directly deposit to the Cooperative the State and Federal portion of any participating member District's budgeted costs for contracted special education services. All capital assets of the Cooperative are included in the Cooperative's financial statements.

A Joint Board of Directors governs the Cooperative. The Joint Board has the power to set policies, enter into contracts, review the performance of the Cooperative annually, review the financial management of the Cooperative annually, and set and approve the annual fiscal budget of the Cooperative.

SUNBURST SCHOOL DISTRICT NO. 2  
 SCHEDULE OF FUNDING PROGRESS  
 Other Post-Employment Benefits Other Than Pensions (OPEB)  
 Fiscal Year-Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a) / c]
<u>July 1, 2012</u>	<u>0</u>	<u>16,398</u>	<u>16,398</u>	<u>0%</u>	<u>1,830,294</u>	<u>1%</u>

Sunburst School District No. 2  
 Toole County  
 Sunburst, Montana 59482

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 (Budget and Actual)  
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS  
 as of June 30, 2014

	General Fund			Bus Depreciation		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>REVENUES:</b>						
District Levies	\$ 671,581	\$ 671,581	\$ 665,625	\$ 15,750	\$ 15,750	\$ 15,620
Interest	2,117	2,117	(7,077)	2,000	2,000	(628)
Charges for Services						
Other	120	120	-			
County	-	-	-			
State	1,364,059	1,364,059	1,614,442	-	-	-
<b>Total Revenues</b>	<b>2,037,877</b>	<b>2,037,877</b>	<b>2,272,990</b>	<b>17,750</b>	<b>17,750</b>	<b>14,992</b>
<b>EXPENDITURES:</b>						
<b>Current</b>						
Instructional Services			1,245,148			
Support Services			76,819			
Educational Media Services			31,754			
General Administrative Services			289,628			
Operation & Maintenance Services			248,525			
Transportation Services			9,043			
School Food Services			21,124			
Extracurricular			115,837			
<b>Total Current Outlays</b>			<b>2,037,878</b>			
Capital Outlay			-	232,957	232,957	-
<b>Total Expenditures</b>	<b>2,037,878</b>	<b>2,037,878</b>	<b>2,037,878</b>	<b>232,957</b>	<b>232,957</b>	<b>-</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>(1)</b>	<b>(1)</b>	<b>235,112</b>	<b>(215,207)</b>	<b>(215,207)</b>	<b>14,992</b>
<b>FUND BALANCE:</b>						
Beginning of the Year			12,636			215,207
Prior Period Adjustments			3,893			-
<b>End of the Year</b>			<b>\$ 251,641</b>			<b>\$ 230,199</b>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Sunburst School District No. 2  
 Toole County  
 Sunburst, Montana 59482

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 (Budget and Actual)  
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS  
 as of June 30, 2014

	Retirement			Flexibility Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>REVENUES:</b>						
District Levies		\$ -	\$ -		\$ -	\$ -
Interest		-	178		-	12,389
Charges for Services			-			-
Other			-			2,709
County	350,000	350,000	350,000	350,000	350,000	-
State		-	-		-	60,000
<b>Total Revenues</b>	<b>350,000</b>	<b>350,000</b>	<b>350,178</b>	<b>350,000</b>	<b>350,000</b>	<b>75,098</b>
<b>EXPENDITURES:</b>						
<b>Current</b>						
Instructional Services	236,144	236,144	224,075			217,142
Support Services	9,327	9,327	9,327			3,162
Educational Media Services	16,834	16,834	16,834			836
General Administrative Services	37,898	37,898	37,898			17,060
Operation & Maintenance Services	15,604	15,604	15,604			1,462
Transportation Services	17,415	17,415	17,415			-
School Food Services	6,619	6,619	6,620			-
Extracurricular	10,159	10,159	10,159			2,600
<b>Total Current Outlays</b>	<b>350,000</b>	<b>350,000</b>	<b>337,932</b>			<b>242,262</b>
Capital Outlay	-	-	-	-	-	-
<b>Total Expenditures</b>	<b>350,000</b>	<b>350,000</b>	<b>337,932</b>	<b>256,904</b>	<b>256,904</b>	<b>242,262</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>-</b>	<b>-</b>	<b>12,246</b>	<b>93,096</b>	<b>93,096</b>	<b>(167,164)</b>
<b>FUND BALANCE:</b>						
Beginning of the Year			25,591			196,903
Prior Period Adjustments			-			-
<b>End of the Year</b>			<b>\$ 37,837</b>			<b>\$ 29,739</b>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

SUNBURST SCHOOL DISTRICT NO. 2

NOTES TO THE BUDGET VS ACTUAL SCHEDULE  
Fiscal Year-Ended June 30, 2014

NOTE 1. BUDGETS

1. a. BUDGETS

Budgets are adopted on a basis consistent with the State of Montana budget laws which are consistent with generally accepted accounting principles (GAAP). Annual appropriated budgets are adopted for the general fund, budgeted special revenue funds including (Transportation, Bus Depreciation, Retirement, Adult Education, Technology, Flexibility), and budgeted capital project funds (Building Reserve). All annual appropriations lapse at fiscal year-end, unless the School District elects to encumber supplies and personal property ordered but not received at year end.

1. a. 1 General Budget Policies:

The School District's funds are either budgeted or non-budgeted in accordance with State statutes. Budgeted funds are those of which a legal budget must be adopted to have expenditures from such funds and are noted above. All other funds are non-budgeted, meaning a legal budget is not required in order to spend the cash balance of such a fund. The Schedule of Revenues, Expenditures, and Changes in Fund Balances, Budget vs. Actual, has been prepared on the modified accrual basis of accounting and contains financial information for only the major general and special revenue fund budgeted funds. The major funds building reserve is not included in the schedule because it is not a special revenue fund.

1. a. 2 Budget Operation:

The School District operates within the budget requirements for School Districts as specified by State law. The financial report reflects the following budgetary standards:

- By the second Monday in July, the County Assessor transmits a statement of the assessed valuation and taxable valuation of all property in the School District's borders.
- Before the fourth Monday in July, the County Superintendent estimates the revenue required for each fund.
- Before the fourth Monday in August, the Board of Trustees must meet to legally adopt the final budget. The final budget for the general fund is fund total only.
- Once adopted, the budget can be amended by subsequent Board action. An increase of the total budget of a given fund requires the adoption of an amended budget in accordance with State statutes.
- According to State statutes, the expenditures of a budgeted fund may not legally exceed the adopted budget.
- At the end of a fiscal year, unencumbered appropriations lapse unless specifically obligated by the School District.

SUNBURST SCHOOL DISTRICT NO. 2

NOTES TO THE BUDGET VS ACTUAL SCHEDULE (continued)  
Fiscal Year-Ended June 30, 2014

NOTE 2. COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE ALL SUB-FUNDS OF THE GENERAL FUND

	<u>Sub-fund</u> <u>General</u> <u>Fund</u> <u>(Elem)</u>	<u>Sub-fund</u> <u>Flexibility</u> <u>Fund</u>	<u>Total</u> <u>General</u> <u>Fund</u>
REVENUES:			
District Levies	\$ 665,625	\$ 0	\$ 665,625
Interest Earnings	(7,077)	12,389	5,312
Other	0	2,709	2,709
State Sources	<u>1,614,442</u>	<u>60,000</u>	<u>1,674,442</u>
Total Revenues	<u>\$ 2,272,990</u>	<u>\$ 75,098</u>	<u>\$ 2,348,088</u>
EXPENDITURES:			
Instructional Services	1,245,148	217,142	1,462,290
Support Services	76,819	3,162	79,981
Educational Media	31,754	836	32,590
General Administrative	289,628	17,060	306,688
Operation & Maintenance	248,525	1,462	249,987
Transportation	9,043	0	9,043
Extracurricular	115,837	0	115,837
School Food	<u>21,124</u>	<u>2,600</u>	<u>23,724</u>
Total Expenditures	<u>\$ 2,037,878</u>	<u>\$ 242,262</u>	<u>\$ 2,280,140</u>
Net Changes In Fund Balance	235,112	(167,164)	67,948
FUND BALANCE:			
Beginning of the Year	12,636	196,903	209,539
Prior Period Adjustment	<u>3,893</u>	<u>0</u>	<u>3,893</u>
Ending of the Year	<u>251,641</u>	<u>29,739</u>	<u>281,380</u>

In the reconciliation the general fund and flexibility fund are added together to get to the aggregate general fund shown as a major fund on the Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Funds. The flexibility fund is maintained as a special revenue fund for accounting purposes, however, for external financial reporting it is added to the general fund because it has unassigned fund balance like the general fund.

On the Statement of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual) All Budgeted Major Governmental Funds the general fund, bus depreciation fund, retirement fund and flexibility fund are shown because they are reported as major general and special revenue funds and have legally adopted budgets. The miscellaneous fund is a non-budgeted special revenue fund and the building reserve fund is a budgeted capital projects fund.

SUNBURST SCHOOL DISTRICT NO. 2

SCHEDULE OF REPORTED ENROLLMENT  
Fiscal Year-Ended June 30, 2014

FALL ENROLLMENT - OCTOBER, 2013

Elementary			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	10	10	0
Grade 1 - 6	89	89	0
Grade 7 - 8	36	36	0
Total	<u>135</u>	<u>135</u>	<u>0</u>
High School			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	70	70	0
Part-time Students			
Less than 181 hours	0	0	0
Less than 359 hours	0	0	0
Less than 539 hours	0	0	0
Less than 719 hours	0	0	0
Total Part-time	<u>0</u>	<u>0</u>	<u>0</u>
19 year olds	0	0	0

WINTER ENROLLMENT - DECEMBER, 2013

Elementary			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	9	9	0
Grade 1 - 6	90	90	0
Grade 7 - 8	36	36	0
Total	<u>135</u>	<u>135</u>	<u>0</u>
High School			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	69	69	0
Part-time Students			
Less than 181 hours	0	0	0
Less than 359 hours	0	0	0
Less than 539 hours	0	0	0
Less than 719 hours	0	0	0
Total Part-time	<u>0</u>	<u>0</u>	<u>0</u>
19 year olds	0	0	0

SPRING ENROLLMENT - FEBRUARY, 2014

Elementary			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	9	9	0
Grade 1 - 6	90	90	0
Grade 7 - 8	36	36	0
Total	<u>135</u>	<u>135</u>	<u>0</u>
High School			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	68	68	0
Part-time Students			
Less than 181 hours	0	0	0
Less than 359 hours	0	0	0
Less than 539 hours	0	0	0
Less than 719 hours	0	0	0
Total Part-time	<u>0</u>	<u>0</u>	<u>0</u>
19 year olds	0	0	0

SUNBURST SCHOOL DISTRICT NO. 2

SCHEDULE OF REVENUES, EXPENSES AND BALANCES EXPENDABLE TRUST – STUDENT ACTIVITY FUNDS  
Fiscal Year-Ended June 30, 2014

<u>Activity Account Name</u>	<u>Beginning Balance 7/1/2013</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Ending Balance 6/30/2014</u>
-				
ATHLETICS	\$ 6,407	\$ 19,986	\$ 22,935	\$ 3,458
FOOTBALL	1	-	-	1
CHEERLEADER/COLORGRD	4,176	5,781	7,404	2,553
CONCESSIONS	150	16,887	16,587	450
YOUTH BASKETBALL	113	-	-	113
SOPHISTI-KIX	2,052	821	2,109	764
FCCLA	1,950	9,945	8,809	3,086
FFA	1,750	34,182	11,068	24,864
SKI CLUB	130	1,082	1,147	65
MUSIC	674	2,189	2,518	345
NTC Science	14,475	8,795	11,404	11,866
PLAY DRAMA	2,179	1,848	1,577	2,450
CLASS OF 2013	-	-	-	-
LIBRARY	153	8	-	161
STUDENT COUNCIL	2,425	7,055	5,663	3,817
PHOTO/ANNUAL	409	2,553	1,826	1,136
SPEECH/DRAMA	166	441	357	250
GENERAL	2,436	640	780	2,296
CULINARY ARTS	351	1,106	862	595
CLASS OF 2015	3,125	3,286	1,424	4,987
CLASS OF 2016	2,105	1,193	31	3,267
Basketball Fund	-	500	300	200
NATIONAL HONOR SOCIETY	228	26	54	200
TRAVEL CLUB	1,954	5,015	4,225	2,744
Basketball Camp Fund	-	1,128	729	399
CLASS OF 2014	3,077	698	2,388	1,387
DISTRICT I FHA	12,182	2,898	5,222	9,858
CLASS OF 2017	1	2,379	-	2,380
General	1,131	1,851	1,892	1,090
Pop	910	413	801	522
Playground Fund	464	-	-	464
In/Out	130	14,816	14,945	1
Music	566	457	126	897
Stu. Co.	3,485	2,498	2,880	3,103
Library	159	116	182	93
Missoula Theater	41	2,271	2,100	212
Yearbook	796	1	780	17
8th Gr. Field Trip	1,588	3,667	4,255	1,000
Intramural Golf	241	-	-	241
Conflict Resolution	551	1	-	552
2nd Grade Fund	-	156	154	2
Science Camp	4,615	2,820	2,528	4,907
Transfers		(6,762)	(6,762)	-
<b>Total</b>	<b>\$ 77,346</b>	<b>\$ 152,747</b>	<b>\$ 133,300</b>	<b>\$ 96,793</b>

STROM & ASSOCIATES, PC  
Certified Public Accountants  
P.O. Box 1980  
Billings, Montana 59103

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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*

INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Sunburst School District No. 2  
Toole County  
Sunburst, MT 59482

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 *Governmental 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 Sunburst School District No. 2 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Sunburst School District No. 2's basic financial statements and have issued our report thereon dated October 10, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Sunburst School District No. 2'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Sunburst School District No. 2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

*Strom & Associates, P.C.*

STROM & ASSOCIATES, PC  
Billings, Montana  
October 10, 2014

STROM & ASSOCIATES, PC  
Certified Public Accountants  
P.O. Box 1980  
Billings, Montana 59103

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SCHEDULE OF FINDINGS AND RESPONSES

FINDING NUMBER 1 - EXPENDITURES 2013 (repeat finding from fiscal year 2012)

This was not a finding in fiscal year 2014.

There were no findings or recommendations in the current audit report.