

**TERRY PUBLIC SCHOOLS
TERRY, MONTANA**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

**JAMES J. WOSEPKA, PC
CERTIFIED PUBLIC ACCOUNTANT
BAKER, MONTANA**

**TERRY PUBLIC SCHOOLS
TERRY, MONTANA
JUNE 30, 2014**

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**TERRY PUBLIC SCHOOLS
TERRY, MONTANA
JUNE 30, 2014**

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TERRY PUBLIC SCHOOLS
PRAIRIE COUNTY
TERRY, MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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

FINANCIAL HIGHLIGHTS

The district's financial operations in 2014 deteriorated somewhat over the prior year, due in part because of the \$52,000 sent to the Teachers' Retirement System, and also collected taxes was down approximately \$20,000. Net assets decreased by \$62,704 or -5.27% from the prior year. The net assets for FY14 were \$1,127,419. Total expenses for FY14 were \$2,039,603 which is an increase of \$151,548 or +8.03% from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The first two statements are *Government-wide financial statements* that provide both short-term and long-term information about the District's overall financial status. The other statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the Government-wide financial statements. With the implementation of GASB34, the functions to be compared yearly are still being developed; therefore, it is noted that there are some items that indicate a very large percentage of change, i.e. retirement expenditures are now included in the various programs.

Government-wide financial statements report information using full accrual accounting methods, which are the methods used by most private-sector companies. It includes *all* of the District's assets and liabilities, and *all* of the District's revenues and expenses, regardless of when cash is received or paid out. It also includes depreciation on capital assets.

Governmental fund financial statements present a short-term view of the District's activities (they only include current assets expected to be collected in the very near future and liabilities expected to be paid in the very near future). They present detailed information about the district's general fund and the other governmental funds. The financial statements also include footnotes that explain in more detail some of the information included in the body of the financial statements. This is followed by required supplementary information, such as budget to actual information for the General Fund and any major special revenue funds with legally adopted budgets. The other supplementary information includes enrollment and extracurricular information and is not a part of the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

With the implementation of GASB34, the functions are still being developed; therefore, some of the function comparisons are exaggerated due to the fact that grouping of line items are different than last year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The fund financial statements provide detailed information about the most significant of the District's funds; the District is required to provide detailed information for its "major" funds.

Major funds are defined as the general fund and any other fund where the assets, liabilities, revenues, or expenditures exceed 10% of total governmental fund amounts. The major funds for the District are General Fund, Bus Depreciation, Retirement, Miscellaneous, and Building Reserve.

The governmental funds provide a short-term view of the District's operations. They are reported using an accounting method called modified accrual accounting which measures amounts using only cash and other short-term assets and liabilities (receivables and payables) that will soon be converted to cash or will soon be paid with cash.

CAPITAL ASSETS AND DEBT ADMINISTRATION

One of the major purchases of the district in fiscal year 2014 was a new school bus. The only debt of the District is compensated absences, or accrued vacation and sick leave that is due employees of the District.

BUDGETARY HIGHLIGHTS

The General Fund budget has increased slightly over the past several years. The expenditure budget for FY10 was \$1,301,187.16, FY11 was \$1,327,962.11, FY12 was \$1,349,623.48, \$1,382,601.49 for FY13, and \$1,411,246.41 for FY14. These increases are mainly due to fluxuations in the quality educator FTE, an increase in entitlements, and a slight increase in the ANB. Historically, Terry Schools has operated at the maximum budget allowed with a vote.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The enrollment, which was 238 in 1998, has dropped significantly for more than a decade; therefore, revenues have also decreased. Average Number Belonging (ANB) for the past several years is as follows:

FY06	173	(PK through 12)
FY07	163	(K-12)
FY08	153	(K-12)
FY09	141	(K-12)
FY10	137	(K-12)
FY11	148	(K-12)
FY12	155	(K-12)
FY13	156	(K-12)
FY14	146	(K-12)

The taxable valuation history in the District is as follows:

2006	\$3,257,938
2007	\$3,267,067
2008	\$3,287,850
2009	\$3,415,195
2010	\$3,490,158
2011	\$3,502,353
2012	\$4,176,437
2013	\$4,258,215
2014	\$4,332,582

The value of a mill in Prairie County is obviously increasing. There are also plans for a pipeline in the eastern portion of the county which may further increase our taxable valuation. Finally, the district is benefitted by Montana Oil and Gas Tax Revenue. These facts and events could possibly serve to reduce the tax burden on our private landowners.

For more information, please contact the Superintendent or District Clerk at Terry Public Schools, PO Box 187, Terry Montana 406-653-5533.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

	2014	2013	\$ CHANGE	% CHANGE
Assets				
Cash	\$557,077	\$747,412	(\$190,335)	-34.17%
Taxes receivable	\$43,012	\$33,397	\$9,615	22.35%
Due from other governments	\$38,268	\$22,677	\$15,591	40.74%
Capital assets	\$575,482	\$475,291	\$100,191	17.41%
Total Assets	\$1,213,839	\$1,278,777	(\$64,938)	-5.35%
Liabilities				
Total Liabilities	\$86,420	\$88,654	(\$2,234)	-2.59%
Net Position				
Invested in Capital assets-net of depreciation	\$575,482	\$475,291	\$100,191	17.41%
Restricted Net Position	\$375,395	\$472,711	(\$97,316)	-25.92%
Unrestricted Net Position	\$176,542	\$242,121	(\$65,579)	-37.15%
Total Net Position	\$1,127,419	\$1,190,123	(\$62,704)	-5.56%
Revenues				
Charges for Services	\$24,609	\$22,829	\$1,780	7.23%
Operations Grants and Contributions	\$242,371	\$231,133	\$11,238	4.64%
Capital Grants & Contributions	\$0	\$12,604	(\$12,604)	0.00%
Property Taxes	\$551,415	\$570,134	(\$18,719)	-3.39%
Federal and State	\$365,791	\$369,879	(\$4,088)	-1.12%
Unrestricted Grants and Contributions	\$773,973	\$750,981	\$22,992	2.97%
Interest Earnings	\$2,106	\$2,936	(\$830)	-39.41%
Miscellaneous	\$16,634	\$18,817	(\$2,183)	-13.12%
Total Revenues	\$1,976,899	\$1,979,313	(\$2,414)	-0.12%
Expenses				
Instructional Services	\$957,672	\$827,385	\$130,287	13.60%
Students	\$53,296	\$49,238	\$4,058	7.61%
District Administration	\$53,584	\$187,492	(\$133,908)	-249.90%
School Administration	\$164,882	\$5,133	\$159,749	100.00%
Operation and Maintenance Facility	\$228,241	\$214,355	\$13,886	6.08%
Transportation	\$66,645	\$93,827	(\$27,182)	-40.79%
Special Education	\$84,752	\$72,369	\$12,383	14.61%
Adult Education	\$542	\$2,190	(\$1,648)	-304.06%
School Lunch	\$109,627	\$105,000	\$4,627	4.22%
Instructional Staff	\$10,358	\$27,810	(\$17,452)	-168.49%
Business Services	\$47,938	\$28,272	\$19,666	100.00%
Vocational Programs	\$127,624	\$135,515	(\$7,891)	-6.18%
Extra Curricular	\$80,359	\$89,097	(\$8,738)	-10.87%
Unallocated Depreciation	\$54,083	\$50,372	\$3,711	6.86%
Total Expenses	\$2,039,603	\$1,888,055	\$151,548	7.43%
Change in Net Position (Total Revenues-Total Expenses)	(\$62,704)	\$91,258	(\$153,962)	245.54%

TERRY PUBLIC SCHOOLS
TERRY, MONTANA
JUNE 30, 2014

BOARD OF TRUSTEES

Brian Morast	Chairperson
Jason Higgins	Vice - Chairperson
Larry Keltner	Trustee
Kelly Hubbert	Trustee
Kirstin Mack	Trustee

OFFICIALS

Casey Klasna	District Superintendent
Jamie Smith	County Superintendent
Dan Rice	County Attorney
Cathy Kalmbach	Clerk of Board



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James J. Wosepka, PC – Certified Public Accountant

Licensed in North Dakota and Montana

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Terry Public Schools
Terry, Montana 59349

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 Terry Public Schools, Terry, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i - iv and 23 - 26 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 Terry Public Schools, Terry, Montana's basic financial statements. The other supplemental information on pages 29 – 33 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplemental information on pages 29 – 33 is the responsibility of management and was 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 other supplemental information on pages 29 – 33 is 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 14, 2014, on our consideration of Terry Public Schools, Terry, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Terry Public Schools, Terry, Montana's internal control over financial reporting and compliance.

James J. Wosepka, PC

By *James J. Wosepka*
CSP

Baker, Montana
October 14, 2014

**TERRY PUBLIC SCHOOLS
STATEMENT OF NET POSITION
June 30, 2014**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 557,077
Taxes receivable	43,012
Due from other governments	38,268
Capital assets being depreciated (net of accumulated depreciation)	575,482
Total Assets	1,213,839
 LIABILITIES	
Noncurrent liabilities:	
Due within one year	15,000
Due in more than one year	71,420
Total Liabilities	86,420
 NET POSITION	
Net Investment in capital assets	575,482
Unrestricted	176,542
Restricted:	
Capital Projects	142,021
Transportation	38,789
Retirement	30,258
Bus Depreciation	73,748
Food Service	6,130
Adult Education	5,833
Technology	8,981
Other Educational Purposes	69,635
Total Net Position	\$ 1,127,419

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

**TERRY PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services, Fines, Forfeitures, etc.	Operating Grants and Contributions	
Primary government:				
Instructional services	\$ 957,672	\$ 3,329	\$ 135,888	\$ (818,455)
Supporting services:				
Students	53,296	-	-	(53,296)
Instructional staff	10,358	-	1,802	(8,556)
District administration	53,584	-	-	(53,584)
School administration	164,882	-	-	(164,882)
Business services	47,938	-	-	(47,938)
Operation & maintenance of facility	228,241	-	-	(228,241)
Transportation	66,645	-	44,442	(22,203)
Special education	84,752	-	-	(84,752)
Adult education	542	150	-	(392)
Vocational programs	127,624	-	4,180	(123,444)
Extracurricular programs	80,359	-	-	(80,359)
School lunch services	109,627	21,130	56,059	(32,438)
Unallocated depreciation	54,083	-	-	(54,083)
Total governmental activities	\$ 2,039,603	\$ 24,609	\$ 242,371	(1,772,623)
General revenues:				
Property taxes				551,415
Unrestricted Federal/State shared revenues				365,791
Unrestricted grants and contributions				773,973
Unrestricted investment earnings				2,106
Miscellaneous				16,634
Total general revenues and transfers				1,709,919
Change in net position				(62,704)
Total net position - July 1, 2013				1,190,123
Total net position - June 30, 2014				\$ 1,127,419

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

**TERRY PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014**

Major Funds

Description	Major Funds						Total Governmental Funds
	General	Bus Depreciation	Retirement	Miscellaneous	Building Reserve	Other Governmental Funds	
ASSETS							
Cash and cash equivalents	\$ 222,493	\$ 72,862	\$ 30,258	\$ -	\$ 140,168	\$ 91,296	\$ 557,077
Tax receivable	35,900	886	-	-	1,853	4,373	43,012
Due from other funds	5,845	-	-	-	-	-	5,845
Due from other governments	-	-	-	38,268	-	-	38,268
Total Assets	264,238	73,748	30,258	38,268	142,021	95,669	644,202
LIABILITIES							
Due to other funds	-	-	-	5,845	-	-	5,845
Total Liabilities	-	-	-	5,845	-	-	5,845
DEFERRED INFLOWS OF RESOURCES-							
Unavailable revenue-property taxes	35,900	886	-	-	1,853	4,373	43,012
FUND BALANCES							
Spendable:							
Restricted	-	72,862	30,258	32,423	140,168	86,727	362,438
Assigned	1,628	-	-	-	-	4,569	6,197
Unassigned	226,710	-	-	-	-	-	226,710
Total Fund Balances	228,338	72,862	30,258	32,423	140,168	91,296	595,345
Total Deferred Inflows of Resources and Fund Balances	\$ 264,238	\$ 73,748	\$ 30,258	\$ 38,268	\$ 142,021	\$ 95,669	

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

- Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.
- Certain property tax collections are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources in the funds.
- Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Total Net Position Governmental Funds
\$ 1,127,419

TERRY PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2014

Description	Major Funds							Total Governmental Funds
	General	Bus Depreciation	Retirement	Miscellaneous	Building Reserve	Other Governmental Funds		
REVENUES								
Property taxes	\$ 463,307	\$ 16,316	\$ -	\$ -	\$ 295	\$ 61,862	\$ 541,800	
Earnings on investments	950	230	121	48	447	310	2,106	
School lunch sales	-	-	-	-	-	21,130	21,130	
Other local sources	3,369	-	147,832	16,391	-	22,578	190,168	
State revenue	925,869	62,343	-	2,110	29,245	-	1,019,567	
Federal aid	-	-	-	136,906	-	55,607	192,513	
Total Revenues	1,393,495	78,889	147,953	155,455	742	190,750	1,967,284	
EXPENDITURES								
Current:								
Instructional services	682,573	-	126,973	138,356	-	25,691	973,593	
Supporting services								
Students	47,533	-	5,763	-	-	-	53,296	
Instructional staff	5,959	-	1,135	3,264	-	-	10,358	
District administration	11,330	-	15,926	5,973	-	20,355	53,584	
School administration	164,882	-	-	-	-	-	164,882	
Business services	33,356	-	6,211	-	-	8,371	47,938	
Operation & Maintenance of facilities	214,744	-	14,224	252	8,087	16,555	253,862	
Transportation	-	95,454	3,172	-	-	63,473	162,099	
Special education	75,389	-	8,690	-	-	673	84,752	
Adult education	-	-	72	-	-	470	542	
Vocational programs	109,701	-	13,763	4,160	-	-	127,624	
Extracurricular programs	73,897	-	6,462	5,642	-	-	86,001	
Food services	24,648	-	7,472	-	-	77,507	109,627	
Capital outlay	13,870	-	-	-	-	-	13,870	
Total Expenditures	1,457,882	95,454	209,863	157,647	8,087	213,095	2,142,028	
Excess (Deficiency) of Revenues Over (Under) Expenditures	(64,387)	(16,565)	(61,910)	(2,192)	(7,345)	(22,345)	(174,744)	
OTHER FINANCING SOURCES (USES)								
Transfers in	-	-	-	-	-	5,820	5,820	
Transfers out	(5,820)	-	-	-	-	-	(5,820)	
Total other financing sources (uses)	(5,820)	-	-	-	-	5,820	-	
Net change in fund balances	(70,207)	(16,565)	(61,910)	(2,192)	(7,345)	(16,525)	(174,744)	
Fund balances - July 1, 2013-as previously reported	298,545	89,427	92,168	-	147,513	142,436	770,089	
Fund balance reclassification	-	-	-	34,615	-	(34,615)	-	
Fund balances - July 1, 2013- as reclassified	298,545	89,427	92,168	34,615	147,513	107,821	770,089	
Fund balances - June 30, 2014	\$ 228,338	\$ 72,862	\$ 30,258	\$ 32,423	\$ 140,168	\$ 91,296	\$ 595,345	

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

**TERRY PUBLIC SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014**

Net change in fund balances - total governmental funds (page 8)	\$ (174,744)
Amounts reported for governmental activities in the statement of activities (page 6) are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets purchased	154,274
Depreciation expense	(54,083)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Unavailable property taxes	9,615
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	
Accrued compensated absences	<u>2,234</u>
Change in Net Position in Governmental Activities	<u><u>\$ (62,704)</u></u>

**TERRY PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2014**

Description	Trust Funds		Agency Funds	
	Private Purpose Trust Funds		Agency Composite	
ASSETS				
Cash and cash equivalents	\$	211,827	\$	145,328
Total Assets		<u>211,827</u>		<u>145,328</u>
LIABILITIES				
Warrants payable				141,908
Accounts payable		-		3,420
Total Liabilities		<u>-</u>	<u>\$</u>	<u>145,328</u>
NET POSITION				
Held for student scholarships		161,477		
Held for student activities		50,350		
	<u>\$</u>	<u>211,827</u>		

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

**TERRY PUBLIC SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2014**

Description	Trust Funds
	Private Purpose Trust Funds
ADDITIONS:	
Revenues from student activities	\$ 107,474
Investment earnings	1,611
Donations	106,328
Total Additions	215,413
DEDUCTIONS:	
Student activities	129,179
Administrative expenses	15
Community service activities	2,600
Total Deductions	131,794
Change in net position	83,619
Net position-July 1, 2013	128,208
Net position-June 30, 2014	\$ 211,827

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

**TERRY PUBLIC SCHOOLS
TERRY, MONTANA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

1. Summary of Significant Accounting Principles

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

Reporting Entity

All operations of the District are controlled by a Board of Trustees, elected in district-wide elections, and responsible for all of the District's activities. The financial statements include all of the District's operations controlled by the Board of Trustees. The District is considered to be an independent reporting entity.

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

Basis of Presentation and Basis of Accounting

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

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

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

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

Fund Financial Statements - These statements provide information about the District's funds including a separate statement for the District's fiduciary funds (the student activity fund and endowment funds). The emphasis of fund financial statements is on major governmental funds. Each major fund is displayed in a separate column. All of the remaining funds are aggregated and reported in a single column as other governmental funds.

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

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

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

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

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

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

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

Bus Depreciation Reserve Fund – Authorized by Section 20-10-147, MCA, for the purpose of financing the replacement of buses and two-way radio equipment owned by the School District. The fund may be used to replace route buses or athletics/activities buses and to purchase additional yellow school buses for routes.

1. Summary of Significant Accounting Principles - cont.

Building Reserve Fund – This fund is for the purpose of financing voter approved building or construction projects funded with district mill levies. This a budgeted fund.

Retirement Fund – Authorized by Section 20-9-501, MCA, for the purpose of financing the employer's contribution to the Teachers Retirement System (TRS), the Public Employees Retirement System (PERS), Unemployment Compensation, Social Security, and Medicare. Funded by a county-wide levy for retirement.

The District reports the following fund types:

Trust Funds - The District also has private-purpose trust funds, its student activity fund, which accounts for the extracurricular activities of its students and a scholarship fund, which accounts for funds donated for college scholarships for its graduating seniors.

Interlocal Agreement Fund – The Interlocal Agreement Fund is authorized by Sections 20-7-457, 20-9-511, 20-7-801, and 20-9-701, MCA, for the purpose of accounting for revenues and expenditures related to an interlocal agreement between two or more school districts or other local governments.

Cash and Investments

Except for the Extracurricular Fund (a Private Purpose Trust Fund), all cash and investments are held by the County Treasurer. All funds deposited are pooled and invested in accordance with state law. Interest earnings are allocated to the District based on average month end balances. Funds are withdrawn as needed to pay warrants.

It is not practical for the District to determine the investment risk (including amounts invested in financial derivatives), collateral, or insurance coverage for its share of the County's pooled investments. Information as to the County's investment pool can be obtained from the County's annual financial report. The extracurricular funds are deposited in interest-bearing checking and savings accounts covered by FDIC insurance.

Warrants Payable

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

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the

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

Net Position – cont.

enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources is available.

Interfund Transactions

Interfund transactions are reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are eliminated in the government-wide financial statements.

Capital Assets - Capital assets are carried at actual or estimated historical cost based on appraisals. Major additions and betterments with a cost in excess of \$5,000 are recorded as additions to capital assets. Repair and maintenance costs are not capitalized. Depreciation is computed using the straight-line method and the estimated useful lives are as follows:

Buildings and improvements	15-50 years
Equipment	7-25 years

Taxes

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

Vacation and Sick Leave

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

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.

Fund Balance Reporting

Implementation of GASB 54 is required for fiscal years beginning after June 15, 2010. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users

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

of the District's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

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

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

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

Committed and assigned fund balances are at the determination of the Board of Trustees.

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

	Major Funds					Other Gov. Funds	Total Gov. Funds
	General Fund	Misc. Fund	Bus Dep.	Retirement	Building Reserve		
Nonspendable:							
Inventories	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Spendable:							
Restricted:							
Technology	-	-	-	-	-	8,265	8,265
Transportation	-	-	-	-	-	35,332	35,332
Bus Depreciation	-	-	72,862	-	-	-	72,862
Food Service	-	-	-	-	-	6,130	6,130
Retirement	-	-	-	30,258	-	-	30,258
Adult Education	-	-	-	-	-	5,633	5,633
Traffic Education	-	-	-	-	-	2,774	2,774
Compensated Absences	-	-	-	-	-	15,486	15,486
Lease Rental	-	-	-	-	-	9,461	9,461
Capital Projects	-	-	-	-	140,168	-	140,168
Tuition	-	-	-	-	-	3,646	3,646
School Operations	-	-	-	-	-	-	-
Assigned:							
School Operations	1,628	32,423	-	-	-	-	34,051
Capital Projects	-	-	-	-	-	4,569	4,569
Unassigned	226,710	-	-	-	-	-	226,710
Total Fund Balance	\$ 228,338	\$ 32,423	\$ 72,862	\$ 30,258	\$ 140,168	\$ 91,296	\$ 595,345

Reported with the General Fund unassigned fund balance is \$103,646 from the Flexibility Fund.

Deferred Outflows/Inflows of Resources

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

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

2. Reconciliation of Government-wide and Fund Financial Statements

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

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

Compensated absences	<u>\$ (86,420)</u>
Net adjustment to reduce fund balance-total governmental funds to arrive at net position-governmental activities	<u>\$ (86,420)</u>

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds, and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this difference are as follows:

Capital outlay	\$ 154,274
Depreciation expense	<u>(54,083)</u>
Net adjustment to increase net changes in fund balances-total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 100,191</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this difference are as follows:

Compensated absences	<u>\$ 2,234</u>
Net adjustment to decrease net changes in fund balances-total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 2,234</u>

3. **Property Taxes**

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

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

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

4. **Cash and Investments**

Cash and investments, except for those of the Extracurricular Fund, are held by the County Treasurer in an agency fund. The County Treasurer invests the cash as directed by the District.

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

At year end, the carrying amount of the District's bank deposits and bank balance for the Extracurricular Fund was \$50,350. The bank balance was fully covered by Federal Depository Insurance.

Concentration of Credit Risk

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

Credit, Interest Rate, and Foreign Currency Risk

The District has no interest rate risk, credit risk, or foreign currency risk of debt securities. The District has Government Series HH Bonds that are held in trust for scholarships.

Custodial Credit Risk

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

4. **Cash and Investments – cont.**

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

5. **Compensated Absences Payable**

Compensated absences payable represent vacation and sick leave earned by employees which is payable upon termination.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental activities:				
Accrued vacation payable	\$ <u>88,654</u>	\$ <u>-</u>	\$ <u>2,234</u>	\$ <u>86,420</u>

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

6. **Statewide Retirement Plans**

The District participates in two statewide cost-sharing multiple-employer defined benefit retirement plans which cover all employees except certain substitute teachers and part time nonteaching employees. The Teachers Retirement System (TRS) covers certified teaching employees. The Public Employees Retirement System (PERS) covers nonteaching employees. The plans are established by state law and are administered by the Department of Administration of the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. Both plans issue publicly available annual reports that include financial statements and required supplemental information 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

Public Employees Retirement System
P.O. Box 200131
1712 Ninth Avenue
Helena, MT 59620-0131
Phone: 406-444-3154

The financial statement of PERS includes activity for the Defined Benefit and Defined Contribution Retirement plans. The Defined Contribution Plan is available to all active members starting July 1, 2002. The assets of one retirement plan cannot be co-mingled with those of another plan.

6. Statewide Retirement Plans – cont.

Contribution rates for both plans are required and determined by state law. The contribution rates, expressed as a percentage of covered payrolls, were as follows:

	<u>Employer</u>	<u>Employee</u>	<u>Total</u>
TRS	8.47	8.15	16.62
PERS	6.80	26.00	13.70
PERS hired after 7/1/11	6.80	7.90	14.70

For the year ended June 30, 2014, the State of Montana contributed .37% of the employees' payroll for PERS and 2.49% for TRS. This is considered an on-behalf payment. The District does not record this contribution in their financial statements which is not in accordance with U.S. generally accepted accounting principles. The amounts contributed by both the employees and the District for the prior three years ended June 30 were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
TRS	\$ 135,249	\$ 114,784	\$ 112,716
PERS	33,766	33,825	29,175
	<u>\$ 169,015</u>	<u>\$ 148,609</u>	<u>\$ 141,891</u>

7. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 1,178,785	\$ 25,691	\$ -	\$ 1,204,476
Furniture and equipment	534,390	128,584	53,431	609,543
Total capital assets, being depreciated	<u>1,713,175</u>	<u>154,275</u>	<u>53,431</u>	<u>1,814,019</u>
Accumulated depreciation for:				
Buildings and improvements	(799,092)	(30,552)	-	(829,644)
Furniture and equipment	(438,793)	(23,531)	53,431	(408,893)
Total accumulated depreciation	<u>(1,237,885)</u>	<u>(54,083)</u>	<u>53,431</u>	<u>(1,238,537)</u>
Total capital assets, being depreciated, net	<u>475,290</u>			<u>575,482</u>
Governmental activities capital assets, net	<u>\$ 475,290</u>			<u>\$ 575,482</u>

Depreciation expense was not charged to any particular function of the District.

8. Amounts Due From Other Governments

The amounts due from other governments consist of the following:

Special Revenue Funds	
Due from State	<u>\$ 38,268</u>

9. Pending Litigation

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

10. Risk Management

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

The agreement for formation of the pool provides that it will be self-sustaining through member premiums. There are no deductibles or maximum coverage limits in the plan.

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

11. Donated Commodities

The District received donated commodities from the United States Department of Agriculture for use in the food program.

12. Joint Venture

Terry Public Schools is a participant, with a number of other school districts, in the Prairie View Special Services Cooperative. The Cooperative is governed by a board comprised of a member from each participating district. The Superintendent of Terry Public Schools represents that District. Prairie View Special Services Cooperative is a joint venture established by an inter-local agreement to offer certain Special Education services to all handicapped students in compliance with state and federal law. Terry Public Schools has an ongoing financial responsibility to fund their proportionate share of the total cooperative budget. Financial statement information can be obtained from the Cooperative.

13. Subsequent Events

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

14. Commitments

The District has committed to the following encumbrances:

General	\$	1,628
Miscellaneous		6,478
	\$	<u>8,106</u>

**REQUIRED
SUPPLEMENTAL INFORMATION**

TERRY PUBLIC SCHOOLS
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
General Fund
Year Ended June 30, 2014

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenues:				
Property taxes	\$ 481,072	\$ 481,072	\$ 463,307	\$ (17,765)
Earnings on investments	962	962	627	(335)
Other local sources	3,329	3,329	3,369	40
State revenue	925,869	925,869	925,869	-
Federal aid	-	-	-	-
Total revenues	<u>1,411,232</u>	<u>1,411,232</u>	<u>1,393,172</u>	<u>(18,060)</u>
Expenditures:				
Current:				
Instructional services	619,567	619,567	664,436	(44,869)
Supporting services:				
Students	22,537	22,537	46,389	(23,852)
Instructional staff	15,884	15,884	5,851	10,033
School administration	168,636	168,636	10,923	157,713
District administration	-	-	164,882	(164,882)
Business services	29,603	29,603	33,356	(3,753)
Operation and maintenance of facilities	228,543	228,543	192,360	36,183
Special Education	78,829	78,829	75,329	3,500
Vocational programs	135,836	135,836	108,997	26,839
Extracurricular programs	76,450	76,450	72,159	4,291
Food Services	35,361	35,361	16,875	18,486
Capital outlay	-	-	13,870	(13,870)
Total expenditures	<u>1,411,246</u>	<u>1,411,246</u>	<u>1,405,427</u>	<u>5,819</u>
Excess (Deficiency) of Revenues (Over)				
Under Expenditures	<u>(14)</u>	<u>(14)</u>	<u>(12,255)</u>	<u>(12,241)</u>
Other financing sources (uses):				
Transfer out	<u>-</u>	<u>-</u>	<u>(5,820)</u>	<u>(5,820)</u>
Net change in fund balances	<u>\$ (14)</u>	<u>\$ (14)</u>	<u>(18,075)</u>	<u>\$ (18,061)</u>
Fund balances - beginning - Budget basis			<u>141,138</u>	
Fund balances - ending - Budget basis			<u>123,063</u>	
Current year encumbrances			<u>1,628</u>	
Fund balance - GAAP basis			<u>\$ 124,691</u>	

TERRY PUBLIC SCHOOLS
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
Bus Depreciation Fund
Year Ended June 30, 2014

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenues:				
Property taxes	\$ 16,970	\$ 16,970	\$ 16,316	\$ (654)
Earnings on investments	100	100	230	130
Other local sources	-	-	-	-
State revenue	<u>61,000</u>	<u>61,000</u>	<u>62,343</u>	<u>1,343</u>
Total revenues	<u>78,070</u>	<u>78,070</u>	<u>78,889</u>	<u>819</u>
Expenditures:				
Capital outlay	<u>167,497</u>	<u>167,497</u>	<u>95,454</u>	<u>72,043</u>
Total expenditures	<u>167,497</u>	<u>167,497</u>	<u>95,454</u>	<u>72,043</u>
Excess (Deficiency) of Revenues (Over)				
Under Expenditures	\$ <u>(89,427)</u>	\$ <u>(89,427)</u>	(16,565)	\$ <u>72,862</u>
Fund balances - beginning - Budget and GAAP basis			<u>89,427</u>	
Fund balances - ending - Budget and GAAP basis			\$ <u><u>72,862</u></u>	

TERRY PUBLIC SCHOOLS
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
Retirement Fund
Year Ended June 30, 2014

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenues:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Earnings on investments	-	-	121	121
Other local sources	147,832	147,832	147,832	-
State revenue	-	-	-	-
Total revenues	<u>147,832</u>	<u>147,832</u>	<u>147,953</u>	<u>121</u>
Expenditures:				
Current:				
Instructional services	124,285	124,285	126,973	(2,688)
Supporting services:				
Students	5,763	5,763	5,763	-
Instructional staff	1,151	1,151	1,135	16
District administration	15,992	15,992	15,926	66
Business administration	-	-	6,211	(6,211)
Operation and maintenance of facilities	12,069	12,069	14,224	(2,155)
Transportation	3,514	3,514	3,172	342
Special Education	8,379	8,379	8,690	(311)
Adult Education	541	541	72	469
Vocational programs	15,614	15,614	13,763	1,851
Extracurricular programs	656	656	6,462	(5,806)
Food Services	12,036	12,036	7,472	4,564
Total expenditures	<u>200,000</u>	<u>200,000</u>	<u>209,863</u>	<u>(9,863)</u>
Excess (Deficiency) of Revenues (Over) Under Expenditures	<u>(52,168)</u>	<u>(52,168)</u>	<u>(61,910)</u>	<u>(9,742)</u>
Other financing sources (uses):				
Transfer out	-	-	-	-
Net change in fund balances	<u>\$ (52,168)</u>	<u>\$ (52,168)</u>	<u>(61,910)</u>	<u>\$ (9,742)</u>
Fund balances - beginning - Budget and GAAP basis			<u>92,168</u>	
Fund balance - ending - Budget and GAAP basis			<u>\$ 30,258</u>	

**TERRY PUBLIC SCHOOLS
TERRY, MONTANA**

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

JUNE 30, 2014

Budgets

An annual appropriated budget is adopted by the Board of Trustees each fiscal year for the General Fund and those other governmental fund types classified by state law as budgeted funds. All budgets are formulated in accordance with state law and are prepared on the basis of accounting described above for Fund Financial Statements. The General Fund budgets are based on the State's Foundation Program which is designed to equalize taxing effort throughout the state and bases the budgets primarily on enrollment. Budgets of other funds are based primarily on estimated revenues and expenditures. Budgeted fund expenditures are limited by state law to budgeted amounts, except that they can be increased for emergencies as defined by state law. Transfers may be made between expenditure objects and/or functions within the same fund. The budgeted amounts, as shown in the financial statements, are as originally adopted or as revised by legal budget transfers, if applicable.

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

The District overspent its Retirement Fund budget.

Encumbrances

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

The valid obligation criteria are:

1. The costs of personal property including materials, supplies, and equipment ordered, but not received, may be encumbered if a valid purchase order was issued prior to June 30.

Notes to Required Supplemental Information – cont.
Encumbrances – cont.

2. The cost of commitments related to construction in progress may be encumbered if a legally binding contract was signed and effective or a valid purchase order was issued prior to June 30. If the contract is complete or virtually complete, the entire cost of the contract should be accrued.

As of June 30, 2014, the District incurred \$8,106 encumbrances.

Reporting

The Statement of Revenues, Expenditures, and Changes in Fund Balances, on page 8, combines the General and Flexibility funds.

	General	Flexibility	Total
Fund balance, beginning	\$ 195,222	\$ 103,323	\$ 298,545
Revenues	1,393,172	323	1,393,495
Expenditures/Transfers	1,463,702	-	1,463,702
Fund balance, ending	<u>\$ 124,692</u>	<u>\$ 103,646</u>	<u>\$ 228,338</u>

SUPPLEMENTAL INFORMATION

**TERRY PUBLIC SCHOOLS
TERRY, MONTANA**

**SCHEDULE OF SCHOOL DISTRICT ENROLLMENT
YEAR ENDED JUNE 30, 2014**

FALL ENROLLMENT 10\13

	<u>Audit Per District Records</u>	<u>Enrollment Report</u>
<u>Elementary Schools</u>		
Kindergarten	14	14
Grades One - Three	28	28
Grades Four - Six	33	33
Grades Seven - Eight	28	28
Total	<u>103</u>	<u>103</u>
 <u>High School</u>		
Grades Nine - Twelve	<u>42</u>	<u>42</u>

WINTER ENROLLMENT 12\13

	<u>Audit Per District Records</u>	<u>Enrollment Report</u>
<u>Elementary Schools</u>		
Kindergarten	14	14
Grades One - Three	26	26
Grades Four - Six	34	34
Grades Seven - Eight	28	28
Total	<u>102</u>	<u>102</u>
 <u>High School</u>		
Grades Nine - Twelve	<u>43</u>	<u>43</u>

SPRING ENROLLMENT 2\14

	<u>Audit Per District Records</u>	<u>Enrollment Report</u>
<u>Elementary Schools</u>		
Kindergarten	14	14
Grades One - Three	26	26
Grades Four - Six	34	34
Grades Seven - Eight	28	28
Total	<u>102</u>	<u>102</u>
 <u>High School</u>		
Grades Nine - Twelve	<u>43</u>	<u>43</u>

TERRY PUBLIC SCHOOLS
Schedule of Changes in Assets and Liabilities
Student Activities Fund
Year Ended June 30, 2014

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>June 30, 2014</u>
FOOTBALL	\$ 4,000	\$ 4,536	\$ 6,855	\$ 638	\$ 2,319
BASKETBALL	4,200	13,315	13,422	(12)	4,081
VOLLEYBALL	4,000	3,185	4,882	428	2,731
TRACK	4,000	4	2,291	741	2,454
CLOSE-UP	21,807	26,408	47,848	1,322	1,689
MATHCOUNTS	675	1	61	527	1,142
FCCLA STUDENT	820	1	200	32	653
SPEECH/DRAMA	1,884	2	-	-	1,886
ART CLUB	313	-	-	-	313
BIG CHAMPS	305	-	-	-	305
FCCLA	1,277	15,081	15,781	2,562	3,139
CLEARING	-	304	301	-	3
ACTIVITY/BOOK FEES	203	3,550	26	(3,648)	79
CLASS 2014	1,970	379	2,289	(60)	-
CLASS OF 2015	3,838	508	2,693	1,596	3,249
CLASS OF 2016	2,187	3	36	2,371	4,525
CLASS 2017	-	1	77	3,011	2,935
CLASS 2018	-	-	-	35	35
INDUSTRIAL ARTS	1,327	3,667	3,373	-	1,621
MUSIC	4,000	252	1,646	862	3,468
ANNUAL	4,979	3,625	4,640	-	3,964
ALUMNI	1,397	1	741	54	711
LETTERPERSONS	857	1	-	-	858
CONCESSIONS	459	23,831	13,443	(10,458)	389
NAT HONOR SOCIETY	323	305	165	(147)	316
MATH MEET	71	-	-	-	71
LIFTATHON	177	30	-	-	207
STUDENT COUNCIL	1,801	4,821	5,371	(5)	1,246
FCCLA TRAVEL	162	-	-	-	162
ACC READING	3,948	2,388	2,350	(56)	3,930
CHEERLEADING	604	1	-	-	605
THE STUDENT STORE	65	854	333	-	586
YOUNG THESPIANS	206	424	8	-	622
SCIENCE CLUB	200	-	351	207	56
	<u>\$ 72,055</u>	<u>\$ 107,478</u>	<u>\$ 129,183</u>	<u>\$ -</u>	<u>\$ 50,350</u>

TERRY PUBLIC SCHOOLS
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
Budgeted Special Revenue Funds
Year Ended June 30, 2014

	<u>Original Budget Amounts</u>	<u>Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenues:				
Property taxes	\$ 64,163	\$ 64,163	\$ 61,882	\$ (2,281)
Earnings on investments	185	185	516	331
Other local sources	27,895	27,895	22,401	(5,494)
State revenue	34,309	34,309	28,635	(5,674)
Total revenues	<u>126,552</u>	<u>126,552</u>	<u>113,434</u>	<u>(13,118)</u>
Expenditures:				
Current:				
Instructional services	141,415	141,415	25,477	115,938
Supporting services:				
Students	-	-	-	-
Instructional staff	-	-	-	-
District administration	15,700	15,700	20,355	(4,655)
Business administration	8,100	8,100	8,036	64
Operation and maintenance of facilities	13,750	13,750	14,028	(278)
Transportation	91,397	91,397	63,473	27,924
Adult education	6,000	6,000	470	5,530
Special education	-	-	673	(673)
Vocational programs	-	-	-	-
Extracurricular programs	-	-	-	-
Food services	-	-	-	-
Total expenditures	<u>276,362</u>	<u>276,362</u>	<u>132,512</u>	<u>143,850</u>
Excess (Deficiency) of Revenues (Over)				
Under Expenditures	<u>(149,810)</u>	<u>(149,810)</u>	<u>(19,078)</u>	<u>130,732</u>
Net change in fund balances	\$ <u>(149,810)</u>	\$ <u>(149,810)</u>	(19,078) \$	<u>130,732</u>
Fund balances - beginning - Budget and GAAP basis			<u>175,600</u>	
Fund balances - ending - Budget and GAAP basis			\$ <u>156,522</u>	

TERRY PUBLIC SCHOOLS
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
Budgeted Capital Project Funds
Year Ended June 30, 2014

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenues:				
Property taxes	\$ -	\$ -	\$ 295	\$ 295
Earnings on investments	500	500	447	(53)
State revenue	-	-	-	-
Total revenues	<u>500</u>	<u>500</u>	<u>742</u>	<u>242</u>
Expenditures:				
Instructional services	148,013	148,013	-	148,013
Operations and maintenance	-	-	8,087	(8,087)
Capital outlay	-	-	-	-
Total expenditures	<u>148,013</u>	<u>148,013</u>	<u>8,087</u>	<u>139,926</u>
Excess (Deficiency) of Revenues (Over)				
Under Expenditures	<u>(147,513)</u>	<u>(147,513)</u>	<u>(7,345)</u>	<u>140,168</u>
Net change in fund balances	\$ <u>(147,513)</u>	\$ <u>(147,513)</u>	(7,345)	\$ <u>140,168</u>
Fund balances - beginning - Budget and GAAP basis			<u>147,513</u>	
Fund balances - ending - Budget and GAAP basis			<u>\$ <u>140,168</u></u>	



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James J. Wosepka, PC – Certified Public Accountant

Licensed in North Dakota and Montana

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

Board of Trustees
Terry Public Schools
Terry, Montana 59349

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 Terry Public Schools, Terry, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Terry Public Schools, Terry, Montana's basic financial statements, and have issued our report thereon dated October 14, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

James J. Wosepka, PC

By  *James J. Wosepka*
C.S.A.

Baker, Montana
October 14, 2014

**TERRY PUBLIC SCHOOLS
TERRY, MONTANA**

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2014

OVERSPENT BUDGET

MCA 29-9-133(s) states that expenditures are limited to the total amount that is in the fund's final budget. The School District overspent their Retirement Fund.

Recommendation

The School District needs to monitor expenditures to be sure expenditures do not exceed appropriation.

Response

The School District has responded in writing. The response is attached to this report.

SUPERINTENDENT
K-12 PRINCIPAL
Casey Klasna

K-12 COUNSELOR
Lisa Kuehn

BUSINESS MANAGER
Cathy Kalmback

TERRY PUBLIC SCHOOLS

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Bolin School - Gr. K-3 Grandey School - Gr. 4-6 High School - Gr. 7-12

BOARD CHAIRMAN
Brian Morast

TRUSTEES
Kelly Hubbert
Larry Keltner
Kirstin Mack
Scott Fredrickson



Learning Today.....Leading Tomorrow!



October 3, 2014

James J. Wosepka, PC
PO Box 906
Glendive MT 59330

RE: FISCAL YEAR 2013-2014 AUDIT

Dear Jim,

This is in reference to your recommendation concerning the budget over-expenditure in the budgeted Retirement Fund as of June 30, 2014. The over-expenditure was due to the one time payment to the Teacher's Retirement System. Since this was a one-time payment, and in taking more care in budgeting, this should not happen in the future.

Sincerely,

Brian Morast
Chairman, Board of Trustees

cc: Steve Hamil, OPI
MT Dept of Commerce