

**SCHOOL DISTRICT NUMBERS J15-17 & 15
GALLATIN COUNTY
WILLOW CREEK, MONTANA**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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SCHOOL DISTRICT NUMBERS J15-17 & 15

ORGANIZATION

June 30, 2014

BOARD OF TRUSTEES

Kris Skolrud	Chairman
Wes Crittenden	Vice-Chairman
Kassidi Lulloff	Trustee

OFFICIALS

Bonnie Lower	Superintendent
Sherri Lower	Clerk

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

ERNEST J. OLNESS, CPA

BRENT D. OLNESS, CPA
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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
School District Numbers J15-17 & 15
Willow Creek, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District Numbers J15-17 & 15, Willow Creek, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

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

Qualified Opinion

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

INDEPENDENT AUDITOR'S REPORT (Continued)

Unmodified Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2014, on our consideration of the government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the government's internal control over financial reporting and compliance.

O'ness & Associates, PC

Billings, Montana
November 6, 2014

SCHOOL DISTRICT NUMBERS J15-17 & 15 MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis of the district's financial performance provides an overview of the government's financial activities for the year ended June 30, 2014. Please read the information here in conjunction with our financial statements and footnotes which begin on page 7.

FINANCIAL HIGHLIGHTS

- Net position decreased \$62,019 as a result of this year's operations.
- During the year, our government had expenses that were \$220,920 more than the \$948,762 generated in taxes and other revenues for the governmental activities.
- The general fund reported a decrease in fund balance this year of \$32,786.
- The general fund budget was spent to within \$11,845.

USING THIS AUDIT REPORT

This annual report consists of a series of financial statements. The government-wide financial statements provide information about the activities of the government as a whole and present a longer-term view of the finances. Governmental fund financial statements tell how these services were financed in the short term, as well as, what remains for future spending. Fund financial statements also report the government's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which the government acts solely as a trustee or agent for the benefit of those outside of the government.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide financial statements One of the most important questions asked about the government's finances is, "Is the district as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the government as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report net position and the changes in it. You can think of net position—the difference between assets and liabilities—as one way to measure the government's financial health, or financial position. Over time, increases or decreases in net position is one indicator of whether financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the property tax base, economy, enrollment and changes in the State's funding of educational costs to assess the overall health.

Fund financial statements The fund financial statements provide detailed information about the most significant funds—not the government as a whole. Some funds are required to be established by State law. Also, the governing body establishes many other funds to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other money. We utilize the following funds:

Governmental funds—Basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations.

Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds use the accrual basis of accounting. We exclude these activities from the other financial statements because we cannot use these assets to finance our operations. We are responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE GOVERNMENT AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In our case, assets exceeded liabilities by \$694,849 as of June 30, 2014, with net position decreasing \$62,019. The decrease in net position resulted mainly from the district increasing its operations and maintenance spending and having higher than anticipated personnel costs due to changes in student demographics. Following are schedules of net position and change in net position.

SCHOOL DISTRICT NUMBERS J15-17 & 15
MANAGEMENT'S DISCUSSION & ANALYSIS

NET POSITION:	<u>2014</u>	<u>2013</u>	<u>Change</u>
Current and other assets	\$ 360,764	\$ 505,941	\$ (145,177)
Capital assets	<u>345,670</u>	<u>259,930</u>	<u>85,740</u>
Total assets	<u>706,434</u>	<u>765,871</u>	<u>(59,437)</u>
Long-term liabilities	<u>11,585</u>	<u>9,003</u>	<u>2,582</u>
Total liabilities	<u>11,585</u>	<u>9,003</u>	<u>2,582</u>
Net position:			
Net investment in capital assets	345,670	259,930	85,740
Restricted	169,481	297,725	(128,244)
Unrestricted	<u>179,698</u>	<u>199,213</u>	<u>(19,515)</u>
	<u>\$ 694,849</u>	<u>\$ 756,868</u>	<u>\$ (62,019)</u>
CHANGE IN NET POSITION:	<u>2014</u>	<u>2013</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 13,422	\$ 15,068	\$ (1,646)
Operating grants and contributions	145,479	144,570	909
General revenues:			
Taxes	320,135	306,795	13,340
State sources	533,848	506,629	27,219
County sources	71,115	70,565	550
Interest	3,274	3,735	(461)
Miscellaneous	15,083	7,069	-
Gain on disposal of capital assets	<u>5,307</u>	<u>-</u>	<u>5,307</u>
Total revenues	<u>1,107,663</u>	<u>1,054,431</u>	<u>45,218</u>
Expenses:			
Instruction	655,038	570,255	84,783
Support services-students	26,802	24,578	2,224
Support services-instructional staff	3,301	3,240	61
Support services-general administration	84,919	93,590	(8,671)
Support services-administration	21,664	20,647	1,017
Support services-business	65,288	65,692	(404)
Operation and maintenance	151,014	112,723	38,291
Student transportation	71,821	61,326	10,495
Food services	74,471	69,054	5,417
Extracurricular	<u>15,364</u>	<u>15,774</u>	<u>(410)</u>
Total expenses	<u>1,169,682</u>	<u>1,036,879</u>	<u>132,803</u>
Change in net position	(62,019)	17,552	(87,585)
Net position, beginning	<u>756,868</u>	<u>739,316</u>	<u>17,552</u>
Net position, ending	<u>\$ 694,849</u>	<u>\$ 756,868</u>	<u>\$ (70,033)</u>

SCHOOL DISTRICT NUMBERS J15-17 & 15
MANAGEMENT'S DISCUSSION & ANALYSIS

FUND FINANCIAL STATEMENTS

Fund balance for the General fund, the main operating fund, decreased by \$32,786. The decrease occurred mainly because we re-appropriated approximately \$19,000 in fund balance from the prior year and increased our operations and maintenance spending.

Fund balance for the Elementary Miscellaneous Programs fund decreased by \$5,497. The decrease was the result of the district spending a portion of its deferred maintenance allocation during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital asset additions included a new bus and a new electronic reader board. As of June 30, 2014, the district had no bonded debt. Long-term debt consists of accumulated leave.

THE GOVERNMENT'S FUTURE

Our district, like most small rural districts in the state of Montana, has been hurt by the State's lack of funding and declining enrollment. Although enrollment has been steady, we are always concerned about declining enrollment. Our local voters have been very good about passing mill levies over the past years. Fortunately for us, at this time we have not had to cut any programs or personnel.

We hope that the legislature will find a more equitable funding formula for education. Most of the rural school districts in Montana are enduring declining enrollments, which hurts them financially and adds a tremendous tax burden on city and county residents.

The prospect of building a new school in the district is slim, unless we have some type of economic boom. Therefore the upkeep and maintenance on our existing building has been a priority. Again, the local voters in the elementary district have been extremely good about passing building reserve levies. With these levies we have replaced windows, doors, and the building roof. We have also been able to perform routine repairs and maintenance on the building.

SCHOOL DISTRICT NUMBERS J15-17 & 15
STATEMENT OF NET POSITION
June 30, 2014

ASSETS	
Cash and cash equivalents	\$ 315,133
Receivables:	
Taxes	15,874
Governments	29,757
Capital assets:	
Land	4,900
Capital assets, net of accumulated depreciation	<u>340,770</u>
Total assets	<u>706,434</u>
 LIABILITIES	
Long-term liabilities:	
Compensated absences:	
Due within one year	1,159
Due in more than one year	<u>10,426</u>
Total liabilities	<u>11,585</u>
 NET POSITION	
Net investment in capital assets	345,670
Restricted for:	
Instruction	43,828
Support services:	
Students	712
General administration	2,123
School administration	556
Business services	1,107
Operation and maintenance	31,646
Student transportation	70,593
Food services	8,222
Extracurricular	182
Capital projects	10,512
Unrestricted	<u>179,698</u>
Total net position	<u><u>\$ 694,849</u></u>

SCHOOL DISTRICT NUMBERS J15-17 & 15
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Instruction	\$ 655,038	\$ -	\$ 115,899	\$ (539,139)
Support services:				
Students	26,802	-	-	(26,802)
Instructional staff	3,301	-	3,301	-
General administration	84,919	-	-	(84,919)
School administration	21,664	-	-	(21,664)
Business services	65,288	-	-	(65,288)
Operation and maintenance	151,014	-	-	(151,014)
Student transportation	71,821	-	8,032	(63,789)
Food services	74,471	13,422	18,247	(42,802)
Extracurricular	15,364	-	-	(15,364)
Total	\$ 1,169,682	\$ 13,422	\$ 145,479	(1,010,781)
General revenues:				
Property taxes				320,135
Intergovernmental:				
State aid				489,921
State other				43,927
County				71,115
Interest				3,274
Miscellaneous				15,083
Gain on disposal of capital assets				5,307
Total general revenues				948,762
Change in net position				(62,019)
Net position - beginning				756,868
Net position - ending				\$ 694,849

SCHOOL DISTRICT NUMBERS J15-17 & 15
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2014

Total fund balances, governmental funds	\$ 344,890
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	345,670
Other long-term assets are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the funds.	15,874
Some liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not included in the funds.	<u>(11,585)</u>
Net position of governmental activities	<u>\$ 694,849</u>

SCHOOL DISTRICT NUMBERS J15-17 & 15
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General	Elementary Miscellaneous Programs	Total Nonmajor Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 270,441	\$ -	\$ 49,511	\$ 319,952
Intergovernmental:				
County	-	-	75,131	75,131
State aid	535,620	-	1,445	537,065
State other	48,042	-	16,844	64,886
Federal	-	41,825	31,535	73,360
Charges for services	-	-	13,422	13,422
Interest	1,679	-	1,595	3,274
Miscellaneous	704	-	14,379	15,083
Total revenues	856,486	41,825	203,862	1,102,173
EXPENDITURES				
Current:				
Instruction	499,350	40,169	98,346	637,865
Support services:				
Students	23,188	-	3,614	26,802
Instructional staff	-	1,792	1,509	3,301
General administration	64,263	-	20,297	84,560
School administration	18,605	-	3,432	22,037
Business services	57,925	-	6,236	64,161
Operation and maintenance	136,719	5,361	8,934	151,014
Student transportation	14,125	-	42,178	56,303
Food services	42,417	-	31,819	74,236
Extracurricular	13,359	-	934	14,293
Capital outlay	19,321	-	93,640	112,961
Total expenditures	889,272	47,322	310,939	1,247,533
Net change in fund balances	(32,786)	(5,497)	(107,077)	(145,360)
Fund balances - beginning	151,675	45,735	292,840	490,250
Fund balances - ending	\$ 118,889	\$ 40,238	\$ 185,763	\$ 344,890

SCHOOL DISTRICT NUMBERS J15-17 & 15
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds	\$ (145,360)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
This is the amount by which capital outlay (\$112,961), exceeded depreciation (\$32,528) in the current period.	80,433
The net effect of various transactions involving capital assets (i.e., sales, donations and trade-ins) is to increase net position.	5,307
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	183
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	
Compensated absences	<u>(2,582)</u>
Change in net position of governmental activities	<u>\$ (62,019)</u>

SCHOOL DISTRICT NUMBERS J15-17 & 15
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
June 30, 2014

	Private Purpose Trust Fund- Extracurricular	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 15,633	\$ 168
Total assets	15,633	\$ 168
LIABILITIES		
Accounts payable	-	\$ 168
Total liabilities	-	\$ 168
NET POSITION		
Held in trust	\$ 15,633	

SCHOOL DISTRICT NUMBERS J15-17 & 15
 STATEMENT OF CHANGES IN NET POSITION
 FIDUCIARY FUND
 For the Year Ended June 30, 2014

	Private Purpose Trust Fund- Extracurricular
ADDITIONS	
Student extracurricular activities	\$ 23,230
Total additions	23,230
DEDUCTIONS	
Student extracurricular activities	22,257
Total deductions	22,257
Change in net position	973
Net position - beginning	14,660
Net position - ending	\$ 15,633

SCHOOL DISTRICT NUMBERS J15-17 & 15
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the government have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

The government's significant accounting policies are described below.

Reporting Entity

The government was established under Montana law to provide educational services below the college and university level to residents of the district. The government consists of two legally separate entities: an elementary district and a high school district. Both are managed by a central Board of Trustees, elected in a district wide election and by a central administration appointed by and responsible to the Board.

The County provides substantial services to the government; tax billing, cash collections, debt payments and warrant redemption. The County also maintains the government's cash and invests available funds at the direction of the government. The County Commissioners have a legal obligation to set levy amounts and to approve the budget adopted by the government. However, despite the degree of services provided, the government does not qualify as a component unit of the County.

Although the government consists of two separate statutory entities, it is managed and operated as a single primary government. These financial statements present, as a single reporting entity, all activities of the primary government. A primary government is defined as having a separately elected governing body, being legally separate, and fiscally independent.

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Fiduciary funds are excluded from the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include 1) charges for services which report fees and other charges provided by a given function or identifiable activity 2) operating grants and contributions and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

SCHOOL DISTRICT NUMBERS J15-17 & 15
NOTES TO BASIC FINANCIAL STATEMENTS

The government reports the following major governmental funds:

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

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specific purposes other than debt service or capital projects. The following special revenue fund is reported as major.

The elementary miscellaneous programs fund accounts for resources accumulated and expended for federal, state and local grants and contributions.

Additionally, the government reports the following fund types:

The government has a private-purpose trust fund, the student extracurricular fund, which accounts for the extracurricular student activities.

Agency funds are custodial in nature and are used to account for assets that the government holds for others in an agency capacity.

Assets, Liabilities, Deferred Inflows and Net Position/Fund Balance

Cash and Investments

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

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

Receivables

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

Inventories

All inventories are valued at cost. Inventories are recorded as expenses when consumed rather than when purchased. Inventory at year-end was not material and, therefore, not recorded.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., sidewalks and similar items) are reported in the government-wide financial statements. The government has elected not to report major infrastructure assets retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

SCHOOL DISTRICT NUMBERS J15-17 & 15
NOTES TO BASIC FINANCIAL STATEMENTS

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

<u>Assets</u>	<u>Years</u>
Building and improvements	20-100
Machinery and equipment	5-15

Collections Not Capitalized

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

Compensated Absences

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

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

Sick leave is accumulated for classified employees at the rate of 12 days per year with no limit on the carry over amount. Sick leave for certified personnel (teachers) is awarded at 10 days per year up to a cumulative maximum of 40 days. Upon retirement or resignation, classified and certified employees are eligible for sick leave compensation at one fourth of the accumulated amount.

Long-term Obligations

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

Deferred Inflows of Resources

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

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

Net Position

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

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

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

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

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

SCHOOL DISTRICT NUMBERS J15-17 & 15
NOTES TO BASIC FINANCIAL STATEMENTS

Fund Balance

In the fund statements, governmental fund equity is classified as fund balance. The following classifications describe the relative strength of the spending constraints:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed fund balance - amounts constrained to specific purposes by the government itself, using its highest level of decision-making authority (i.e., governing body). The government establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned fund balance - amounts the government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The governing body has by resolution authorized the clerk to assign fund balance. Assigned fund balance in the general fund represents year-end encumbrances.

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

Use of Estimates

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

NOTE 2. DETAILED NOTES ON ALL FUNDS

Equity in Pooled Cash and Investments

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

The extracurricular and flexible benefits funds bank balances were entirely insured by the FDIC.

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

SCHOOL DISTRICT NUMBERS J15-17 & 15
NOTES TO BASIC FINANCIAL STATEMENTS

Capital Assets

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

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets, not being depreciated				
Land	\$ 4,900	\$ -	\$ -	\$ 4,900
Total capital assets, not being depreciated	4,900	-	-	4,900
Capital assets, being depreciated				
Buildings/improvements	392,734	-	-	392,734
Machinery and equipment	241,081	121,427	(51,683)	310,825
Total capital assets, being depreciated	633,815	121,427	(51,683)	703,559
Less accumulated depreciation for:				
Buildings/improvements	(266,369)	(10,958)	-	(277,327)
Machinery and equipment	(112,416)	(21,570)	48,524	(85,462)
Total accumulated depreciation	(378,785)	(32,528)	48,524	(362,789)
Total capital assets, being depreciated, net	255,030	88,899	(3,159)	340,770
Capital assets, net	\$ 259,930	\$ 88,899	\$ (3,159)	\$ 345,670

Depreciation expense was charged as follows:

Instruction	\$ 14,850
Support services-general administration	308
Support services-administration	238
Support services-business	240
Student transportation	15,821
Extracurricular	1,071
	<u>1,071</u>
	<u>\$ 32,528</u>

Long-Term Debt

The government's compensated absences balance increased \$2,582 to \$11,585 as of June 30, 2014. \$1,159 is considered a current liability. Compensated absences are generally liquidated by the general fund.

NOTE 3. OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; professional liability (i.e., errors and omissions); workers compensation (i.e., employee injuries); medical insurance costs; and environmental damages. A variety of methods is used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for theft, damage or destruction of assets, professional liabilities and employee medical costs. The government participates in the Montana Schools Group's Workers' Compensation Risk Retention Program, a state-wide public risk pool currently operating as a common risk management and insurance program for the member school districts. The government pays quarterly premiums for its employee injury insurance coverage. The agreement for formation of the pool provides that it will be self-sustaining through member premiums. There are no deductibles or maximum coverage limits in the plan. Given lack of coverage available, the government has no coverage for potential losses from environmental damages. Coverage limits and the deductibles on the commercial policies have remained relatively constant for the last several years. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

SCHOOL DISTRICT NUMBERS J15-17 & 15
NOTES TO BASIC FINANCIAL STATEMENTS

Interlocal Cooperative

The government participates with other school districts located in Park, Gallatin and Madison County in the Gallatin/Madison/Park Educational Related Services Consortium. The Consortium provides special education services to its member schools.

Commitments and Contingencies

At year-end, the government had commitments outstanding, in the form of purchase orders, of \$22,580, primarily for instructional supplies and repairs. The following schedule displays encumbrances by major funds and nonmajor funds in the aggregate.

	General Fund	Elementary Miscellaneous Programs Fund	Total Nonmajor Funds	Total Governmental Funds
Restricted:				
Support services:				
Operation and maintenance	\$ -	\$ 6,655	\$ 1,681	\$ 8,336
Assigned:				
Instruction	1,740	-	-	1,740
Support services:				
Operation and maintenance	12,504	-	-	12,504
	\$ 14,244	\$ 6,655	\$ 1,681	\$ 22,580

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

The government is a defendant in a lawsuit. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the government.

Retirement Plans

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

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

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

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

TRS:

A "tier 1 member" is a person who became a member before July 1, 2013 and who has not withdrawn his/her account balance. A "tier 2 member" is a person who became a member on or after July 1, 2013 or who, after withdrawing his/her account balance, became a member again on or after July 1, 2013. Effective July 1, 2013, the Tier 1 member supplemental contribution may be decreased, and a Tier 2 member may be required to contribute a supplemental contribution, under circumstances described in Section 19-20-608, MCA. Also, the employer supplemental contribution may be decreased under circumstances described in Section 19-20-609, MCA.

PERS:

On January 1 following an actuarial valuation, the employee contribution rate will be reduced to 6.9%, and the additional contributions by the employer (1%) and the State of Montana will terminate, if the actuarial valuation determines that these reductions and terminations

SCHOOL DISTRICT NUMBERS J15-17 & 15
NOTES TO BASIC FINANCIAL STATEMENTS

would not cause the amortization period to exceed 25 years. Effective July 1, 2013, retired members who return to active service are subject to the above employee, employer, and state contributions. For retired members who return to work in a covered position, but who have not become active members, the employer and state shall contribute the amounts specified in Sections 19-3-316 and 319. (MCA 19-3-1113)

The State of Montana contributes .37% and 2.49% per year to the PERS and TRS plans, respectively, on behalf of the employer. The State of Montana TRS on behalf (\$10,525) contributions has been recorded in the financial statements.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
TRS	\$ 70,254	\$ 53,631	\$ 55,564
PERS	<u>15,600</u>	<u>14,963</u>	<u>14,093</u>
	<u>\$ 85,854</u>	<u>\$ 68,594</u>	<u>\$ 69,657</u>

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

Statement No. 68 - Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. Effective Date: The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014.

Statement No. 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68 Effective Date: The provisions of this Statement should be applied simultaneously with the provisions of Statement 68.

REQUIRED SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT NUMBERS J15-17 & 15
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
REVENUES					
Property taxes	\$ 270,887	\$ 270,887	\$ 270,441	\$ -	\$ 270,441
Intergovernmental:					
State aid	535,620	535,620	535,620	-	535,620
State other	37,517	37,517	37,517	10,525	48,042
Interest	1,477	1,477	1,679	-	1,679
Miscellaneous	-	-	704	-	704
	<u>845,501</u>	<u>845,501</u>	<u>845,961</u>	<u>10,525</u>	<u>856,486</u>
Total revenues					
EXPENDITURES					
Total expenditures	<u>864,080</u>	<u>864,080</u>	<u>852,235</u>	<u>37,037</u>	<u>889,272</u>
Net change in fund balances	<u>\$ (18,579)</u>	<u>\$ (18,579)</u>	(6,274)	(26,512)	(32,786)
Fund balances - beginning			<u>110,919</u>	<u>40,756</u>	<u>151,675</u>
Fund balances - ending			<u>\$ 104,645</u>	<u>\$ 14,244</u>	<u>\$ 118,889</u>

SCHOOL DISTRICT NUMBERS J15-17 & 15
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2014

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

State law requires budgets be prepared for certain funds - generally those supported by property tax revenues. Budgets are prepared on the modified accrual basis. State law requires only that a fund's total expenditures not exceed total budgeted expenditures. Budgets may be amended as defined by State law. The elementary and high school transportation funds budgets were amended during the year due to unanticipated route changes.

The general fund budget is based on the State of Montana's foundation program which is based primarily on enrollment. Budgets of other funds are based on expected revenues and expenditures. The Board of Trustees approves the original budget not later than August 25th.

State law permits the inclusion of obligations (encumbrances) for construction in progress and the purchase of personal property as expenditures for budget purposes. The budget to GAAP differences consist of the net change in encumbrances and the state on-behalf TRS retirement contribution.

A budget is not adopted for the elementary miscellaneous programs fund (a major special revenue fund) because it is not legally required and, therefore, presentation of budgetary comparison information is not required.

OTHER SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT NUMBERS J15-17 & 15
EXTRACURRICULAR FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2014

Activity	Balance July 1, 2013	Revenues	Expenditures	Transfers In (Out)	Balance June 30, 2014
Athletics	\$ 1,205	\$ 3,047	\$ 2,721	\$ -	\$ 1,531
Trophy	88	332	115	-	305
Student Council	730	-	320	(4)	406
Band	112	1,380	843	-	649
Annual	1,893	2,576	2,591	-	1,878
Art Fund	(1)	-	-	1	-
Equipment Fundraiser	1,041	-	690	(6)	345
Operation Field Trip	487	2,860	2,515	-	832
Kindergarten	8	15	50	322	295
Grade 1	162	609	814	322	279
Grades 2 and 3	95	17	58	322	376
A Club	427	-	-	(2)	425
Newspaper-Drama	643	-	-	(4)	639
Honor Society	1,106	559	471	-	1,194
Tumbling	130	-	-	(1)	129
Class of 2010	(8)	-	-	8	-
Class of 2012	66	-	66	-	-
Class of 2013	25	-	25	-	-
Class of 2014	1,918	3,059	4,282	-	695
Class of 2015	539	155	112	-	582
Class of 2016	592	672	165	-	1,099
Class of 2017	277	-	-	(139)	138
Class of 2018	-	406	63	139	482
Miscellaneous-Reimbursable	(25)	2,500	2,490	15	-
Close-up	777	-	-	(4)	773
Ski Trip	35	1,185	1,202	-	18
Playground	257	-	-	(1)	256
Grades 4, 5 and 6	431	3,366	2,164	(965)	668
Sports Calendar	312	-	-	(3)	309
Scholarship	1,338	492	500	-	1,330
Total	\$ 14,660	\$ 23,230	\$ 22,257	\$ -	\$ 15,633

SCHOOL DISTRICT NUMBERS J15-17 & 15
 SCHEDULE OF SCHOOL DISTRICT ENROLLMENT
 For the Year Ended June 30, 2014

	Reported Enrollment	Enrollment per Records	Difference
FALL ENROLLMENT - October 2013			
<u>Elementary District</u>			
Kindergarten	7	7	-
Grades one through six	24	24	-
Grades seven and eight	9	9	-
	<u>40</u>	<u>40</u>	<u>-</u>
<u>High School District</u>			
Grades nine through twelve	<u>15</u>	<u>15</u>	<u>-</u>
WINTER ENROLLMENT - December 2013			
<u>Elementary District</u>			
Kindergarten	7	7	-
Grades one through six	24	24	-
Grades seven and eight	9	9	-
	<u>40</u>	<u>40</u>	<u>-</u>
<u>High School District</u>			
Grades nine through twelve	<u>15</u>	<u>15</u>	<u>-</u>
SPRING ENROLLMENT - February 2014			
<u>Elementary District</u>			
Kindergarten	7	7	-
Grades one through six	23	23	-
Grades seven and eight	9	9	-
	<u>39</u>	<u>39</u>	<u>-</u>
<u>High School District</u>			
Grades nine through twelve	<u>14</u>	<u>14</u>	<u>-</u>

OLNESS & ASSOCIATES, P. C.

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

To the Board of Trustees
School District Numbers J15-17 & 15
Willow Creek, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District Numbers J15-17 & 15, Willow Creek, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated November 6, 2014. The report on the governmental activities was qualified because management has not recorded the other post-employment benefit (OPEB) liability and related expense.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. (Findings 2014-001 through 2014-004)

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency. (Finding 2014-005)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the government's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2014-004 and 2014-005.

The Government's Response to Findings

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

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

Purpose of this Report

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

O'neal & Associates, PC

Billings, Montana
November 6, 2014

SCHOOL DISTRICT NUMBERS J15-17 & 15
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2014

2014-001. FINANCIAL STATEMENT PREPARATION

Criteria: We were engaged to assist in the preparation of the government's financial statements. The government ensures the quality of its financial statements by engaging a qualified audit firm with expertise in governmental audits and by reading a preliminary draft of the financial statements.

Condition: The government does not have specific controls in place to review the selection and application of accounting principles and resulting disclosures and presentations within the financial statements.

Cause: The government is a small organization with limited resources.

Effect: It is common within the governmental sector to rely on the audit firm to prepare the financial statements; however, an audit firm cannot be considered part of the government's internal control by professional standards currently in effect. Since some presentations and disclosures may be material to the financial statements, this weakness in internal control would be classified as material.

Recommendation: The government should continue to read its draft financial statements and ensure the quality of the document and the preparer.

Client Response: The cost of having qualified staff to prepare GAAP financial statements and notes would far outweigh the benefits. Our auditors will continue to prepare the financial statements and notes. We will assume responsibility for the statements and make representations about them to the auditors.

2014-002. SEGREGATION OF DUTIES

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

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

Cause: The extent to which the government can segregate duties is limited based on the number of personnel, their skill set and work load, and organizational structure.

Effect: The risk of errors or irregularities occurring and not being detected in a timely manner increases when a lack of segregation of duties exists.

Recommendation: There are inherent inefficiencies with full segregation of duties and inherent risks with the lack of segregation of duties. The cost versus benefits for both should be considered. The government should continue to evaluate its segregation of duties and when possible assign tasks to strengthen controls.

Client Response: We feel that we meet these criteria as much as possible for the size of the school. The Superintendent approves all purchases, items are ordered and received by the superintendent, secretary or teacher requesting the item, the clerk pays the invoice and the superintendent and school board review and approve all claims.

2014-003. OTHER POSTEMPLOYMENT LIABILITY NOT RECORDED

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

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

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

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

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

Client Response: The Board of Trustees feels that the cost of hiring an actuary for one retiree is not beneficial at this time.

SCHOOL DISTRICT NUMBERS J15-17 & 15
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2014

2014-004. WAGE ALLOCATION

Criteria: Per ARM 10.10.303(1), for certain shared costs such as administrative costs, food service salaries, etc., that cannot reasonably be identified directly to either the elementary district or high school district, the school district administration should prepare a formal cost allocation plan that reasonably distributes such costs between districts. Further, per ARM 10.10.303, Appendix E, the portion of administration's time spent on transportation issues should approximate the portion of the salaries charged to the transportation funds.

Condition: The district charged 50 percent of the head cook's salary to each of the district's general funds when elementary enrollment comprises approximately 75 percent of the district total. Further, the district charged 20 percent of the superintendent's salary to the transportation funds. However, no documentation was on file at the district to support the administrative charges.

Cause: Unknown.

Effect: Excess charges to high school general and the elementary and high school transportation funds.

Recommendation: Allocation of food service and administrative salaries to the general and transportation funds should be based on actual time and effort.

Client Response: A spreadsheet will be utilized to document the amount of time through the year that the Superintendent works on transportation related items in order to properly allocate the amount of salary from the transportation funds. The head cook's wages are now being allocated between the elementary and high school, based on current year ANB. The district has adopted a formal cost allocation plan.

2014-005. HIGH SCHOOL RETIREMENT BUDGET

Criteria: Per Section 20-9-501(2), MCA, only the amount of the employer's contributions to the Teachers' Retirement System (TRS), the Public Employees' Retirement System (PERS), the Social Security Administration (FICA), and the Unemployment Compensation Division are to be included in the retirement fund budget.

Condition: The high school retirement fund budget was overstated by approximately \$17,000.

Cause: Unknown.

Effect: Overstatement of the levy in the countywide retirement fund. An overstatement of a district's budgeted expenditures may result in state overpayment of GTB in the countywide retirement fund.

Recommendation: The district should develop budget preparation and review procedures to ensure the accuracy of the district's annual budget document.

Client Response: This was an unfortunate error on the districts part. Budget preparation procedures will be reviewed carefully to ensure this type of error will not happen again.

SCHOOL DISTRICT NUMBERS J15-17 & 15
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

<u>PRIOR YEAR FINANCIAL STATEMENT FINDINGS</u>	<u>STATUS</u>
2013-1. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2013-2. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE
2013-3. OTHER POSTEMPLOYMENT BENEFIT LIABILITY NOT RECORDED	NOT IMPLEMENTED
2013-4. CASH RECONCILIATIONS NOT COMPLETE OR ACCURATE	IMPLEMENTED
2013-5. SMALL RURAL SCHOOL ACHIEVEMENT PROGRAM	IMPLEMENTED
2013-6. EMPLOYEE STIPENDS	IMPLEMENTED