

ASHLAND SCHOOL DISTRICT NO. 32J

**ROSEBUD COUNTY
ASHLAND, MONTANA**

FINANCIAL AND COMPLIANCE REPORT

Fiscal year Ended June 30, 2014

Strom & Associates, P. C.

**PO BOX 1980
Billings, Montana 59103**

Ashland School District No. 32J
 Rosebud County
 Ashland, Montana 59003

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Ashland School District No. 32J
Rosebud County
Ashland, Montana 59003

ORGANIZATION

BOARD OF TRUSTEES

| | |
|-----------------|------------|
| William Thex | Chair |
| Anna Crow | Vice Chair |
| Richard Cameron | Trustee |
| Doug Hopkins | Trustee |
| Dick Fletcher | Trustee |

OFFICIALS

| | |
|----------------|-----------------------|
| Jennifer Smith | Superintendent |
| Monica Morgan | District Clerk |
| Joby Parker | County Superintendent |
| Kristine White | County Attorney |

**ASHLAND PUBLIC SCHOOL
SCHOOL DISTRICT 32J, ROSEBUD COUNTY
ASHLAND, MONTANA**

**Management Discussion and Analysis (MD&A)
June 30, 2014**

The Business Manager of Ashland Public School District has provided this management's discussion and analysis to provide the reader of these statements an overview of the financial position and activities of the school district for the year covered in this financial report.

FINANCIAL HIGHLIGHTS

The District's financial position was stable in 2014. Enrollment has been fairly stable and the District made its final payment to the County of Rosebud for the loan taken out in 2011 in 2014 and was finally able to accumulate reserves. This is the 9th year the district has produced a GASB 34 report and recorded depreciation expenses as required by GASB 34.

REPORTING THE SCHOOL DISTRICT AS A WHOLE

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

- A. The Statement of Net Position (page 9) shows the "assets" (what is owned), "liabilities" (what is owed) and the "net position" (the resources that would remain if all obligations were settled) of the school district. The statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in "fixed" or "capital" assets, such as buildings, equipment and other long-lived property; and some assets are available to fund budgets of the following year.
- B. The Statement of Activities, (page 10) shows the amounts of program specific and general school district revenues used to support the school district's various functions.

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

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

The fund statements report balances and activities of the most significant, or "major" funds separately and combine the activities of less significant funds under a single category. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the school district's operations, and the existence of legal budget requirements.

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

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

REPORTING THE DISTRICT'S TRUST AND FIDUCIARY RESPONSIBILITIES

The district is the trustee, or fiduciary, for the student extracurricular fund. This report includes the activities in a separate Statement of Fiduciary Net Position and Changes in Fiduciary Net Position (page 14) because the district cannot use these assets to fund its operations. The district is responsible for ensuring these assets are used for their intended purpose.

BUDGET-TO-ACTUAL COMPARISONS

The budgetary comparison schedules on page (25) show how actual expenditures compared to the original and final budgeted expenditures for the general fund. The district did not experience any significant variances between the original and final expenditure budget and the final budget and actual expenditures.

THE DISTRICT AS A WHOLE

1. Changes in Net Position

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

| NET POSITION | Governmental Activities | | | |
|----------------------------------|-------------------------|-------------------|--------------------|-----------------|
| | <u>2014</u> | <u>2013</u> | <u>CHANGE</u> | <u>% CHANGE</u> |
| Current Assets | \$ 520,740 | \$ 565,342 | \$ (44,602) | -7.89% |
| Capital Assets, net | <u>530,340</u> | <u>577,242</u> | <u>(46,902)</u> | <u>-8.13%</u> |
| Total Assets | <u>1,051,080</u> | <u>1,142,584</u> | <u>(91,504)</u> | <u>-8.01%</u> |
| Current Liabilities | 97,635 | 110,862 | (13,227) | -11.93% |
| Long Term Liabilities | <u>47,871</u> | <u>39,168</u> | <u>8,703</u> | <u>22.22%</u> |
| Total Liabilities | <u>145,506</u> | <u>150,030</u> | <u>(4,524)</u> | <u>-3.02%</u> |
| Net Position: | | | | |
| Net Investment in Capital Assets | 530,340 | 577,242 | (46,902) | -8.13% |
| Restricted | 47,488 | 133,558 | (86,070) | -64.44% |
| Unrestricted | <u>327,746</u> | <u>281,754</u> | <u>45,992</u> | <u>16.32%</u> |
| Total Net Position | <u>\$ 905,574</u> | <u>\$ 992,554</u> | <u>\$ (86,980)</u> | <u>-8.76%</u> |

2. General and Program Revenues

| CHANGES IN NET POSITION | Governmental Activities | | | |
|------------------------------------|-------------------------|-----------|-----------|-----------|
| | 2014 | 2013 | CHANGE | % CHANGE |
| Revenues | | | | |
| Program Revenues: | | | | |
| Charges for Services | \$ 12,152 | \$ 10,932 | \$ 1,220 | \$ 11.16% |
| Operating Grants | 483,309 | 781,965 | (298,656) | -38.19% |
| General Revenues: | | | | |
| District Levies | 109,496 | 149,361 | (39,865) | -26.69% |
| State Equalization | 240,289 | 228,319 | 11,970 | 5.24% |
| Other State Revenues | 247,747 | 244,267 | 3,480 | 1.42% |
| County | 74,679 | 90,820 | (16,141) | -17.77% |
| Federal | 245,447 | 335,213 | (89,766) | -26.78% |
| Interest | 2,733 | 4,674 | (1,941) | -41.53% |
| Other | 3,262 | 2,783 | 479 | 17.20% |
| Total Revenues | 1,419,114 | 1,848,334 | (429,220) | -23.22% |
| Program Expenses | | | | |
| Instructional Services | 876,684 | 1,044,136 | (167,452) | -16.04% |
| Support Services | 90,701 | 83,096 | 7,605 | 9.15% |
| Educational Media Services | 1,204 | 1,244 | (40) | -3.23% |
| General Administrative Services | 183,780 | 180,472 | 3,308 | 1.83% |
| Operation & Maintenance Services | 180,564 | 166,095 | 14,469 | 8.71% |
| Transportation Services | 43,547 | 24,714 | 18,833 | 76.20% |
| School Food Services | 69,610 | 49,317 | 20,293 | 41.15% |
| Extracurricular | 5,913 | 7,696 | (1,783) | -23.17% |
| Interest and other charges | 157 | 9,946 | (9,789) | -98.42% |
| Unallocated Depreciation Expense * | 34,332 | 34,330 | 2 | 0.01% |
| Total Expenses | 1,486,492 | 1,601,046 | (114,554) | -7.15% |
| Change in Net Position | (67,377) | 247,288 | (314,665) | |

CHANGES IN FINANCES CAUSED BY CHANGES IN PROGRAMS

Budgets continue to get tighter in Ashland. Our federal program awards remained fairly consistent this year. 87% of Ashland's general fund is committed to salaries and health benefits.

1. Significant Events and Trend

The teachers in Ashland are seeking larger wage increases every year and increased numbers in teaching staff. The District pays 100% of any employee's health insurance premiums which cost the district \$700.00 per month who works at least 20 hours per week. The continued increases in utility and fuel costs are also detrimental to the schools budget.

2. One of the problems that the District faces is the fact that students continually come and go. This is the fifth year St. Labre has requested their portion of the federal funds which has put the district in a bind financially.

ANALYSIS OF FINANCIAL INFORMATION

The following analysis is provided to help the reader understand the major operations of the school district, where the resources come from, what the resources are used for, and trends, decisions and events that are expected to affect the district's financial situation in the future. Historical information from one or more prior years is shown to illustrate trends, problems and achievement of the district's goals.

1. What does the School do?

Ashland Public School's main purpose is to educate children; therefore their costs revolve around instruction and supporting the instruction of students, transporting children to and from school, provided lunch to these students along with some extra-curricular activities.

2. Where does the money come from?

The majority of the money comes from 3 places; revenues from property taxes and state aid and Impact Aid. We also participate in federal programs.

3. What does it cost?

Ashland Public School spent \$530,339.69 to educate 75 students for the 2013-2014 school year. 62% was spent on regular education instructional services and 6% to special education instructional services. Administration costs were 12%, transportation costs were 3% and extracurricular accounted for another 1% of the budget. The remaining 16% were used for support services.

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

The capital assets of Ashland Public School are valued at \$879,518.00. The district has no debt.

5. Fund Deficits

The federal fund had a negative balance due to not getting cash requests to OPI in a timely manner.

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

The school's enrollment is fairly stable. Utility and gas costs are much higher year after year. Food and delivery costs increase each year. These are the trends that continue to have the biggest effect on the district.

CONTACT FOR FURTHER INFORMATION

Monica Morgan, District Clerk
mmorgan@metnet.mt.gov

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Ashland School District No. 32J
Rosebud County
Ashland, Montana 59003

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 Ashland School District No. 32J as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School 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 Ashland School District No. 32J as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3 - 6) and the schedule of funding for other post-employment benefits other than pensions (pages 24) and budgetary comparison information (pages 25 - 27) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ashland School District No. 32J's basic financial statements. The accompanying schedule of revenues, expenses and balances student activity funds (page 28) and schedule of reported enrollment (page 29) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards (pages 30 - 31) is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2015 on our consideration of Ashland School District No. 32J 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 Ashland School District No. 32J internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC
Billings, Montana
April 22, 2015

Ashland School District No. 32J
 Rosebud County
 Ashland, Montana 59003

STATEMENT OF NET POSITION
 as of June 30, 2014

| | <u>Governmental Activities</u> |
|---------------------------------------|------------------------------------|
| ASSETS: | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 343,676 |
| Taxes Receivable | 4,507 |
| Due From Other Governments | <u>80,456</u> |
| Total Current Assets | <u>428,639</u> |
| Noncurrent Assets: | |
| Capital Assets: | |
| Land | 8,436 |
| Net Depreciable Assets | <u>521,904</u> |
| Total Noncurrent Assets | <u>530,340</u> |
| Total Assets | <u>\$ 958,979</u> |
| LIABILITIES: | |
| Current Liabilities | |
| Current Portions Compensated Absences | <u>5,534</u> |
| Total Current Liabilities | <u>5,534</u> |
| Noncurrent Liabilities: | |
| Long-Term Obligations | 22,290 |
| Compensated Absences | <u>25,581</u> |
| Total Noncurrent Liabilities | <u>47,871</u> |
| Total Liabilities | <u>53,405</u> |
| NET POSITION: | |
| Net investment in capital assets | 530,340 |
| Restricted | 47,488 |
| Unrestricted (Deficit) | <u>327,746</u> |
| Total Net Position | <u>905,574</u> |
| Total Liabilities and Net Position | <u>\$ 958,979</u> |

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

STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2014

| | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position |
|--------------------------------------|------------------|------------------------|--|---|
| | Expenses | Charge for Services | Operating Grants and Contributions | Primary Government Governmental Activities |
| GOVERNMENT OPERATIONS | | | | |
| Instructional Services | \$ 876,684 | \$ - | \$ 423,267 | \$ (453,417) |
| Support Services | 90,701 | - | 10,627 | (80,074) |
| Educational Media Services | 1,204 | - | - | (1,204) |
| General Administrative Services | 183,780 | - | - | (183,780) |
| Operation & Maintenance Services | 180,564 | 12,100 | 750 | (167,714) |
| Transportation Services | 43,547 | - | 12,009 | (31,538) |
| School Food Services | 69,610 | 52 | 36,657 | (32,900) |
| Extracurricular | 5,913 | - | - | (5,913) |
| Debt Service | | | | |
| Interest and other charges | 157 | - | - | (157) |
| Unallocated Depreciation Expense * | 34,332 | - | - | (34,332) |
| Total Governmental Activities | <u>1,486,492</u> | <u>12,152</u> | <u>483,309</u> | <u>(991,030)</u> |
| GENERAL REVENUES | | | | |
| District Levies | | | | 109,496 |
| State Equalization | | | | 240,289 |
| Other State Revenues | | | | 247,747 |
| County | | | | 74,679 |
| Federal | | | | 245,447 |
| Interest | | | | 2,733 |
| Other | | | | 3,262 |
| Total General Revenues | | | | <u>923,653</u> |
| Change in Net Position | | | | (67,377) |
| Net Position | | | | |
| Beginning of the Year | | | | 992,554 |
| Prior Period Adjustments | | | | (19,603) |
| End of the Year | | | | <u>\$ 905,574</u> |

* Excludes depreciation included in direct expenses of the various functions

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

BALANCE SHEET
 GOVERNMENTAL FUNDS
 as of June 30, 2014

| | MAJOR | | | Total Governmental Funds |
|---|-------------------|---------------------------|--------------------------------|--------------------------------|
| | General | Miscellaneous Programs | Other Governmental Funds | |
| ASSETS: | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | \$ 388,827 | \$ - | \$ 46,950 | \$ 435,777 |
| Taxes Receivable | 3,969 | - | 538 | 4,507 |
| Due From Other Governments | - | 80,456 | - | 80,456 |
| Total Assets | \$ 392,796 | \$ 80,456 | \$ 47,488 | \$ 520,740 |
| LIABILITIES: | | | | |
| Current Liabilities | | | | |
| Cash Overdraft | - | 89,610 | 2,490 | 92,101 |
| Total Liabilities | - | 89,610 | 2,490 | 92,101 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable Property Taxes Receivable | 3,969 | - | 538 | 4,507 |
| Total Deferred Inflows of resources | 3,969 | - | 538 | 4,507 |
| FUND BALANCE: | | | | |
| Fund Balances: | | | | |
| Restricted | - | - | 46,950 | 46,950 |
| Unassigned: | 388,827 | (9,155) | (2,490) | 377,182 |
| Total Fund Balance | 388,827 | (9,155) | 44,460 | 424,132 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balance | \$ 392,796 | \$ 80,456 | \$ 47,488 | \$ 520,740 |

RECONCILIATION TO THE STATEMENT OF NET POSITION

| | |
|--|-------------------|
| Total fund balance reported above | \$ 424,132 |
| Governmental Capital Assets | 530,340 |
| Long-term Liabilities | |
| Long-Term Obligations | (22,290) |
| Compensated Absences | (31,115) |
| Unavailable Property Taxes Receivable | 4,507 |
| Net Position of Governmental Activities | \$ 905,574 |

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2014

| | MAJOR | | | Total Governmental Funds |
|-------------------------------------|-------------------|---------------------------|--------------------------------|--------------------------------|
| | General | Miscellaneous Programs | Other Governmental Funds | |
| REVENUES: | | | | |
| District Levies | \$ 96,011 | \$ - | \$ 12,827 | \$ 108,839 |
| Interest | 2,156 | - | 577 | 2,733 |
| Charges for Services | - | - | 12,152 | 12,152 |
| Other | 4,089 | - | - | 4,089 |
| County | - | - | 79,349 | 79,349 |
| State | 513,233 | - | 10,467 | 523,701 |
| Federal | 245,447 | 405,490 | 36,657 | 687,595 |
| Total Revenues | 860,937 | 405,490 | 152,030 | 1,418,458 |
| EXPENDITURES: | | | | |
| Current | | | | |
| Instructional Services | 383,304 | 401,381 | 81,133 | 865,818 |
| Support Services | 73,380 | 10,627 | 6,694 | 90,701 |
| Educational Media Services | 1,204 | - | - | 1,204 |
| General Administrative Services | 159,448 | - | 24,787 | 184,235 |
| Operation & Maintenance Services | 156,935 | 750 | 15,002 | 172,687 |
| Transportation Services | 575 | 2,698 | 36,466 | 39,738 |
| School Food Services | 14,795 | - | 54,098 | 68,893 |
| Extracurricular | 5,388 | - | 525 | 5,913 |
| Principal | 70,000 | - | - | 70,000 |
| Interest and other charges | 157 | - | - | 157 |
| Total Expenditures | 865,186 | 415,455 | 218,704 | 1,499,346 |
| NET CHANGES IN FUND BALANCES | (4,250) | (9,965) | (66,674) | (80,888) |
| FUND BALANCE: | | | | |
| Beginning of the Year | 392,009 | 20,750 | 111,864 | 524,623 |
| Prior Period Adjustments | 1,068 | (19,940) | (731) | (19,603) |
| End of the Year | \$ 388,827 | \$ (9,155) | \$ 44,460 | \$ 424,132 |

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

Ashland School District No. 32J
Rosebud County
Ashland, Montana 59003

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 Changes in Fund Balance | | \$ | (80,888) |
| Revenues on the Statement of Activity not included in governmental funds statement: | | | |
| Increase (decrease) in taxes receivable | | | 657 |
| Expenses on the Statement of Activity not included in the governmental funds statement: | | | |
| Depreciation Expense | (46,902) | | |
| (Increase) decrease in Other Post Employment Benefits | (11,145) | | |
| (Increase) decrease in compensated absence liability | <u>901</u> | | (57,146) |
| Expenditures reported in the governmental funds statement not included in the Statement of Activity | | | |
| Principal payments on bonds | <u>70,000</u> | <u>70,000</u> | |
| Change in net position reported on the Statement of Activity | | \$ | <u>(67,377)</u> |

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

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

| | Private Purpose | |
|-----------------------------------|-----------------|--------------|
| | Trust Funds | Agency Funds |
| ASSETS: | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 2,843 | \$ 37,065 |
| Total Assets | 2,843 | 37,065 |
| LIABILITIES: | | |
| Current Liabilities | | |
| Warrants Payable | - | 37,065 |
| Total Liabilities | - | 37,065 |
| NET POSITION: | | |
| Restricted for Student Activities | 2,843 | |
| Total Net Position | \$ 2,843 | |

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 For the Year Ended June 30, 2014

| | Private Purpose | |
|----------------------------------|-----------------|--|
| | Trust Funds | |
| ADDITIONS: | | |
| Revenues from Student Activities | \$ 3,768 | |
| Total Additions | 3,768 | |
| DEDUCTIONS: | | |
| Expenses of Student Activities | 3,034 | |
| Total Deductions | 3,034 | |
| CHANGE IN NET POSITION | 734 | |
| NET POSITION: | | |
| Beginning of the Year | 1,783 | |
| Prior Period Adjustments | 326 | |
| End of the Year | \$ 2,843 | |

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

ASHLAND SCHOOL DISTRICT NO. 32J
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Year-Ended June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of Ashland School District No. 32J (School District) have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana, which conforms to generally accepted accounting principles (GAAP). The School District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

During fiscal year 2014 the School District adopted the following:

- GASB Statement No. 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The amendment revised existing guidance for financial report of pension systems for state and local government. The statement is applicable for fiscal year 2014. This statement affects the applicable retirement plan administration at the State level and did not have any effect on the School District.
- GASB Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees. The statement is applicable for fiscal year 2014. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The School District has not extend any financial guarantees to other parties. This statement has no effect on the financial statements.

The following are a listing of GASB statements which have been issued and the School District assessment of effects to the financial statements.

- GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. This statement revises and establishes new financial reporting requirement that provide employees with pension benefits. The statement is effective for fiscal year 2015. This statement will require the School District to expand its pension foot note disclosures. The School District plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.
- GASB Statement No. 69 – Government Combinations and Disposals of Government Operations. The statement is applicable for fiscal year 2015. The statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The School District is not merging with another School District or ceasing to exist. This statement has no effect on the financial statements.
- GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. This statement amends paragraph 137 of statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The School District plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.

The School District provides education for kindergarten through eighth grade. The board of trustees is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations.

The Ashland School District No. 32J was incorporated under the laws of the State of Montana and as required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Ashland School District No. 32J (the primary government) and any component units. The criteria for including organizations as component units within the School District's reporting entity is set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) "Codification of Government Accounting and Financial Reporting Standards." The basic criteria include appointing a voting majority of an organization's governing body, as well as the School District's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the School District. Based on those criteria the School District has no component units.

1. b. BASIS OF PRESENTATION AND ACCOUNTING

1. b. 1 GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements include the statement of net position and the statement of activities. The governmental activities column incorporates data from governmental funds (primary government). Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

ASHLAND SCHOOL DISTRICT NO. 32J

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

The government-wide financial statements report using the economic resource measurement focus and the accrual basis of accounting generally including the elimination of internal activity between or within funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

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

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

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

1. b. 2 FUND ACCOUNTING

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The student activity fund are displayed as fiduciary funds. Since the resources in the fiduciary funds cannot be used for School District operations, they are not included in the entity-wide statements.

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

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

Trust and agency fund financial statements report using the economic resources measurement focus and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

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

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

In addition to funds that meet the major fund criteria, any other governmental fund that government officials believe is particularly important to financial statement users may be reported as a major fund.

The School District reports the following major governmental funds:

- General Fund – The General Fund is the general operating fund of the School District and accounts for all revenues and expenditures of the School District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. In the governmental fund financial statements the general fund also includes the activities of the flexibility fund and the impact aid fund since the restrictions on those funds are similar to the general fund.

ASHLAND SCHOOL DISTRICT NO. 32J

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

- Miscellaneous Fund – This fund is used to account for local, state or federal grants and reimbursements. Donations that allow the expenditure of both principal and interest for support of School District programs are deposited in this fund.

1. b. 3 OTHER FUND TYPES

Private-Purpose Trust Funds – Accounts for the receipt and disbursement of monies from student activity organizations. These organizations exist with the explicit approval of and are subject to revocation by the School District's Board of Trustees. This accounting reflects the School District's trust relationship with the student activity organizations

Agency Funds – Account for assets that the School District holds on behalf of others as their agent in the payroll and claims clearing funds. Cash is held for warrants which were written but have not been paid by the County Treasurer. A warrant is an order by which the drawer (the person with authority to make the order) commands the School District trustee to pay a particular sum of money to a payee (person or entity) from funds in the School District treasury which are or may become available.

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

1. c. 1 CASH AND INVESTMENTS

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

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

1. c. 2 TAXES

Property tax levies are set connection with the budget process, and are based on taxable values listed as of January 1 for all property located in the School District. Taxable values are established by the Montana 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.

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

Taxes and special assessments that become delinquent are charged interest at the rate of 5/6 of 1% per month plus a penalty of 2%. After a period of three years, the County may begin foreclosure proceedings and sell real property auction. In the case of personal property, the property may be seized and sold after the taxes become delinquent.

1. c. 3 INVENTORIES

Materials, supplies and food inventory at year end was not material. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

1. c. 4 CAPITAL ASSETS

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

ASHLAND SCHOOL DISTRICT NO. 32J

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

| <u>Capital Asset Classes</u> | <u>Lives</u> |
|-----------------------------------|--------------|
| Buildings | 5 – 50 years |
| Improvements other than buildings | 20 years |
| Machinery and Equipment | 5 – 20 years |

I.c. 5 DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the statement of financial position reports 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, which qualifies for reporting in this category. Accordingly, the item, unavailable, is reported only in the governmental funds balance sheet. The governmental funds report unavailable from one source: property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

I.c. 6 VACATION AND SICK LEAVE

Classified School District employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. Classified School District employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave at the current rate of pay. Classified School District employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of unused sick leave. However, upon termination, only 25% of accumulated sick leave is paid at the current rate of pay. Certified School District employees are limited to 120 days of accumulation and are not eligible for termination pay until after 3 years. However, upon termination, only 25% of accumulated sick leave is paid.

Liabilities incurred because of unused vacation and sick leave accumulated by employees are reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the statement of activities. The amount expected to be paid within one year is \$5,534 and it is generally paid out of the general fund.

I.c. 7 NET POSITION AND FUND BALANCE

Statement of Net Position include the following:

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

Governmental fund financial statements include the following fund balances:

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

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District considers restricted funds to have been spent first. As of June 30, 2014, fund balance components other than unassigned fund balance consist of the following:

| <u>Purpose</u> | <u>Restricted</u> |
|------------------------------|-------------------|
| Instructional - Regular | \$ 1,098 |
| Operations and Maintenance | 3,305 |
| Student Transportation | 18,913 |
| Employer Retirement Benefits | 21,894 |
| Future Technology | 12 |
| Future Capital Costs | 1,728 |
| Total | <u>\$ 46,950</u> |

ASHLAND SCHOOL DISTRICT NO. 32J

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

1. d. OTHER

1. d. 1 USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1.d. 2 COUNTY PROVIDED SERVICES

The School District is provided various financial services by Rosebud County. The Rosebud County also serves as cashier and treasurer for the School District for tax and assessment collections and other revenues received by the Rosebud County which are subject to distribution to the various taxing jurisdictions located in the Rosebud County. The collections made by the Rosebud County on behalf of the School District are accounted for in an agency fund in the School District's name and are periodically remitted to the School District by the Rosebud County Treasurer. No service charges have been recorded by the School District or the Rosebud County.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

| <u>Account Type</u> | <u>Governmental</u> <u>Activities</u> | <u>Fiduciary</u> <u>Funds</u> | <u>Total</u> |
|---------------------------|--|----------------------------------|-------------------|
| Cash and Cash Equivalents | \$ 435,777 | \$ 39,908 | \$ 475,685 |
| Cash Overdraft | (92,101) | 0 | (92,101) |
| Total | <u>\$ 343,676</u> | <u>\$ 39,908</u> | <u>\$ 383,584</u> |

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

| | <u>Amount</u> |
|------------------------|-------------------|
| Demand Accounts | \$ 21,413 |
| County Investment Pool | 359,721 |
| Un-reconciled | 2,450 |
| Total | <u>\$ 383,584</u> |

Cash resources of the School District are held and managed by the Rosebud County Treasurer pursuant to State Law. They are combined with cash resources of other governmental entities within Rosebud County to form a pool of cash and cash equivalents. Investments of pooled cash consist primarily of U.S. Government Securities, Certificates of Deposit, and STIP and are carried at fair value. The School District's exposure to credit risk is not available to the School District. Risk in the event of loss is unclear in state law, but appears to be the liability of the Rosebud County government. Because of the custodial involvement of the Rosebud County government, and the commingling of cash in County deposits in the name of the Rosebud County Treasurer, full risk classifications according to GASB 40 are available in the Rosebud County's annual report. There is no known maturity and credit rating of the Rosebud County Investment Pool.

Custodial credit risk-deposits: The cash of the extracurricular funds is held separately by the School District, not at Rosebud County and the deposits may be subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2014, the deposits in the extracurricular fund and separate direct deposit account were covered by FDIC insurance.

NOTE 3. TAXES RECEIVABLE

The School District is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The assessed value of the roll as of January 1, 2013, upon which the levy for the 2014 fiscal year was based, was \$ 797,452. The tax rates assessed for the year ended June 30, 2014 to finance School District operations and applicable taxes receivable follows:

ASHLAND SCHOOL DISTRICT NO. 32J

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

| Elementary Fund | Mill Levies | Taxes |
|------------------|---------------|-----------------|
| | | Receivable |
| General* | 143.01 | \$ 3,969 |
| Transportation | 5.05 | 226 |
| Bus Depreciation | 12.3 | 311 |
| Adult Education | 0.00 | 1 |
| Total | <u>160.36</u> | <u>\$ 4,507</u> |

* Denotes Major Funds

NOTE 4. DUE FROM OTHER GOVERNMENTS

| Elementary Fund | Amount | Due From |
|-----------------|------------------|--|
| Miscellaneous * | \$ 32,452 | State of MT - Title IV Part B 21st Century |
| Miscellaneous * | 6,105 | State of MT - Title I Part G SIG |
| Miscellaneous * | 29,037 | State of MT - Title I Part A (School-wide) |
| Miscellaneous * | 12,862 | State of MT - Title I Part A |
| Total | <u>\$ 80,456</u> | |

* Denotes Major Funds

NOTE 5. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

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

| Governmental Activities: | Balance | | Balance |
|----------------------------------|-----------------------|--------------------|-----------------------|
| | July 1, 2013 | Additions | |
| <u>Non-depreciable:</u> | | | |
| Land | \$ 8,436 | \$ 0 | \$ 8,436 |
| <u>Depreciable:</u> | | | |
| Buildings | \$ 1,618,211 | \$ 0 | \$ 1,618,211 |
| Land Improvements | 179,238 | 0 | 179,238 |
| Machinery and equipment | 124,581 | 0 | 124,581 |
| Total Depreciable | <u>\$ 1,922,030</u> | <u>\$ 0</u> | <u>\$ 1,922,030</u> |
| <u>Accumulated Depreciation:</u> | | | |
| Buildings | \$ (1,201,738) | \$ (32,477) | \$ (1,234,215) |
| Land Improvements | (67,858) | (8,962) | (76,820) |
| Machinery and equipment | (83,628) | (5,463) | (89,091) |
| Total Depreciation | <u>\$ (1,353,224)</u> | <u>\$ (46,902)</u> | <u>\$ (1,400,126)</u> |
| Net Depreciable Assets | <u>568,806</u> | <u>(46,902)</u> | <u>521,904</u> |
| Net General Capital Assets | <u>\$ 577,242</u> | <u>\$ (46,902)</u> | <u>\$ 530,340</u> |

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

| Function | Amount |
|----------------------------|------------------|
| Operation & Maintenance | \$ 7,856 |
| Transportation | 3,621 |
| School Food | 1,093 |
| Unallocated | <u>34,332</u> |
| Total Depreciation Expense | <u>\$ 46,902</u> |

NOTE 6. CHANGES IN LONG-TERM DEBT

6. a. At June 30, 2014, the schedule of changes in general long-term debt follows:

ASHLAND SCHOOL DISTRICT NO. 32J

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

| <u>Governmental Activities</u> | <u>Balance</u> <u>July 1, 2013</u> | <u>New Debt</u> <u>and Other</u> <u>Additions</u> | <u>Principal</u> <u>Payments</u> <u>and Other</u> <u>Reductions</u> | <u>Balance</u> <u>June 30, 2014</u> | <u>Due within</u> <u>One Year</u> |
|--|---------------------------------------|---|--|--|--------------------------------------|
| <u>Bonds and Notes Payable:</u> | | | | | |
| Rosebud County Loan | \$ 70,000 | \$ 0 | \$ 70,000 | \$ 0 | \$ 0 |
| <u>Other Liabilities:</u> | | | | | |
| Compensated Absences | \$ 32,016 | \$ 0 | \$ 901 | \$ 31,115 | \$ 5,534 |
| Other Post-Employment Benefits (OPEB) | 11,145 | 11,145 | 0 | 22,290 | 0 |
| Total Other Liabilities | \$ 43,161 | \$ 11,145 | \$ 901 | \$ 53,405 | \$ 5,534 |
| Total Governmental Activities - Long-Term Debt: | \$ 113,161 | \$ 11,145 | \$ 70,901 | \$ 53,405 | \$ 5,534 |

NOTE 7. DEFERRED INFLOWS OF RESOURCES

7. a. PROPERTY TAXES

| <u>Elementary Fund</u> | <u>Amount</u> | <u>Reason</u> |
|------------------------|---------------|------------------|
| General* | \$ 3,969 | Taxes Receivable |
| Transportation | 226 | Taxes Receivable |
| Bus Depreciation | 311 | Taxes Receivable |
| Adult Education | 1 | Taxes Receivable |
| Total | \$ 4,507 | |

* Denotes Major Funds

NOTE 8. DEFICIT FUND BALANCES

| <u>Elementary Fund</u> | <u>Amount</u> | <u>How to Correct</u> |
|------------------------|---------------|------------------------------|
| School Food Services | \$ 2,490 | Future collections |
| Miscellaneous * | 9,155 | Grant funding not reimbursed |
| Total | \$ 11,645 | |

* Denotes Major Funds

NOTE 9. PRIOR PERIOD ADJUSTMENTS

| <u>Elementary Fund</u> | <u>Amount</u> | <u>REASON</u> |
|------------------------|---------------|--|
| General* | \$ 1,068 | Classify the flex fund under GASB 54 as an element of the general fund |
| Flexibility* | (1,068) | Classify the flex fund under GASB 54 as an element of the general fund |
| School Food Service | 337 | Prior year school food payment not accrued in correct fiscal year |
| Miscellaneous* | (19,940) | Prior year due from other governments not posted in correct year |
| Total | \$ (19,603) | |

* Denotes Major Funds

NOTE 10. OTHER POST EMPLOYMENT BENEFITS

Plan Description - The School District provides the same health care plan to all of its members. The implicit subsidy is \$7,128 per member and \$14,258 per member and spouse. The School District had fewer than 100 plan participants and thus qualified to use an Alternative Measurement Method instead of an actuarial valuation to determine the OPEB liability. Valuations involve estimates of the reported amounts and assumptions about the probability of events far into the future and estimated amounts are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for the plan are based on types of benefits provided under the current plan. The valuation assumed that 10% of plan participants would elect to continue coverage after retirement.

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

ASHLAND SCHOOL DISTRICT NO. 32J

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

Funding status and progress as of July 1, 2013 was as follows:

| | |
|---|---------------|
| Actuarial Accrued Liability (AAL) | \$ 72,453 |
| Actuarial value of plan assets | 0 |
| Unfunded Actuarial Accrued Liability (UAAL) | <u>72,453</u> |
| Funded ratio (actuarial value of plan assets/AAL) | 0% |
| Covered payroll (active plan members) | \$ 638,844 |
| UAAL as a percentage of covered payroll | 11% |

Annual OPEB Cost and Net OPEB Obligations - The government's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the government's net OPEB obligation for the valuation performed at July 1, 2013

| | |
|---|------------------|
| Annual Required Contribution (ARC) | \$ 11,145 |
| Interest on net OPEB obligation | 0 |
| Adjustment to ARC | 0 |
| Annual OPEB cost (expense) | 11,145 |
| Contribution made | 0 |
| Increase in net OPEB obligation | 11,145 |
| Net OPEB obligation - beginning of year | 11,145 |
| Net OPEB obligation - end of year | <u>\$ 22,290</u> |

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

| | |
|--|-------------------------|
| Actuarial Cost Method | Unit Credit Cost Method |
| Average age of retirement (based on historical data) | 65 |
| Discount rate (average anticipated rate) | 3.0% |
| Average Salary Increase | 1.2% |
| Health care cost rate trend | |
| Year | % Increase |
| 2024 and after | 3.0% |

NOTE 11. RISK MANAGEMENT

The School District is exposed to various types of risk of loss, including: a) damage to and loss of property and contents; b) employee torts; c) professional liability, i.e. errors and omissions; d) environmental damage; e) workers' compensation, i.e. employee injuries and f) medical insurance costs of employees. Several methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and contents damage, employee torts, professional liabilities, and employee medical insurance. The School District has joined with other School Districts throughout the state into an interlocal common risk pool to insure workers compensation for all participating School Districts in a self-insurance pool. The Workers Compensation Risk Retention Program is managed by a board of directors elected annually. Members are responsible for fully funding the Workers Compensation Risk Retention Program through the payment of annual premiums accessed. There is no other liability to the School District other than timely payments of premiums. The School District can withdraw from the Workers Compensation Risk Retention Program with 60 days' notice at any time. The School District has no coverage for potential losses from environmental damages.

Levels of insurance have not changed materially from the prior year and settlements have not exceeded insurance coverage limits during the current or each of the two previous years.

ASHLAND SCHOOL DISTRICT NO. 32J

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

NOTE 12. EMPLOYEE RETIREMENT SYSTEM

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

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

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

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

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

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

| | <u>2012</u> | <u>2013</u> | <u>2014</u> |
|-------|------------------|------------------|-------------------|
| TRS | \$ 80,967 | \$ 86,309 | \$ 101,278 |
| PERS | <u>11,501</u> | <u>12,787</u> | <u>13,865</u> |
| Total | <u>\$ 92,468</u> | <u>\$ 99,096</u> | <u>\$ 115,143</u> |

ASHLAND SCHOOL DISTRICT NO. 32J

SCHEDULE OF FUNDING PROGRESS
 Other Post-Employment Benefits Other Than Pensions (OPEB)
 Fiscal Year-Ended June 30, 2014

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (a)</u> | <u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u> | <u>Unfunded AAL (UAAL) (b-a)</u> | <u>Funded Ratio (a / b)</u> | <u>Covered Payroll (c)</u> | <u>UAAL as a Percentage of Covered Payroll [(b-a) / c]</u> |
|---|--|--|--|-------------------------------------|------------------------------------|--|
| 7/1/2013 | \$ 0 | \$ 72,453 | \$ 72,453 | 0% | \$ 638,844 | 11% |

This schedule is based on the actuarial values as of July 1, 2013. Information for prior years is not available.

Ashland School District No. 32J
 Rosebud County
 Ashland, Montana 59003

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 (Budget and Actual)
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2014

| | General | | | Flexibility Fund | | |
|----------------------------------|--------------------|-----------------|------------------|--------------------|-----------------|-----------------|
| | Original Budget | Final Budget | Actual | Original Budget | Final Budget | Actual |
| REVENUES: | | | | | | |
| District Levies | \$ 114,028 | \$ 114,028 | \$ 96,011 | \$ - | \$ - | \$ - |
| Interest | 159 | 159 | - | - | - | 11 |
| Other | - | - | 827 | - | - | - |
| State | 512,329 | 512,329 | 512,329 | 905 | 905 | 905 |
| Total Revenues | <u>626,516</u> | <u>626,516</u> | <u>609,167</u> | <u>905</u> | <u>905</u> | <u>916</u> |
| EXPENDITURES: | | | | | | |
| Current | | | | | | |
| Instructional Services | | | 341,858 | | | - |
| Support Services | | | 50,196 | | | - |
| Educational Media Services | | | 976 | | | - |
| General Administrative Services | | | 143,117 | | | - |
| Operation & Maintenance Services | | | 43,858 | | | - |
| School Food Services | | | 14,795 | | | - |
| Extracurricular | | | 3,372 | | | - |
| Total Expenditures | <u>626,516</u> | <u>626,516</u> | <u>598,173</u> | <u>1,973</u> | <u>1,973</u> | <u>-</u> |
| NET CHANGES IN FUND BALANCES | - | - | 10,994 | (1,068) | (1,068) | 916 |
| FUND BALANCE: | | | | | | |
| Beginning of the Year | | | <u>71,683</u> | | | <u>1,068</u> |
| End of the Year | | | <u>\$ 82,677</u> | | | <u>\$ 1,984</u> |

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

ASHLAND SCHOOL DISTRICT NO. 32J

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

NOTE 1. BUDGETS

1. a. BUDGETS

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

1. a. 1 GENERAL BUDGET POLICIES:

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

1. a. 2 BUDGET OPERATION:

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

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

NOTE 2. BUDGET AMENDMENT

The original budget was not amended so the original budget and the final budget are the same.

ASHLAND SCHOOL DISTRICT NO. 32J

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

NOTE 3. COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE ALL SUB-FUNDS OF THE GENERAL FUND

| | <u>Sub-fund General Fund</u> | <u>Sub-fund Impact Aid Fund</u> | <u>Sub-fund Flexibility Fund</u> | <u>Total General Fund</u> |
|-----------------------------|--------------------------------------|---|--|-----------------------------------|
| REVENUES: | | | | |
| District Levies | \$ 96,011 | \$ 0 | \$ 0 | \$ 96,011 |
| Interest Earnings | 0 | 2,145 | 11 | 2,156 |
| Other | 827 | 3,262 | 0 | 4,089 |
| State Sources | 512,329 | 0 | 905 | 513,233 |
| Federal | <u>0</u> | <u>245,447</u> | <u>0</u> | <u>245,447</u> |
| Total Revenues | <u>\$ 609,167</u> | <u>\$ 250,854</u> | <u>\$ 916</u> | <u>\$ 860,937</u> |
| EXPENDITURES: | | | | |
| Instructional Services | 341,858 | 41,446 | 0 | 383,304 |
| Support Services | 50,196 | 23,184 | 0 | 73,380 |
| Educational Media | 976 | 227 | 0 | 1,204 |
| General Administrative | 143,117 | 16,331 | 0 | 159,448 |
| Operation & Maintenance | 43,858 | 113,077 | 0 | 156,935 |
| Transportation | 0 | 575 | 0 | 575 |
| Extracurricular | 3,372 | 2,016 | 0 | 5,388 |
| School Food | 14,795 | 0 | 0 | 14,795 |
| Debt Service | <u>0</u> | <u>70,157</u> | <u>0</u> | <u>70,157</u> |
| Total Expenditures | <u>\$ 598,173</u> | <u>\$ 267,013</u> | <u>\$ 0</u> | <u>\$ 865,186</u> |
| Net Changes In Fund Balance | <u>10,994</u> | <u>(16,160)</u> | <u>916</u> | <u>(4,250)</u> |
| FUND BALANCE: | | | | |
| Beginning of the Year | 71,683 | 320,325 | 0 | 392,009 |
| Prior Period Adjustment | <u>0</u> | <u>0</u> | <u>1,068</u> | <u>1,068</u> |
| Ending of the Year | <u>\$ 82,677</u> | <u>\$ 304,166</u> | <u>\$ 1,984</u> | <u>\$ 388,827</u> |

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

On the Statement of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual) All Budgeted Major Governmental Funds display budgeted information for the general and major special revenue funds. The Statement presents budgetary information for the general fund and flexibility fund because they are reported as major funds and have legally adopted budgets. The following major funds are not reported because the miscellaneous fund and impact aid fund are non-budgeted fund special revenue funds.

ASHLAND SCHOOL DISTRICT NO. 32J

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

| Activity Account Name | Beginning Balance 7/1/2013 | Revenues | Expenses | Ending Balance 6/30/2014 |
|-----------------------|----------------------------------|-----------------|-----------------|--------------------------------|
| ATHLETICS | \$ 515 | \$ 441 | \$ 40 | \$ 916 |
| BOOSTER | 1,404 | 644 | 1,150 | 898 |
| CONCESSIONS | 0 | 1,841 | 993 | 848 |
| POP | 96 | 0 | 0 | 96 |
| LIBRARY | 94 | 842 | 821 | 115 |
| PTA | <u>0</u> | <u>0</u> | <u>30</u> | <u>(30)</u> |
| Total | <u>\$ 2,109</u> | <u>\$ 3,768</u> | <u>\$ 3,034</u> | <u>\$ 2,843</u> |

ASHLAND SCHOOL DISTRICT NO. 32J

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

FALL ENROLLMENT - OCTOBER, 2013

| Elementary | | | |
|-------------------|-----------------|----------------|-----------------|
| | <u>Reported</u> | <u>Audited</u> | <u>Variance</u> |
| Kindergarten Full | 7 | 7 | 0 |
| Grade 1 - 6 | 51 | 51 | 0 |
| Grade 7 - 8 | <u>14</u> | <u>14</u> | <u>0</u> |
| Total | <u>72</u> | <u>72</u> | <u>0</u> |

WINTER ENROLLMENT - DECEMBER, 2013

| Elementary | | | |
|-------------------|-----------------|----------------|-----------------|
| | <u>Reported</u> | <u>Audited</u> | <u>Variance</u> |
| Kindergarten Full | 7 | 7 | 0 |
| Grade 1 - 6 | 56 | 56 | 0 |
| Grade 7 - 8 | <u>17</u> | <u>17</u> | <u>0</u> |
| Total | <u>80</u> | <u>80</u> | <u>0</u> |

SPRING ENROLLMENT - FEBRUARY, 2014

| Elementary | | | |
|-------------------|-----------------|----------------|-----------------|
| | <u>Reported</u> | <u>Audited</u> | <u>Variance</u> |
| Kindergarten Full | 8 | 8 | 0 |
| Grade 1 - 6 | 47 | 47 | 0 |
| Grade 7 - 8 | <u>16</u> | <u>16</u> | <u>0</u> |
| Total | <u>71</u> | <u>71</u> | <u>0</u> |

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2014

| Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass-Through Grantor's Number | Program or Award Amount | Federal Expenditures |
|---|---------------------|-------------------------------|-------------------------|----------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | | |
| PASSED THROUGH MONTANA OFFICE OF PUBLIC INSTRUCTION: | | | | |
| Federal Child Nutrition | 10.555 | N/A | \$ 26,344 | \$ 26,344 |
| School Breakfast Program | 10.553 | N/A | \$ 10,314 | 10,314 |
| National School Lunch Program (Donated Food) (fn2) | 10.555 | N/A | \$ 2,102 | 2,102 |
| Total U.S. Department of Agriculture | | | | <u>\$ 38,760</u> |
| U.S. DEPARTMENT OF INTERIOR | | | | |
| PASSED THROUGH MONTANA OFFICE OF PUBLIC INSTRUCTION: | | | | |
| Indian Education Assistance to Schools (Johnson-O'Malley) | 15.13 | N/A | N/A | \$ 2,141 |
| Total U.S. Department of Interior | | | | <u>\$ 2,141</u> |
| U.S. DEPARTMENT OF EDUCATION | | | | |
| DIRECT: | | | | |
| Impact Aid | 84.041 | N/A | N/A | \$ 267,234 |
| Indian Education Grants to Local Educational Agencies | 84.060 | SO60A132350 | \$ 14,121 | 14,121 |
| PASSED THROUGH MONTANA OFFICE OF PUBLIC INSTRUCTION: | | | | |
| Title I Grants to Local Education Agencies | | | | |
| - Part A, Improving Basic Programs | | | | |
| Title I Grants to Local Education Agencies | 84.010 | 044-0800-3114 | \$ 170,236 | 80,088 |
| - Part A, Improving Basic Programs | 84.010 | 044-0800-3214 | \$ 50,658 | 50,658 |
| Special Education Grants to States (IDEA Part B) | 84.027 | 044-0800-7714 | \$ 64,270 | 64,270 |
| Special Education Preschool Grants | 84.173 | 044-0800-7914 | \$ 4,135 | 4,135 |
| Twenty-First Century Community Learning Centers | 84.287 | 044-0800-1713 | \$ 51,000 | 3,411 |
| Twenty-First Century Community Learning Centers | 84.287 | 044-0800-1714 | \$ 50,000 | 50,000 |
| Improving Teacher Quality State Grants | 84.367 | 044-0800-1414 | \$ 20,129 | - |
| School Improvement Grants | 84.377 | 044-0800-3313 | \$ 197,538 | 6,854 |
| School Improvement Grants | 84.377 | 044-0800-3314 | \$ 171,972 | 139,777 |
| Total U.S. Department of Education | | | | <u>\$ 680,548</u> |
| Total Federal Financial Assistance | | | | <u>\$ 721,449</u> |

The accompanying notes to the SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS are an integral part of this schedule

ASHLAND SCHOOL DISTRICT NO. 32J

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year-Ended June 30, 2014

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Ashland School District No. 32J under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of Ashland School District No. 32J, it is not intended to and does not present the financial position, changes in net position or cash flows of Ashland School District No. 32J.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting as used in the governmental financial statements. Pass-through entity identifying numbers are presented where available

NOTE 3. FOOTNOTES

Fn1 – No separate funds or accounts maintained, the School District assumes first in first out for program money.

Fn2 – The value of commodities (revenues, expenses or inventory) are noted in the basic financial statements

N/A – Not applicable/ available

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

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Ashland School District No. 32J
Rosebud County
Ashland, Montana 59003

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ashland School District No. 32J as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Ashland School District No. 32J's basic financial statements and have issued our report thereon dated April 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ashland School District No. 32J's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ashland School District No. 32J's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2014-002.

Response to Findings

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

Purpose of this Report

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

Strom & Associates, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
April 22, 2015

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Ashland School District No. 32J
Rosebud County
Ashland, Montana 59003

Report on Compliance for Each Major Federal Program

We have audited Ashland School District No. 32J's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Ashland School District No. 32J's major federal programs for the year ended June 30, 2014. Ashland School District No. 32J's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Ashland School District No. 32J's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ashland School District No. 32J's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Ashland School District No. 32J's compliance.

Opinion on Each Major Federal Program

In our opinion, Ashland School District No. 32J's, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-002. Our opinion on each major federal program is not modified with respect to this matter.

Ashland School District No. 32J 's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Ashland School District No. 32J 's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Ashland School District No. 32J, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Ashland School District No. 32J's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Ashland School District No. 32J's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2014-002 that we consider to be significant deficiencies.

Ashland School District No. 32J 's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Ashland School District No. 32J's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

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



STROM & ASSOCIATES, PC
Billings, Montana
April 22, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor, Strom & Associates, PC, has issued an unmodified opinion on Ashland School District No. 32J's financial statements as of and for the year ended June 30, 2014.
2. Our audit disclosed a significant deficiencies in internal controls and is considered to be material weaknesses relating to internal controls over financial reporting and its operation.
3. Our audit disclosed one noncompliance which was not material to the financial statements of Ashland School District No. 32J.
4. Our audit disclosed one significant deficiencies that are considered to be material weaknesses relating to internal controls over major federal awards programs.
5. The auditor, Strom & Associates, PC, has issued an unmodified opinion on Ashland School District No. 32J's compliance with major federal awards programs as of and for the year ended June 30, 2014.
6. The audit disclosed one audit findings which are required to be reported under section .510 of OMB Circular A-133.
7. The major program for Ashland School District No. 32J for the year ended June 30, 2014 was

| CFDA Number | Name of Federal Program or Cluster |
|-------------|------------------------------------|
| 84.041 | Impact Aid |
| 84.377 | School Improvement Grant |

8. The threshold used to distinguish between Type A and type B programs was \$300,000.
9. This School District does not qualify as a low risk audit client.

B. Findings relating to the financial statements which are required to be reported in accordance with "Governmental Auditing Standards."

The following is the status of prior year findings and updated for the fiscal year ended June 30, 2014.

2013-001 – RECEIVABLES (repeat finding from 2005 – 2012):

This finding is repeated below

2013-002 – CASH/REVENUE (repeat finding form 2011 – 2012):

Not repeated

2014-001 – Receivables (repeat finding from 2005 – 2013 and updated):

Criteria: Generally accepted accounting principles (GAAP) indicates that for expenditure driven grants the recipient should recognize a receivable and revenue when the recipient has incurred allowable costs under the applicable grant program. (GASB Codification N.118)

Condition: As noted in prior years, due from other governments and revenues are not correctly displayed when the school district has incurred allowable costs under grant programs.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued

Effect: Grant revenues are being reported during the wrong accounting period.

Context: Total federal costs incurred on grant fund in the miscellaneous fund were \$415,455, however, only \$405,490 of grant revenues were recognized in the accounting records. The net amount of unreported due from other governments and grant revenues in the miscellaneous fund were \$9,964.

Cause: This was caused by not following GAAP guidance for proper revenue recognition.

Recommendation: We recommend the school district determine grant funds are properly reported in the accounting system. This includes ensuring expenditure driven grants display costs when incurred and revenue recognition equaling the costs incurred.

Auditee Response: I continue to try to correct this finding by requesting cash before June 30th. I once again missed the deadline for the draw down. I will request all cash prior to year end or will record due from other governments at year end.

2014-002 - FEDERAL PROGRAMS:

Criteria: OMB Circular A-133 requires audits to be finished 9 months after year end.

Condition: The School District did not complete its fiscal year 2014 audit in the 9 month time period.

Context: There is no financial impact to this finding.

Effect: The effect is noncompliance with federal regulations.

Cause: This was caused by timing issues.

Recommendation: We recommend the School District finish OMB Circular A-133 audits within the 9 month time frame.

Auditee Response: Due to scheduling issues I was unable to contact the auditor prior to March 31st to finalize the audit.

C. Findings and questioned costs for Federal awards, as defined in section .510 (a) of OMB Circular A-133.

The audit disclosed 1 finding or questioned costs relating to federal awards as defined in section .510 (a) of OMB Circular A-133. That item is 2014-002 in the Schedule of Findings and Questioned Costs.