

**SCHOOL DISTRICT NUMBER 4
YELLOWSTONE COUNTY
BILLINGS, MONTANA**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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SCHOOL DISTRICT NUMBER 4

ORGANIZATION

June 30, 2014

BOARD OF TRUSTEES

Rhonda Hogstad	Chairperson
Mark Berg	Vice-Chairman
Charlene Severson	Trustee
Manny Zuniga	Trustee
Billie Bergstrom	Trustee

OFFICIALS

Brent Lipp	Superintendent
Susan Zentz	Business Manager/Clerk

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

ERNEST J. OLNESS, CPA

BRENT D. OLNESS, CPA
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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
School District Number 4
Billings, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District Number 4, Billings, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 the government, 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, budgetary comparison information and the schedule of funding progress-other post employment benefits identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for

consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2015, on our consideration of the government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the government's internal control over financial reporting and compliance.

O'Neil & Associates, PC

Billings, Montana
May 6, 2015

SCHOOL DISTRICT NUMBER 4
MANAGEMENT'S DISCUSSION & ANALYSIS

This Management Discussion and Analysis (MD&A) written by the Business Manager/Clerk provides an overview of the District's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with our financial statements which begin on page 8.

FINANCIAL HIGHLIGHTS

- Net position increased \$68,556 or approximately 4% as a result of this year's operations.
- The taxable valuation of the District has increased slightly from the prior year, from \$3,005,822 to \$3,135,234, or approximately 4%.
- During the year, our school district had expenses that were \$360,465 more than the generated \$1,830,222 in tax and other revenues for District programs. These expenses were primarily met through federal and state grants, reimbursements and fee collections.
- The school district was again "Equalized". ANB this year was determined by three year averaging, rather than the actual current year ANB. The ANB calculated resulted in a decrease in the General Fund budget of \$15,750. Even with the decrease, there was no voted levy. Careful budget management allowed the District to sustain our current programs and accomplish some much needed improvements and maintenance.
- Other funds showed some changes from the prior year for specific reasons. Specifically, the Transportation Fund had a reduced ending balance because of less ridership and increased contracted transportation expenditures. Some funds levied in the Retirement Fund for a possible retirement incentive were not used and will be re-appropriated. The Compensated Absences Fund was increased to accommodate a larger district retirement liability. The Technology fund fund balance declined because funds were used to purchase technology equipment. The GTB payment in the Debt Service Fund was consistent with the prior year and will be re-appropriated to provide funds for the ensuing year debt service. Finally, the district Building Reserve Fund was utilized to set aside funds for School Safety and Security as provided by the 2013 legislature.
- As noted in fiscal year 2006's Management Discussion & Analysis, the District prevailed in an arbitration decision involving three teachers who received bogus masters' degrees in 1999. The Yellowstone County Attorney and the teachers agreed to a "Pretrial Diversion Agreement" which required that the teachers pay restitution to the District for the excess wages they received from 1999-2005. Two of the teachers involved have paid their debt in full as of June 30, 2012. The remaining teacher continues to pay restitution until the remainder of the debt is repaid. The District deposits the funds in the General Fund which serves to build the reserve to the maximum limit and reduce the local tax burden through re-appropriation.

USING THIS AUDIT REPORT

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

OVERVIEW OF THE FINANCIAL STATEMENTS

District-wide financial statements One of the most important questions asked about the District's finances remains, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities (pages 8 and 9) report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

Fund financial statements The fund financial statements (pages 10 and 12) provide detailed information about the most significant funds—not the government as a whole. Some funds are required to be established by State law. Also, the governing body establishes many other funds to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other money. We utilize the following funds:

Governmental funds—Basic services are reported in governmental funds, which focus on how money flows into and out of those

SCHOOL DISTRICT NUMBER 4
MANAGEMENT'S DISCUSSION & ANALYSIS

funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the general District operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations (pages 11 and 13, respectively). The General, Miscellaneous Programs and Debt Service Funds are major funds. The category of "total nonmajor funds" lumps together the remaining funds.

Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds use the same basis of accounting as the government-wide statements. The Student Extracurricular Fund is our only fiduciary fund. We exclude these activities from the other financial statements because we cannot use these assets to finance our operations. We are responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE DISTRICT AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In our case, assets exceeded liabilities by \$1,857,331 as of June 30, 2014. The increase in net position resulted mainly from levying to repay long-term debt.

The Statement of Net Position shows the assets, liabilities and the net position 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 capital assets, such as buildings, equipment and other long-lived property; and some assets are available to fund budgets of the following year. Capital assets and restricted net position comprise 92% of the total net position; 8% are unrestricted or liquid.

NET POSITION:

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Current and other assets	\$ 455,387	\$ 404,418	\$ 50,969
Capital assets	<u>2,556,900</u>	<u>2,607,313</u>	<u>(50,413)</u>
Total assets	<u>3,012,287</u>	<u>3,011,731</u>	<u>556</u>
Other liabilities	42,404	4,057	38,347
Long-term liabilities outstanding	<u>1,112,552</u>	<u>1,218,899</u>	<u>(106,347)</u>
Total liabilities	<u>1,154,956</u>	<u>1,222,956</u>	<u>(68,000)</u>
Net position:			
Net investment in capital assets	1,534,997	1,483,684	51,313
Restricted	173,197	176,763	(3,566)
Unrestricted	<u>149,137</u>	<u>128,328</u>	<u>20,809</u>
	<u>\$ 1,857,331</u>	<u>\$ 1,788,775</u>	<u>\$ 68,556</u>

The Statement of Activities shows the amounts of program-specific and general revenues used to support the various functions of the school. The largest percentage of expenditures was supported with general revenues, such as property taxes, state aid, and other taxes for general school use. A small percentage of expenditures are supported with sources other than taxes such as charges for services and grants.

SCHOOL DISTRICT NUMBER 4
MANAGEMENT'S DISCUSSION & ANALYSIS

CHANGES IN NET POSITION:

	2014	2013	Change
Revenues:			
Program revenues:			
Charges for services	\$ 57,068	\$ 48,342	\$ 8,726
Operating grants and contributions	346,855	339,869	6,986
General revenues:			
Taxes	585,712	617,139	(31,427)
State sources	1,052,972	1,061,996	(9,024)
County sources	176,169	177,001	(832)
Miscellaneous	38,720	12,917	25,803
Interest	1,747	1,075	672
Total revenues	<u>2,259,243</u>	<u>2,258,339</u>	<u>904</u>
Expenses:			
Instruction	1,182,217	1,197,855	(15,638)
Support services-students	55,527	56,923	(1,396)
Support services-instructional staff	83,812	71,755	12,057
Support services-general administration	133,186	108,386	24,800
Support services-business	168,148	150,699	17,449
Operation and maintenance	266,459	215,496	50,963
Student transportation	121,307	116,068	5,239
Food services	117,490	105,545	11,945
Extracurricular	12,414	11,560	854
Interest on long-term debt	50,127	54,028	(3,901)
Total expenses	<u>2,190,687</u>	<u>2,088,315</u>	<u>102,372</u>
Change in net position	68,556	170,024	(101,468)
Net position, beginning	<u>1,788,775</u>	<u>1,618,751</u>	<u>170,024</u>
Net position, ending	<u>\$ 1,857,331</u>	<u>\$ 1,788,775</u>	<u>\$ 68,556</u>

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the major (most significant) funds. To be reported as a major fund, total assets, liabilities and deferred inflows of resources, revenues, or expenditures of an individual fund must be at least 10 percent of the corresponding element total (assets, liabilities, etc.) for all funds. The General Fund is always reported as a major fund.

Fund balance for the General Fund, the main operating fund, increased by \$4,316 during the current fiscal year, allowing retention of funds at year end to build the reserve.

Fund balance for the Miscellaneous Programs Fund increased by \$9,734 mainly as a result of receiving a refund of unused flex dollars.

Fund balance for the Technology Fund decreased by \$5,403 due to computer purchases.

Fund balance for the Debt Service Fund increased by \$2,573 due to a large GTB payment at year end which will be re-appropriated to fund the 2014-15 debt service budget.

The most significant budgetary variances came as a result of salary/benefit increases and special education staffing additions.

CAPITAL ASSET AND DEBT ADMINISTRATION

The District's investment in capital assets, net of related debt as of June 30, 2014 totaled \$1,534,997. This investment in capital assets includes land, land improvements, buildings and improvements, and machinery and equipment. Long-term debt consists of general obligation bonds, notes payable and compensated absences. For more information related to capital assets and long-term debt, please refer to the notes to the basic financial statements.

SCHOOL DISTRICT NUMBER 4
MANAGEMENT'S DISCUSSION & ANALYSIS

THE DISTRICT'S FUTURE

Canyon Creek School experienced a decrease in Average Number Belonging of 6 students over the prior year with a resulting ANB of 232. We attained this ANB based on "three year averaging" as opposed to "current year ANB". We expect that funding from State sources for next year will remain stable due to an increase in State per student rates for DSA (Direct State Aid) and in GTB (Guaranteed Tax Base) subsidy per mill.

It is expected that the taxable valuation of Canyon Creek School will continue to grow because of continued residential and commercial development in the District. The taxable valuation increased 4.3% this year and is expected to continue to increase. In addition, the District has benefited from receipt of funds for the ninth year from the various Title programs redirected to the Title I program (\$54,991). For the twelfth year in a row, the District received a Title VI Small Rural Schools grant (\$21,949). These funds have allowed the District to provide curricular and professional development opportunities to staff.

The Technology Levy passed in the fall of 2006 continued to fund technology expenditures such as purchasing, renting, repairing, and maintaining technological equipment and to provide for associated training.

A special transfer from the General Fund to the Building Reserve allowed the District to set aside \$10,000 for School Safety and Security to be used or obligated by June 30, 2015. This brings the total set aside for safety infrastructure in this manner to \$17,641.

The Canyon Creek School Board of Trustees continues to plan for the future. The trustees approved the Strategic Plan for the District in March 2010 which provides a framework for continued development and improvement of the district. We are working diligently on adoption of the Montana State Core Curriculum standards to insure that our students are provided the best educational opportunity available. In addition, the trustees utilized General Fund money available at year end to update lighting and plumbing throughout the building which will increase energy efficiency and reduce water use. For the forthcoming budget year, our overall levy and mills will remain about the same as the current year, although the budget will grow thanks to an increase in ANB. The Trustees believe that the District's enrollment will continue to grow slowly over the long term despite some fluctuation. Even with increasing commercial and residential growth which alleviates the tax burden to our taxpayers, local support will be needed to pass operating levies for adequate budget growth in the future.

SCHOOL DISTRICT NUMBER 4
STATEMENT OF NET POSITION
June 30, 2014

ASSETS	
Cash and cash equivalents	\$ 399,387
Receivables:	
Taxes	13,984
Governments	35,433
Restitution settlement	6,583
Capital assets:	
Capital assets not being depreciated-land	12,038
Capital assets, net of accumulated depreciation	<u>2,544,862</u>
Total assets	<u>3,012,287</u>
 LIABILITIES	
Accounts payable - vendors	42,404
Noncurrent liabilities:	
Due within one year:	
Bonds and notes	106,858
Compensated absences	26,286
Due in more than one year:	
Bonds and notes	915,045
Compensated absences	50,937
Other post-employment benefits	<u>13,426</u>
Total liabilities	<u>1,154,956</u>
 NET POSITION	
Net investment in capital assets	1,534,997
Restricted for:	
Instruction	71,954
Support services:	
Students	331
Instructional staff	855
General administration	5,664
Business services	6,592
Operation and maintenance	22,610
Student transportation	12,089
Food services	3,981
Debt service	49,121
Unrestricted	<u>149,137</u>
Total net position	<u>\$ 1,857,331</u>

SCHOOL DISTRICT NUMBER 4
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Instruction	\$ 1,182,217	\$ -	\$ 234,972	\$ (947,245)
Support services:				
Students	55,527	-	-	(55,527)
Instructional staff	83,812	-	-	(83,812)
General administration	133,186	-	-	(133,186)
Business services	168,148	-	-	(168,148)
Operation and maintenance	266,459	-	-	(266,459)
Student transportation	121,307	-	70,400	(50,907)
Food services	117,490	57,068	41,483	(18,939)
Extracurricular	12,414	-	-	(12,414)
Interest	50,127	-	-	(50,127)
Total	\$ 2,190,687	\$ 57,068	\$ 346,855	(1,786,764)
General revenues:				
				585,712
Property taxes				
Intergovernmental:				
				985,818
State aid				
				67,154
State other				
				176,169
County				
				1,747
Interest				
				38,720
Miscellaneous				
				<u>1,855,320</u>
Total general revenues				
				68,556
Change in net position				
				<u>1,788,775</u>
Net position - beginning				
				<u>\$ 1,857,331</u>
Net position - ending				

SCHOOL DISTRICT NUMBER 4
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General	Miscellaneous Programs	Technology	Debt Service	Total Nonmajor Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 209,830	\$ 20,140	\$ 53,259	\$ 46,635	\$ 69,523	\$ 399,387
Receivables:						
Taxes	9,587	-	800	2,486	1,111	13,984
Governments	-	35,433	-	-	-	35,433
Restitution settlement	6,583	-	-	-	-	6,583
Total assets	<u>\$ 226,000</u>	<u>\$ 55,573</u>	<u>\$ 54,059</u>	<u>\$ 49,121</u>	<u>\$ 70,634</u>	<u>\$ 455,387</u>
LIABILITIES						
Accounts payable - vendors	\$ 4,275	-	\$ 38,129	-	-	\$ 42,404
Total liabilities	<u>4,275</u>	<u>-</u>	<u>38,129</u>	<u>-</u>	<u>-</u>	<u>42,404</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue-property taxes	16,170	-	800	2,486	1,111	20,567
Total deferred inflows of resources	<u>16,170</u>	<u>-</u>	<u>800</u>	<u>2,486</u>	<u>1,111</u>	<u>20,567</u>
FUND BALANCES						
Restricted:						
Instruction	-	21,342	15,130	-	18,494	54,966
Support services:						
Students	-	-	-	-	331	331
Instructional staff	-	-	-	-	855	855
General administration	-	-	-	-	5,664	5,664
Business services	-	-	-	-	6,592	6,592
Operation and maintenance	-	-	-	-	22,610	22,610
Student transportation	-	-	-	-	10,996	10,996
Food services	-	-	-	-	3,981	3,981
Debt service	-	-	-	46,635	-	46,635
Committed:						
Instruction	-	34,231	-	-	-	34,231
Assigned:						
Instruction	12,823	-	-	-	-	12,823
Support services:						
Instructional staff	32	-	-	-	-	32
General administration	1,800	-	-	-	-	1,800
Operation and maintenance	28,497	-	-	-	-	28,497
Unassigned	162,403	-	-	-	-	162,403
Total fund balances	<u>205,555</u>	<u>55,573</u>	<u>15,130</u>	<u>46,635</u>	<u>69,523</u>	<u>392,416</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 226,000</u>	<u>\$ 55,573</u>	<u>\$ 54,059</u>	<u>\$ 49,121</u>	<u>\$ 70,634</u>	<u>\$ 455,387</u>

SCHOOL DISTRICT NUMBER 4
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2014

Total fund balances, governmental funds	\$ 392,416
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	2,556,900
Other long-term assets are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the funds.	20,567
Some liabilities, including compensated absences, notes and bonds payable and other post-employment benefits, are not due and payable in the current period and, therefore, are not included in the funds.	<u>(1,112,552)</u>
Net position of governmental activities	<u><u>\$ 1,857,331</u></u>

SCHOOL DISTRICT NUMBER 4
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General	Miscellaneous Programs	Technology	Debt Service	Total Nonmajor Funds	Total Governmental Funds
REVENUES						
Property taxes	\$ 405,856	\$ -	\$ 33,853	\$ 103,282	\$ 46,731	\$ 589,722
Intergovernmental:						
County	-	-	-	-	211,369	211,369
State aid	942,367	-	-	43,451	-	985,818
State other	216,754	1,923	3,002	-	37,610	259,289
Federal	-	76,348	-	-	41,483	117,831
Charges for services	-	-	-	-	57,068	57,068
Interest	998	-	176	398	175	1,747
Miscellaneous	4,357	14,301	-	-	153	18,811
Total revenues	1,570,332	92,572	37,031	147,131	394,589	2,241,655
EXPENDITURES						
Current:						
Instruction	884,783	82,838	42,434	-	119,257	1,129,312
Support services:						
Students	52,994	-	-	-	2,533	55,527
Instructional staff	72,329	-	-	-	6,539	78,868
General administration	112,613	-	-	-	12,852	125,465
Business services	149,497	-	-	-	16,654	166,151
Operation and maintenance	250,215	-	-	-	11,694	261,909
Student transportation	-	-	-	-	121,307	121,307
Food services	425	-	-	-	107,002	107,427
Extracurricular	11,070	-	-	-	1,344	12,414
Capital outlay	11,290	-	-	-	-	11,290
Debt service:						
Principal	6,726	-	-	95,000	-	101,726
Interest and other charges	569	-	-	49,558	-	50,127
Total expenditures	1,552,511	82,838	42,434	144,558	399,182	2,221,523
Excess (deficiency) of revenues over expenditures	17,821	9,734	(5,403)	2,573	(4,593)	20,132
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	13,505	13,505
Transfers out	(13,505)	-	-	-	-	(13,505)
Total other financing sources (uses)	(13,505)	-	-	-	13,505	-
Net change in fund balances	4,316	9,734	(5,403)	2,573	8,912	20,132
Fund balances - beginning	201,239	45,839	20,533	44,062	60,611	372,284
Fund balances - ending	<u>\$ 205,555</u>	<u>\$ 55,573</u>	<u>\$ 15,130</u>	<u>\$ 46,635</u>	<u>\$ 69,523</u>	<u>\$ 392,416</u>

SCHOOL DISTRICT NUMBER 4
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds	\$ 20,132
 Amounts reported for governmental activities in the statement of activities are different because:	
<p>Governmental funds report capital outlay expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
This is the amount by which depreciation (\$61,703) exceeded capital outlay (\$11,290) in the current period.	(50,413)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(7,510)
Governmental funds report long-term debt issued as an other financing source and repayment of bond and note principal as an expenditure. In contrast, the statement of activities treats long-term debt issued as an increase in long-term liabilities and debt repayments as a reduction in long-term liabilities.	101,726
 Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	
Compensated absences	(17,805)
Other post-employment benefits	<u>22,426</u>
Change in net position of governmental activities	<u>\$ 68,556</u>

SCHOOL DISTRICT NUMBER 4
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
June 30, 2014

	<u>Private Purpose Trust Fund- Extracurricular</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 23,148	\$ 17,849
Total assets	<u>23,148</u>	<u>17,849</u>
LIABILITIES		
Accounts payable	<u>-</u>	<u>17,849</u>
Total liabilities	<u>-</u>	<u>\$ 17,849</u>
NET POSITION		
Held in trust	<u>\$ 23,148</u>	

SCHOOL DISTRICT NUMBER 4
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND
For the Year Ended June 30, 2014

	<u>Private Purpose Trust Fund- Extracurricular</u>
ADDITIONS	
Student extracurricular activities	<u>\$ 32,743</u>
Total additions	<u>32,743</u>
DEDUCTIONS	
Student extracurricular activities	<u>29,260</u>
Total deductions	<u>29,260</u>
Change in net position	3,483
Net position - beginning	<u>19,665</u>
Net position - ending	<u><u>\$ 23,148</u></u>

SCHOOL DISTRICT NUMBER 4
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The government's significant accounting policies are described below.

Reporting Entity

The government was established under Montana law to provide educational services below the college and university level to residents of the district. The government consists of a kindergarten through eighth grade district which is managed by a central Board of Trustees, elected in a district wide election and by a central administration appointed by and responsible to the Board.

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

These financial statements present, as a single reporting entity, all activities of the primary government. A primary government is defined as having a separately elected governing body, being legally separate, and fiscally independent.

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

SCHOOL DISTRICT NUMBER 4
NOTES TO BASIC FINANCIAL STATEMENTS

The government reports the following major governmental funds:

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

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

The miscellaneous programs fund accounts for the resources accumulated and payments made for federal and state grants and entitlements.

The technology fund accounts for the resources accumulated and payments made to purchase, rent, repair, and maintain technological equipment and to provide technical training for district personnel.

The debt service fund accounts for the accumulation of resources for and payment of principal, interest, and related costs of the government's long-term debt.

Additionally, the government reports the following fund types:

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

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

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

Cash and Investments

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

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

Receivables

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

The restitution settlement receivable is money owed the district by a former teacher from the overpayment of wages. Payments are scheduled to be received over the next two years. No allowance provision has been recorded as management considers the receivable to be fully collectible.

Inventories

Inventory items purchased are recorded as expenditures/expenses at the time of purchase. Inventory at year-end was not material and therefore not recorded.

Capital Assets

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

SCHOOL DISTRICT NUMBER 4
NOTES TO BASIC FINANCIAL STATEMENTS

maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

<u>Assets</u>	<u>Years</u>
Land improvements	20-30
Building and improvements	20-80
Machinery and equipment	5-30

Collections Not Capitalized

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

Compensated Absences

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

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

Sick leave is accumulated for classified employees at the rate of 12 days per year with no limit on the carry over amount. Sick leave for certified personnel (teachers) is awarded at 13 days per year up to a cumulative maximum of 80 days. Upon retirement or resignation, classified employees are eligible for sick leave compensation at one fourth of the accumulated amount and tenured certified employees are eligible for sick leave compensation at thirty percent of the accumulated amount, up to a maximum of 20 days, paid at the certified employee's current daily rate of pay.

Long-term Obligations

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

Deferred Inflows of Resources

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

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

Net Position

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

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

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

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

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the

SCHOOL DISTRICT NUMBER 4
NOTES TO BASIC FINANCIAL STATEMENTS

government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

Fund Balance

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

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

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

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

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

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

The governing body has, by resolution, authorized the clerk to assign fund balance. Assigned fund balances represent year-end encumbrances

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

Use of Estimates

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

NOTE 2. DETAILED NOTES ON ALL FUNDS

Equity in Pooled Cash and Investments

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

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

SCHOOL DISTRICT NUMBER 4
NOTES TO BASIC FINANCIAL STATEMENTS

Capital Assets

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

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets, not being depreciated				
Land	\$ 12,038	\$ -	\$ -	\$ 12,038
Total capital assets, not being depreciated	<u>12,038</u>	<u>-</u>	<u>-</u>	<u>12,038</u>
Capital assets, being depreciated				
Buildings/improvements	2,979,402	11,290	-	2,990,692
Improvements other than buildings	192,745	-	-	192,745
Machinery and equipment	184,833	-	-	184,833
Total capital assets, being depreciated	<u>3,356,980</u>	<u>11,290</u>	<u>-</u>	<u>3,368,270</u>
Less accumulated depreciation for:				
Buildings/improvements	(627,919)	(43,111)	-	(671,030)
Improvements other than buildings	(29,349)	(7,637)	-	(36,986)
Machinery and equipment	(104,437)	(10,955)	-	(115,392)
Total accumulated depreciation	<u>(761,705)</u>	<u>(61,703)</u>	<u>-</u>	<u>(823,408)</u>
Total capital assets, being depreciated, net	<u>2,595,275</u>	<u>(50,413)</u>	<u>-</u>	<u>2,544,862</u>
Governmental activities capital assets, net	<u>\$ 2,607,313</u>	<u>\$ (50,413)</u>	<u>\$ -</u>	<u>\$ 2,556,900</u>

Depreciation expense was charged as follows:

Instruction	\$ 43,541
Support services-instructional staff	4,944
Support services-general administration	567
Support services-business	695
Operation and maintenance	2,189
Food services	9,767
	<u>9,767</u>
	<u>\$ 61,703</u>

Interfund Transfers

Interfund transfers consisted of the general fund funding future payout of accumulated vacation and sick leave for administrative and classified staff. Additionally, a transfer was made, in accordance with state statute, from the general fund to the building reserve fund to assist with security improvements.

Long-Term Debt

During 2011, the district borrowed \$70,000 from the State Board of Investments. Proceeds from the borrowing were used for parking lot improvements. Interest and principal payments are due semi-annually. The interest rate on the note was 1.00% at June 30, 2014. The interest rate is adjusted February of each year and cannot exceed 15% per annum. The principal balance outstanding as of June 30, 2014 was \$46,903. The general fund services the note payable debt.

SCHOOL DISTRICT NUMBER 4
NOTES TO BASIC FINANCIAL STATEMENTS

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

Year ending June 30,	Notes Payable		
	Principal	Interest	Total
2015	6,858	452	7,310
2016	6,992	383	7,375
2017	7,129	314	7,443
2018	7,269	241	7,510
2019	7,411	168	7,579
2020-2021	11,244	111	11,355
	<u>\$ 46,903</u>	<u>\$ 1,669</u>	<u>\$ 48,572</u>

The government issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding are as follows:

	Original Amount	Term	Interest Rate	Balance June 30, 2014
2002 School Building Bonds	\$ 1,840,000	20 yr	4.15-4.84%	<u>\$ 975,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year ending June 30,	Principal	Interest	Total
2015	100,000	45,173	145,173
2016	105,000	40,772	145,772
2017	115,000	36,048	151,048
2018	120,000	30,815	150,815
2019	125,000	25,295	150,295
2020-2022	410,000	39,815	449,815
	<u>\$ 975,000</u>	<u>\$ 217,918</u>	<u>\$ 1,192,918</u>

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

	Balance July 1, 2013	Additions	Decreases	Balance June 30, 2014	Due Within One Year
General obligation debt	\$ 1,070,000	\$ -	\$ (95,000)	\$ 975,000	\$ 100,000
Notes payable	53,629	-	(6,726)	46,903	6,858
Compensated absences	59,418	17,805	-	77,223	26,286
	<u>\$ 1,183,047</u>	<u>\$ 17,805</u>	<u>\$ (101,726)</u>	<u>\$ 1,099,126</u>	<u>\$ 133,144</u>

Compensated absences are generally liquidated by the General or Compensated Absences funds. Bonds payable are liquidated with Debt Service fund resources.

NOTE 3. OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; professional liability (i.e., errors and omissions); workers compensation (i.e., employee injuries); medical insurance costs; and environmental damages. A variety of methods is used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for theft, damage or destruction of assets, professional liabilities and employee medical costs. The government participates in the Montana Schools Group's Workers' Compensation Risk Retention Program, a state-wide public risk

SCHOOL DISTRICT NUMBER 4
NOTES TO BASIC FINANCIAL STATEMENTS

pool currently operating as a common risk management and insurance program for the member school districts. The government pays quarterly premiums for its employee injury insurance coverage. The agreement for formation of the pool provides that it will be self-sustaining through member premiums. There are no deductibles or maximum coverage limits in the plan. Given lack of coverage available, the government has no coverage for potential losses from environmental damages. Coverage limits and the deductibles on the commercial policies have remained relatively constant for the last several years. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Interlocal Cooperative

The government participates with other school districts in the Yellowstone-West/Carbon County Special Services Cooperative. The Cooperative provides special education services to its member schools.

Commitments and Contingencies

At year-end, the government had commitments outstanding, in the form of purchase orders, of approximately \$52,134, primarily for supplies and equipment. The following schedule displays encumbrances by major fund and nonmajor funds in the aggregate.

	General Fund	Miscellaneous Programs	Nonmajor Governmental Funds	Total Governmental Funds
Restricted:				
Instruction	\$ -	\$ 3,671	\$ -	\$ 3,671
Assigned:				
Instruction	12,823	-	-	12,823
Support services:				
Instructional staff	32	-	-	32
General administration	1,800	-	-	1,800
Operations and maintenance	28,497	-	-	28,497
Food services	-	-	5,311	5,311
	<u>\$ 43,152</u>	<u>\$ 3,671</u>	<u>\$ 5,311</u>	<u>\$ 52,134</u>

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

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

Retirement Plans

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

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

SCHOOL DISTRICT NUMBER 4
NOTES TO BASIC FINANCIAL STATEMENTS

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

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

TRS:

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

PERS:

On January 1 following an actuarial valuation, the employee contribution rate will be reduced to 6.9%, and the additional contributions by the employer (1%) and the State of Montana will terminate, if the actuarial valuation determines that these reductions and terminations would not cause the amortization period to exceed 25 years. Effective July 1, 2013, retired members who return to active service are subject to the above employee, employer, and state contributions. For retired members who return to work in a covered position, but who have not become active members, the employer and state shall contribute the amounts specified in Sections 19-3-316 and 319. (MCA 19-3-1113)

The State of Montana contributes .37% and 2.49% per year to the PERS and TRS plans, respectively, on behalf of the employer. The State of Montana on-behalf TRS payment (\$22,623) has been recorded in the financial statements.

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

	2014	2013	2012
TRS	\$ 151,057	\$ 136,379	\$ 126,422
PERS	33,822	27,863	26,582
	\$ 184,879	\$ 164,242	\$ 153,004

Postemployment Benefits Other Than Pensions

Plan Description. The government provides postemployment health care benefits in accordance with Montana Code Annotated, Title 2, Chapter 18, Section, 704 to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions, and (2) surviving dependents of deceased employees. Retirement eligibility is determined based on the minimum of (1) reaching age 50 with at least 5 years of membership service or (2) reaching 25 years of membership at any age.

Funding Policy. The required contribution is based on pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation. The government's' annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

SCHOOL DISTRICT NUMBER 4
NOTES TO BASIC FINANCIAL STATEMENTS

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 on the government's net OPEB obligation to the postemployment benefit plan:

Annual required contribution	\$ 7,425
Interest on net OPEB obligation	<u>3</u>
Annual OPEB cost (expense)	7,428
Change in previous OPEB estimate	(25,097)
Contributions made	<u>(4,757)</u>
Decrease in net OPEB obligation	(22,426)
Net OPEB obligation - beginning of year	<u>35,852</u>
Net OPEB obligation - end of year	<u>\$ 13,426</u>

The government's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2014 and the two preceding years are as follows:

Year Ending June 30,	Annual OPEB Cost (AOC)	Percentage of Annual AOC Contributed	Net OPEB Obligation (NOO)
2014	\$ 7,428	0%	\$ 13,426
2013	12,454	0%	35,852
2012	11,944	0%	23,398

Funded Status and Funding Progress. As of July 1, 2013, the Plan was 0% funded. The actuarial accrued liability for benefits was \$44,472, and the actuarial value of assets is \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$44,472.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

In the July 1, 2013 actuarial valuation (the most recent valuation), the projected unit credit method was used. The actuarial assumptions included a 4.5% investment rate of return which is based on the expected long term investment return of the employer's own investments used to pay plan benefits and an annual healthcare cost trend rate ranging from 2.05% to 7% reduced to an ultimate rate of 4.5%. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The amortization of UAAL is done over a period of 30 years.

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

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

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT NUMBER 4
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
REVENUES					
Property taxes	\$ 407,029	\$ 407,029	\$ 405,856	\$ -	\$ 405,856
Intergovernmental:					
State aid	942,367	942,367	942,367	-	942,367
State other	194,131	194,131	194,131	22,623	216,754
Interest	693	693	998	-	998
Miscellaneous	829	829	4,357	-	4,357
	<u>1,545,049</u>	<u>1,545,049</u>	<u>1,547,709</u>	<u>22,623</u>	<u>1,570,332</u>
EXPENDITURES					
Total expenditures	<u>1,531,544</u>	<u>1,531,544</u>	<u>1,526,305</u>	<u>26,206</u>	<u>1,552,511</u>
Excess (deficiency) of revenues over expenditures	<u>13,505</u>	<u>13,505</u>	<u>21,404</u>	<u>(3,583)</u>	<u>17,821</u>
OTHER FINANCING USES					
Transfers out	<u>(13,505)</u>	<u>(13,505)</u>	<u>(13,505)</u>	<u>-</u>	<u>(13,505)</u>
Total other financing uses	<u>(13,505)</u>	<u>(13,505)</u>	<u>(13,505)</u>	<u>-</u>	<u>(13,505)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>7,899</u>	<u>(3,583)</u>	<u>4,316</u>
Fund balances - beginning			<u>154,504</u>	<u>46,735</u>	<u>201,239</u>
Fund balances - ending			<u>\$ 162,403</u>	<u>\$ 43,152</u>	<u>\$ 205,555</u>

SCHOOL DISTRICT NUMBER 4
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
TECHNOLOGY FUND
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
REVENUES					
Property taxes	\$ 34,000	\$ 34,000	\$ 33,853	\$ -	\$ 33,853
Intergovernmental:					
State other	3,002	3,002	3,002	-	3,002
Interest	-	-	176	-	176
Total revenues	<u>37,002</u>	<u>37,002</u>	<u>37,031</u>	<u>-</u>	<u>37,031</u>
EXPENDITURES					
Total expenditures	<u>57,535</u>	<u>57,535</u>	<u>42,434</u>	<u>-</u>	<u>42,434</u>
Net change in fund balances	<u>\$ (20,533)</u>	<u>\$ (20,533)</u>	(5,403)	-	(5,403)
Fund balances - beginning			<u>20,533</u>	<u>-</u>	<u>20,533</u>
Fund balances - ending			<u>\$ 15,130</u>	<u>\$ -</u>	<u>\$ 15,130</u>

SCHOOL DISTRICT NUMBER 4
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2014

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

State law requires budgets be prepared for certain funds - generally those supported by property tax revenues. Budgets are prepared on the modified accrual basis. State law requires only that a fund's total expenditures not exceed total budgeted expenditures. Budgets may be amended as defined by State law. There were no budget amendments during the year.

The general fund budget is based on the State of Montana's foundation program which is based primarily on enrollment. Budgets of other funds are based on expected revenues and expenditures. The Board of Trustees approves the original budget no later than August 25th.

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

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

SCHOOL DISTRICT NUMBER 4
 SCHEDULE OF FUNDING PROGRESS-OTHER POST EMPLOYMENT BENEFITS
 For the Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UALL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UALL as a Percentage of Covered Payroll [(b-a)/c]
6/30/2012	\$ -	\$ 83,797	\$ 83,797	\$ -	\$ 1,076,326	0.077854665
6/30/2013	-	87,358	87,358	-	1,148,372	0.076071169
6/30/2014	-	44,472	44,472	-	1,153,100	0.038567340

OTHER SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT NUMBER 4
EXTRACURRICULAR FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2014

Activity	Balance July 1, 2013	Revenues	Expenditures	Transfers in (out)	Balance June 30, 2014
Activity Account	\$ (586)	\$ 2,404	\$ 1,820	\$ -	\$ (2)
Student Council	2,998	5,346	3,918	-	4,426
Music	1,566	1,988	2,073	-	1,481
Garden	287	-	9	-	278
2013	2,040	-	-	(2,040)	-
2014	588	15,590	15,974	2,040	2,244
2015	271	-	-	-	271
2016	723	-	-	-	723
2017	1,636	-	246	-	1,390
2018	1,165	-	403	-	762
2019	2,396	-	329	-	2,067
2020	1,490	840	506	-	1,824
2021	785	2,225	1,356	-	1,654
2022	-	1,140	746	-	394
Tech Ed	-	1,214	215	-	999
Art	112	-	-	-	112
Yearbook	(304)	1,955	1,665	-	(14)
Counseling	50	-	-	-	50
PE/Health	26	-	-	-	26
Uniform	1	-	-	-	1
Courtyard	4,252	1	-	-	4,253
Library	169	40	-	-	209
	<u>\$ 19,665</u>	<u>\$ 32,743</u>	<u>\$ 29,260</u>	<u>\$ -</u>	<u>\$ 23,148</u>

SCHOOL DISTRICT NUMBER 4
 SCHEDULE OF SCHOOL DISTRICT ENROLLMENT
 For the Year Ended June 30, 2014

	<u>Reported Enrollment</u>	<u>Enrollment per Records</u>	<u>Difference</u>
FALL ENROLLMENT - October 2013			
Kindergarten	29	29	-
Grades one through six	161	161	-
Grades seven and eight	41	41	-
	<u>231</u>	<u>231</u>	<u>-</u>
WINTER ENROLLMENT - December 2013			
Kindergarten	28	28	-
Grades one through six	159	159	-
Grades seven and eight	42	42	-
	<u>229</u>	<u>229</u>	<u>-</u>
SPRING ENROLLMENT - February 2014			
Kindergarten	28	28	-
Grades one through six	163	163	-
Grades seven and eight	42	42	-
	<u>233</u>	<u>233</u>	<u>-</u>

OLNESS & ASSOCIATES, P. C.

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

To the Board of Trustees
School District Number 4
Billings, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District Number 4, Billings, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated May 6, 2015.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses. (Findings 2014-001 and 2014-002)

Compliance and Other Matters

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

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

The Government's Response to Findings

The government did not respond to the findings identified in our audit as described in the accompanying schedule of findings. Section 2-7-515, Montana Code Annotated, states that the government should respond to any findings in the audit report within 30 days after the receipt of the final audit report.

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.

Olness & Associates, PC

Billings, Montana
May 6, 2015

SCHOOL DISTRICT NUMBER 4
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2014

2014-001. FINANCIAL STATEMENT PREPARATION

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

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

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

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

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

2014-002. SEGREGATION OF DUTIES

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

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

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

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

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

SCHOOL DISTRICT NUMBER 4
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

<u>PRIOR YEAR FINANCIAL STATEMENT FINDINGS</u>	<u>STATUS</u>
2013-1. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2013-2. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE