

**The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.**





**SCHOOL DISTRICT NO. 3**

**FINANCIAL REPORT**

**June 30, 2014**



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SCHOOL DISTRICT NUMBER 3

CASCADE SCHOOLS  
CASCADE COUNTY  
CASCADE, MONTANA  
June 30, 2014

**ORGANIZATION**

**BOARD OF TRUSTEES**

Todd Mortag ..... Chairperson  
Rick Cummings ..... Vice-Chairperson  
Terri Bogden ..... Trustee  
Chris Boland ..... Trustee  
Charlie Hawn ..... Trustee  
Deanna Hastings ..... Trustee  
Jim Purdy ..... Trustee

**OFFICIALS**

Justin Barnes ..... District Superintendent  
Jamie Bailey ..... County Superintendent  
John Parker ..... County Attorney  
Lucinda Woodland ..... District Clerk

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
School District Number 3  
Cascade County  
Cascade, 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 3, Cascade County, Cascade, Montana (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 the 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 School District Number 3, Cascade County, Cascade, Montana, as of June 30, 2014, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental information as listed 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 management's discussion and analysis and the other required supplemental 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 District's basic financial statements. The other supplemental schedules on pages 47 and 48 are presented for the purposes of additional analysis as required by the Montana Office of Public Instruction and are not a required part of the basic financial statements. Those schedules 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 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2015 on our consideration of the District'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 District's internal control over financial reporting and compliance.

*Anderson Zurmuehlen & Co., P.C.*

Great Falls, Montana  
January 21, 2015

SCHOOL DISTRICT NUMBER 3  
CASCADE COUNTY  
CASCADE, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year Ended June 30, 2014

The Superintendent and Business Manager/Clerk of School District Number 3, Cascade County, Cascade, Montana, have provided this management's discussion and analysis to give the reader of these statements an overview of the financial position and activities of the school district for the year covered by this audit report. Please read it along with the District's basic financial statements, which begin on page 14.

### **FINANCIAL HIGHLIGHTS**

The District's overall financial position was relatively stable in fiscal year 2014 with total net position decreasing by only \$2,086, which is a 0.06% decrease from 2013.

Revenues decreased by 1.64%, or \$66,108, and expenditures increased by 3.55%, or \$137,870. The District's current assets increased by 3.25%, or \$23,697, while capital assets showed a net decrease from 2013 of 2.59%, or \$154,775. This is the eleventh year the District has recorded depreciation expense, as required by GASB 34.

The elementary district's general fund budget is at 91.6% of the maximum budget allowed, while the high school district's general fund budget is at 90.7% of the maximum budget allowed. In comparison (according to the Montana Office of Public Instruction), other school districts in our area are at the maximum level or over-maximum with their budgets. The Board of Trustees opted to approve the adopted budget rather than hold a mill levy election to raise the budget to the maximum allowed.

#### **Using this Generally Accepted Accounting Principles Report (GAAP)**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand School District Number 3, Cascade County, Cascade, Montana as a financial whole, an entire operating entity. These statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole school district, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term, as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of School District Number 3, Cascade County, Cascade, Montana, the general fund is by far the most significant fund.

SCHOOL DISTRICT NUMBER 3  
CASCADE COUNTY  
CASCADE, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Fiscal Year Ended June 30, 2014

## **REPORTING THE SCHOOL DISTRICT AS A WHOLE**

### **Statement of Net Position and Statements of Activities**

One important question asked about School District Number 3, Cascade County, Cascade, Montana's finances is, "Is the District better or worse off as a result of the year's activities?" The information in the government-wide financial statements, the Statement of Net Position and the Statement of Activities, helps answer this question. These financial statements include all assets and liabilities using the accrual basis of accounting similar to the basis of accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid, and includes the reporting of depreciation on capital assets. The government-wide financial statements report the District's net position and changes in net position.

The change in net assets over time is one indicator of whether the District's financial health is improving or deteriorating. However, there are other non-financial factors that influence the District's fiscal health, such as changes in enrollment, changes in the State's funding of educational costs, changes in the economy, changes in the District's tax base, facility condition, required educational programs and other factors.

## **REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS**

### **Fund Financial Statements**

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

The fund financial 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.

### **Governmental Funds**

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. 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 School District's general government operations and the basic services it provides.

SCHOOL DISTRICT NUMBER 3  
 CASCADE COUNTY  
 CASCADE, MONTANA  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
 Fiscal Year Ended June 30, 2014

**Governmental Funds (Continued)**

Governmental fund information helps you determine whether there are more or fewer financial resources than can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

**FINANCIAL ANALYSIS**

Recall that the Statement of Net Position provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net position for 2014 compared to 2013:

**Table 1**

|  | 2013                | 2014                | Change            | Percent of<br>Change |
|--|---------------------|---------------------|-------------------|----------------------|
| <b>ASSETS</b>  |                     |                     |                   |                      |
| Current assets, including cash, receivables and inventories                      | \$ 730,163          | \$ 753,860          | \$ 23,697         | 3.25%                |
| Capital assets, including land, buildings, improvements, machinery and equipment | <u>5,983,796</u>    | <u>5,829,021</u>    | <u>(154,775)</u>  | -2.59%               |
| Total assets   | <u>6,713,959</u>    | <u>6,582,881</u>    | <u>(131,078)</u>  | -1.95%               |
| <b>LIABILITIES</b>   |                     |                     |                   |                      |
| Other current liabilities  | 2,909               | 35,398              | 32,489            | 1116.84%             |
| Deferred amount on refunding   | (49,337)            | -                   | 49,337            | -100.00%             |
| Compensated absences payable   | 89,888              | 62,457              | (27,431)          | -30.52%              |
| Bonds payable  | 2,780,000           | 2,475,000           | (305,000)         | -10.97%              |
| Net OPEB obligation  | <u>234,731</u>      | <u>356,344</u>      | <u>121,613</u>    | 51.81%               |
| Total liabilities  | <u>3,058,191</u>    | <u>2,929,199</u>    | <u>(128,992)</u>  | -4.22%               |
| <b>NET POSITION</b>  |                     |                     |                   |                      |
| Net investment in capital assets   | 3,253,133           | 3,354,021           | 100,888           | 3.10%                |
| Restricted for debt service  | 24,468              | 63,798              | 39,330            | 160.74%              |
| Unrestricted   | <u>378,167</u>      | <u>235,863</u>      | <u>(142,304)</u>  | -37.63%              |
| Total net position   | <u>\$ 3,655,768</u> | <u>\$ 3,653,682</u> | <u>\$ (2,086)</u> | -0.06%               |

Total assets of governmental activities decreased by 1.95%, or \$131,078, as current assets, which include cash and cash equivalents, increased by 3.25%, or \$23,697, and net capital assets decreased by 2.59%, or \$154,775. Net capital asset decreases were primarily the result of depreciation expense in excess of building improvements. Unrestricted net position, the part of net position that can be used to finance day to day activities without constraints established by grant agreements or other legal requirements of school districts, decreased by 37.63%, or \$142,304.

SCHOOL DISTRICT NUMBER 3  
CASCADE COUNTY  
CASCADE, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Fiscal Year Ended June 30, 2014

**FINANCIAL ANALYSIS (CONTINUED)**

Table 2 shows the changes in net position for fiscal years 2014 and 2013:

**Table 2**

|                                    | <u>2013</u>       | <u>2014</u>        | <u>Change</u>       | <u>Percent of<br/>Change</u> |
|------------------------------------|-------------------|--------------------|---------------------|------------------------------|
| <b>REVENUES</b>                    |                   |                    |                     |                              |
| Program revenues                   |                   |                    |                     |                              |
| Charges for services               | \$ 62,038         | \$ 63,741          | \$ 1,703            | 2.75%                        |
| Operating grants/contributions     | 689,576           | 622,186            | (67,390)            | -9.77%                       |
| General revenues                   |                   |                    |                     |                              |
| District levy                      | 1,358,608         | 1,383,777          | 25,169              | 1.85%                        |
| District state aid                 | 1,130,963         | 1,125,515          | (5,448)             | -0.48%                       |
| State guaranteed tax base subsidy  | 398,365           | 386,874            | (11,491)            | -2.88%                       |
| Other state payments               | 102,018           | 91,843             | (10,175)            | -9.97%                       |
| County retirement distribution     | 335,296           | 276,886            | (58,410)            | -17.42%                      |
| State technology                   | 2,468             | 4,754              | 2,286               | 92.63%                       |
| Interest                           | 4,528             | 4,676              | 148                 | 3.27%                        |
| Miscellaneous                      | -                 | 9,500              | 9,500               | N/A                          |
| Transfers                          | <u>(48,000)</u>   | <u>-</u>           | <u>48,000</u>       | -100.00%                     |
| Total revenue                      | <u>4,035,860</u>  | <u>3,969,752</u>   | <u>(66,108)</u>     | -1.64%                       |
| <b>PROGRAM EXPENSES</b>            |                   |                    |                     |                              |
| Regular programs                   |                   |                    |                     |                              |
| Instructional services             | 1,408,768         | 1,504,632          | 95,864              | 6.80%                        |
| Supportive services                | 60,344            | 56,221             | (4,123)             | -6.83%                       |
| Educational media services         | 76,678            | 74,836             | (1,842)             | -2.40%                       |
| General administrative services    | 235,096           | 259,601            | 24,505              | 10.42%                       |
| School administrative services     | 120,568           | 152,491            | 31,923              | 26.48%                       |
| Operation and maintenance services | 541,567           | 545,315            | 3,748               | 0.69%                        |
| Special programs                   |                   |                    |                     |                              |
| Instructional services             | 323,481           | 301,984            | (21,497)            | -6.65%                       |
| Vocational programs                |                   |                    |                     |                              |
| Instructional services             | 198,610           | 203,684            | 5,074               | 2.55%                        |
| Extracurricular activities         | 105,563           | 109,269            | 3,706               | 3.51%                        |
| School food services               | 164,438           | 179,469            | 15,031              | 9.14%                        |
| Student transportation services    | 500,688           | 504,024            | 3,336               | 0.67%                        |
| Interest on long-term debt         | 138,789           | 121,058            | (17,731)            | -12.78%                      |
| Transfer to other districts        | <u>5,070</u>      | <u>4,946</u>       | <u>(124)</u>        | -2.45%                       |
| Total expense                      | <u>3,879,660</u>  | <u>4,017,530</u>   | <u>137,870</u>      | 3.55%                        |
| Change in net position             | <u>\$ 156,200</u> | <u>\$ (47,778)</u> | <u>\$ (203,978)</u> | -130.59%                     |

SCHOOL DISTRICT NUMBER 3  
CASCADE COUNTY  
CASCADE, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Fiscal Year Ended June 30, 2014

A comparison of the Statement of Activities between fiscal year 2013 and fiscal year 2014 contains some interesting information regarding School District Number 3, Cascade County, Cascade, Montana.

General revenues, 82.7% of total revenues, totaled \$3,283,825. These general revenues decreased when compared to fiscal year 2013 by \$421.

The dependence on tax revenues is apparent. Over 83.61% of the District's instruction services activities (\$2,010,300) are supported through local taxes (district levy and county retirement distribution), and for all activities, general revenue support is 81.74%. The community as a whole is the primary support for School District Number 3, Cascade County, Cascade, Montana.

The District's main purpose is to educate our children; therefore, the District's costs revolve around instruction and supporting the instruction of students, transporting children to and from school, providing breakfast and lunch to these students along with some extracurricular activities.

Instructional service expenses include activities dealing directly with interaction between teachers and students. Instructional service expenses, included in regular, special and vocational program categories, comprise 50.04% of District expenses.

The remaining 49.96% of District expenses consist of expenses relating to the following support areas: supportive services, educational media services, general administrative services, school administrative services, operation and maintenance services, extracurricular activities, school food services, student transportation services, and interest on long-term debt. The District continues to offer an after school program titled XCELL!, which is a 21<sup>st</sup> Century Community Learning Center program and is operated with grant monies. Fiscal year 2014 was the second year of a five year continuing grant in the amount of \$50,000. The District is using self-sustaining funds/activities to maintain the same level of service to students.

Supportive services expenses include guidance services. These expenses decreased, when compared to fiscal year 2013, by 6.83%, or \$4,123.

Educational media services include activities concerned with the use of teaching and learning resources, audiovisual services, and library and media services. These expenses decreased, when compared to 2013, by 2.40%, or \$1,842.

General administrative services include activities of establishing policy by the Board of Trustees and administrating policy by the Superintendent in connection with operating the district. These expenses increased, when compared to 2013, by 10.42%, or \$24,505, primarily due to an increase in rates associated with insurance such as MSGIA, WC, UI and participation in educational leadership programs.

SCHOOL DISTRICT NUMBER 3  
CASCADE COUNTY  
CASCADE, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Fiscal Year Ended June 30, 2014

School administrative services include activities concerned with overall administrative responsibility for the elementary and high school, primarily the cost of principals and clerical staff. These expenses increased, when compared to 2013, by 26.48%, or \$31,923, due to annual salary increases for these personnel as well as programs for professional development.

Operation and maintenance services include activities concerned with keeping the physical plant open, comfortable, safe for use, and keeping the grounds, buildings, and equipment in effective working condition and state of repair. This includes the activities of maintaining safety in buildings, on the grounds, and in the vicinity of schools. These services increased by 0.69%, or \$3,748, when compared to 2013.

Extracurricular activities include school-sponsored activities that are not part of the regular instructional programs and school sponsored athletic sports involving competition between schools. These expenses increased 3.51%, or \$3,706, from 2013 to 2014.

School food services include activities concerned with providing nutritious food to students and staff in our school district. It includes the preparation and serving of breakfast, lunches, and snacks in connection with school activities. These expenses increased 9.14%, or \$15,031, from 2013 to 2014. This increase is due to wage increases for full time employees, rising costs of food and transportation, and professional development opportunities for kitchen staff.

Student transportation services include activities for the purpose of financing the maintenance and operation of district owned school buses, individual transportation contracts, and any amount necessary for the purchase, rental, or insurance of yellow school buses or operation of the transportation program. This expense category saw an increase of \$3,336, or 0.67%. We have bought a new bus every two years (bus depreciation funds) but the cost of maintaining other buses is increasing due to replacement of tires (lots of gravel road miles), engine/transmission repairs, and general maintenance.

Interest on long-term debt involves transactions associated with the payment of interest and related charges to debt of the School District.

### **THE SCHOOL DISTRICT'S FUNDS**

Information about the School District's major funds begins on page 16. These funds are accounted for using the modified accrual basis of accounting. Governmental funds in total had revenues of \$3,952,242 and expenditures of \$3,884,308. The net change in fund balance before other financing sources/(uses) for the year was an increase of \$67,934.

SCHOOL DISTRICT NUMBER 3  
 CASCADE COUNTY  
 CASCADE, MONTANA  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
 Fiscal Year Ended June 30, 2014

**THE SCHOOL DISTRICT'S FUNDS (CONTINUED)**

The general fund had a net decrease in fund balance of \$123 compared to a net increase in fund balance of \$34,396 in fiscal year 2013. The 2014 elementary district's general fund budget received an increase in revenue with corresponding increases in expenditures, while the high school district's general fund budget received decreases in revenue with corresponding decreases in expenditures compared to 2013.

The elementary district's miscellaneous programs fund had an increase in fund balance of \$7,155. The elementary district's transportation fund had a decrease in fund balance of \$11,439, while the high school district's transportation fund had a decrease in fund balance of \$6,850.

**MAJOR FUND BUDGETING HIGHLIGHTS**

The District's budget is prepared according to Montana law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. Of the major funds, the general fund and elementary transportation fund are budgeted funds. The elementary district's miscellaneous programs fund is not a budgeted fund.

**CAPITAL ASSETS**

At the end of fiscal year 2014, the District had \$5,829,021 invested in land, buildings, and machinery and equipment, net of accumulated depreciation.

The following table shows fiscal year 2013 balances compared to fiscal year 2014:

|                            | 2013                | 2014                | Change              | Percent of<br>Change |
|----------------------------|---------------------|---------------------|---------------------|----------------------|
| Land and improvements      | \$ 173,568          | \$ 157,473          | \$ (16,095)         | -9.27%               |
| Buildings and improvements | 5,464,201           | 5,282,613           | (181,588)           | -3.32%               |
| Machinery and equipment    | 346,027             | 388,935             | 42,908              | 12.40%               |
| Totals                     | <u>\$ 5,983,796</u> | <u>\$ 5,829,021</u> | <u>\$ (154,775)</u> | -2.59%               |

Overall net capital assets decreased by \$154,775 when compared to fiscal year 2013. In arriving at the net figure, additions are reduced by disposals of capital assets, as well as depreciation expense. See Note 6 of the notes to financial statements for specific information regarding these changes.

**DEBT ADMINISTRATION**

At June 30, 2014 the District has a long-term debt obligation of \$2,518,801. The majority of this debt comes from refunding bonds issued in March 2014, used to refund general obligation bonds initiated in 2006 and 2007 to fund building construction, roof repair, and purchase U.S. government securities. These bonds have a maturation date congruent to the original bonds of 2021. This will save the District approximately \$231,000 between the two bond issues over the

SCHOOL DISTRICT NUMBER 3  
CASCADE COUNTY  
CASCADE, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Fiscal Year Ended June 30, 2014

**DEBT ADMINISTRATION (CONTINUED)**

next seven years. The District's long-term debt balance reported below also includes an accrual for future compensation for unclaimed leave accumulated per law, as well as an accrual for other post-employment benefits.

Long-term debt balances are as follows:

|                                       |                     |
|---------------------------------------|---------------------|
| Compensated absences payable          | \$ 62,457           |
| Bonds payable, net of current portion | 2,100,000           |
| Net OPEB obligation                   | <u>356,344</u>      |
| Totals                                | <u>\$ 2,518,801</u> |

For an analysis of the activity in long-term debt for fiscal year 2014, see Note 7 of the notes to financial statements for specific information regarding these changes.

**CURRENT FINANCIAL ISSUES AND CONCERNS**

School District Number 3, Cascade County, Cascade, Montana, is financially stable. The District is proud and appreciative of the support it receives from the community. Despite declining student enrollment, which has resulted in reduced state funding, the District continues to provide full time all-day kindergarten programs and after school programs, reduced class sizes at all levels in the district, and course offerings from basic to Advanced Placement, all of which enhance the educational opportunities of the students.

The District has continued to make improvements to the facilities. They include replacing carpet in the hallways, recycling electronic waste, replacing aging computer components and upgrading technological assets, and replacement of boiler system with new, economic/energy efficient modules. Partnership with the Cascade Betterment Committee continues to be an asset to the district.

Teacher salaries in Montana are ranked 34<sup>th</sup> in the nation. The average public school teacher salary in Montana is \$48,855 (NEA.org). The District's current average teacher salary is \$42,914. Fifty-five percent (55%) of the K-12 teaching staff have served the District for ten (10) or more years. The District strongly feels that our teaching staff is one of the best, and works diligently to compensate them accordingly and maintain competitive teacher salaries; but, we are ever mindful of other fiscal challenges, including declining enrollment, increasing transportation costs, and maintaining a quality experience, academically as well as socially, for our student body. In addition, the District works diligently at providing a fair competitive wage for all of the support staff that serves our District. Funding continues to be a primary issue at Cascade School.

SCHOOL DISTRICT NUMBER 3  
CASCADE COUNTY  
CASCADE, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Fiscal Year Ended June 30, 2014

**CURRENT FINANCIAL ISSUES AND CONCERNS (CONTINUED)**

Priority will always be given to funding and budgetary decisions regarding academic and assessment needs and services – new textbooks, providing research-based instructional materials, integrating technology into instruction, counseling services, professional development – and is an ever-increasing cost.

Again this year, liabilities of the District include an estimate of the future liability for employees' other post-employment benefits (OPEB). This liability was required to be recorded by the District beginning with fiscal year 2010. The actuarial report to determine this estimate is required every 3 years for school districts the size of Cascade's, and a new report was provided in fiscal year 2013.

School District Number 3, Cascade County, Cascade, Montana, is committed to the education of our children. Our children tend to start in kindergarten and graduate in the same building. Our teachers know their students and know their students' family. We are very proud at Cascade School that parents have no problem communicating with our staff members, if not person-to-person, then via email, phone calls, e-updates, school newspaper and District published newsletters.

**CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the resources it receives. If you have questions about this report or need additional information, you may contact:

Justin Barnes, Superintendent  
[jbarnes@cascade.k12.mt.us](mailto:jbarnes@cascade.k12.mt.us)

Lucinda Woodland, Clerk  
[lwoodland@cascade.k12.mt.us](mailto:lwoodland@cascade.k12.mt.us)

Cascade Public Schools District #3  
PO Box 529  
Cascade, MT 59421  
(406) 468-2267

FINANCIAL STATEMENTS

SCHOOL DISTRICT NUMBER 3  
CASCADE COUNTY  
CASCADE, MONTANA  
STATEMENT OF NET POSITION  
June 30, 2014

|   | Governmental<br>Activities |
|---|----------------------------|
| <b>ASSETS</b>                             |                            |
| Current assets:                           |                            |
| Cash in treasury                          | \$ 624,824                 |
| Taxes receivable                          | 71,581                     |
| Due from other governments                | 46,880                     |
| Due from extracurricular fund             | 3,560                      |
| Inventories                               | <u>7,015</u>               |
| Total current assets                      | <u>753,860</u>             |
| Noncurrent assets:                        |                            |
| Capital assets:                           |                            |
| Land and improvements                     | \$ 300,956                 |
| Buildings and improvements                | 7,950,405                  |
| Machinery and equipment                   | 1,271,254                  |
| Less accumulated depreciation             | <u>(3,693,594)</u>         |
| Total capital assets, net of depreciation | <u>5,829,021</u>           |
| <b>TOTAL ASSETS</b>                       | <u><u>\$ 6,582,881</u></u> |
| <b>LIABILITIES</b>                        |                            |
| Current liabilities:                      |                            |
| Other current liabilities                 | \$ 35,398                  |
| Current portion of long-term debt         | <u>375,000</u>             |
| Total current liabilities                 | <u>410,398</u>             |
| Noncurrent liabilities:                   |                            |
| Compensated absences payable              | 62,457                     |
| Bonds payable (net of current portion)    | 2,100,000                  |
| Net OPEB obligation                       | <u>356,344</u>             |
| Total noncurrent liabilities              | <u>2,518,801</u>           |
| <b>TOTAL LIABILITIES</b>                  | <u>2,929,199</u>           |
| <b>NET POSITION</b>                       |                            |
| Net investment in capital assets          | 3,354,021                  |
| Restricted for:                           |                            |
| Debt Service                              | 63,798                     |
| Program                                   | 214,537                    |
| Unrestricted                              | <u>21,326</u>              |
| <b>TOTAL NET POSITION</b>                 | <u>3,653,682</u>           |
| <b>TOTAL LIABILITIES AND NET POSITION</b> | <u><u>\$ 6,582,881</u></u> |

The Notes to Financial Statements are an integral part of this statement.

SCHOOL DISTRICT NUMBER 3  
CASCADE COUNTY  
CASCADE, MONTANA  
STATEMENT OF ACTIVITIES  
June 30, 2014

|   | Expenses            | Program Revenues     |                                    |                                  | Net (Expense)                       |
|---|---------------------|----------------------|------------------------------------|----------------------------------|-------------------------------------|
|   |                     | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Revenue and Changes in Net Position |
|   |                     |                      |                                    |                                  | Governmental Activities             |
| <b>GOVERNMENTAL ACTIVITIES</b>                  |                     |                      |                                    |                                  |                                     |
| Regular Programs                                |                     |                      |                                    |                                  |                                     |
| Instructional services                          | \$ 1,504,632        | \$ 3,560             | \$ 54,334                          | \$ -                             | \$ (1,446,738)                      |
| Supportive services                             | 56,221              | -                    | -                                  | -                                | (56,221)                            |
| Educational media services                      | 74,836              | -                    | -                                  | -                                | (74,836)                            |
| General administrative services                 | 259,601             | -                    | -                                  | -                                | (259,601)                           |
| School administrative services                  | 152,491             | -                    | -                                  | -                                | (152,491)                           |
| Operation and maintenance services              | 545,315             | -                    | -                                  | -                                | (545,315)                           |
| Special Programs                                |                     |                      |                                    |                                  |                                     |
| Instructional services                          | 301,984             | -                    | 320,557                            | -                                | 18,573                              |
| Vocational Programs                             |                     |                      |                                    |                                  |                                     |
| Instructional services                          | 203,684             | -                    | -                                  | -                                | (203,684)                           |
| Extracurricular activities                      | 109,269             | -                    | -                                  | -                                | (109,269)                           |
| School food services                            | 179,469             | 60,181               | 68,115                             | -                                | (51,173)                            |
| Student transportation services                 | 504,024             | -                    | 179,180                            | -                                | (324,844)                           |
| Interest on long-term debt                      | 121,058             | -                    | -                                  | -                                | (121,058)                           |
| Resources transferred to other school districts | <u>4,946</u>        | <u>-</u>             | <u>-</u>                           | <u>-</u>                         | <u>(4,946)</u>                      |
| Total Governmental Activities                   | <u>\$ 4,017,530</u> | <u>\$ 63,741</u>     | <u>\$ 622,186</u>                  | <u>\$ -</u>                      | <u>\$ (3,331,603)</u>               |

**GENERAL REVENUES**

|   |                     |
|---|---------------------|
| District levy                                 | 1,383,777           |
| Direct state aid                              | 1,125,515           |
| State guaranteed tax base subsidy             | 386,874             |
| Other state payments                          | 96,597              |
| County retirement distribution                | 276,886             |
| Interest                                      | 4,676               |
| Special item - gain on sale of capital assets | <u>9,500</u>        |
| Total general revenues                        | <u>3,283,825</u>    |
| <b>Change in net position</b>                 | <u>(47,778)</u>     |
| Net position at July 1                        | 3,655,768           |
| Prior period adjustment                       | <u>45,692</u>       |
| Net position at July 1, as restated           | <u>3,701,460</u>    |
| Net position at June 30                       | <u>\$ 3,653,682</u> |

The Notes to Financial Statements are an integral part of this statement.

**SCHOOL DISTRICT NUMBER 3**  
**CASCADE COUNTY**  
**CASCADE, MONTANA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2014**

|  | General<br>Fund          | Miscellaneous<br>Programs Fund<br>Elementary | Transportation<br>Fund<br>Elementary | Transportation<br>Fund<br>High School | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|--------------------------|--|--------------------------------------|---------------------------------------|--------------------------------|--------------------------------|
| <b>ASSETS</b>  |                          |  |                                      |                                       |                                |                                |
| Cash in treasury   | \$ 261,980               | \$ 6,541                                     | \$ 29,415                            | \$ 53,600                             | \$ 273,288                     | \$ 624,824                     |
| Taxes receivable   | 33,763                   | -  | 4,609                                | 6,496                                 | 26,713                         | 71,581                         |
| Interfund balance  | 70,615                   | 9,700  | -                                    | -                                     | 4,892                          | 85,207                         |
| Due from other governments   | -                        | 38,357                                       | -                                    | -                                     | 8,523                          | 46,880                         |
| Inventories  | -                        | -  | -                                    | -                                     | 7,015                          | 7,015                          |
| <b>TOTAL ASSETS</b>  | <b><u>\$ 366,358</u></b> | <b><u>\$ 54,598</u></b>                      | <b><u>\$ 34,024</u></b>              | <b><u>\$ 60,096</u></b>               | <b><u>\$ 320,431</u></b>       | <b><u>\$ 835,507</u></b>       |
| <b>LIABILITIES</b>   |                          |  |                                      |                                       |                                |                                |
| Other current liabilities  | \$ -                     | \$ 35,398                                    | \$ -                                 | \$ -                                  | \$ -                           | \$ 35,398                      |
| Interfund balance  | 32,255                   | -  | 14,380                               | 23,980                                | 11,032                         | 81,647                         |
| Due to other governments   | -                        | -  | -                                    | -                                     | -                              | -                              |
| <b>TOTAL LIABILITIES</b>   | <b><u>32,255</u></b>     | <b><u>35,398</u></b>                         | <b><u>14,380</u></b>                 | <b><u>23,980</u></b>                  | <b><u>11,032</u></b>           | <b><u>117,045</u></b>          |
| <b>DEFERRED INFLOWS OF RESOURCES</b>   |                          |  |                                      |                                       |                                |                                |
| Unearned revenue for taxes receivable  | <u>33,763</u>            | <u>-</u>                                     | <u>4,609</u>                         | <u>6,496</u>                          | <u>26,713</u>                  | <u>71,581</u>                  |
| <b>TOTAL DEFERRED INFLOWS<br/>OF RESOURCES</b>                                   | <b><u>33,763</u></b>     | <b><u>-</u></b>                              | <b><u>4,609</u></b>                  | <b><u>6,496</u></b>                   | <b><u>26,713</u></b>           | <b><u>71,581</u></b>           |
| <b>FUND BALANCE</b>  |                          |  |                                      |                                       |                                |                                |
| Fund balance:  |                          |  |                                      |                                       |                                |                                |
| Nonspendable   | -                        | -  | -                                    | -                                     | 7,015                          | 7,015                          |
| Restricted   | 5,107                    | -  | 15,035                               | 29,620                                | 228,573                        | 278,335                        |
| Committed  | 227,526                  | -  | -                                    | -                                     | -                              | 227,526                        |
| Assigned   | -                        | 19,200                                       | -                                    | -                                     | 47,098                         | 66,298                         |
| Unassigned   | <u>67,707</u>            | <u>-</u>                                     | <u>-</u>                             | <u>-</u>                              | <u>-</u>                       | <u>67,707</u>                  |
| <b>TOTAL FUND BALANCE</b>  | <b><u>300,340</u></b>    | <b><u>19,200</u></b>                         | <b><u>15,035</u></b>                 | <b><u>29,620</u></b>                  | <b><u>282,686</u></b>          | <b><u>646,881</u></b>          |
| <b>TOTAL LIABILITIES, DEFERRED<br/>INFLOWS OF RESOURCES<br/>AND FUND BALANCE</b> |                          |  |                                      |                                       |                                |                                |
|  | <b><u>\$ 366,358</u></b> | <b><u>\$ 54,598</u></b>                      | <b><u>\$ 34,024</u></b>              | <b><u>\$ 60,096</u></b>               | <b><u>\$ 320,431</u></b>       | <b><u>\$ 835,507</u></b>       |

The Notes to Financial Statements are an integral part of this statement.

SCHOOL DISTRICT NUMBER 3  
 CASCADE COUNTY  
 CASCADE, MONTANA  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION  
 June 30, 2014

|  |    |                    |
|--|----|--------------------|
| Total fund balance - governmental funds  | \$ | 646,881            |
| <p>Amounts reported for governmental activities in the statement of net position are different because:</p>  |    |                    |
| Capital assets used in governmental activities are not reported as assets in governmental funds. The cost of the assets is \$9,522,615 and the accumulated depreciation is \$3,693,594.  |    | 5,829,021          |
| Property taxes receivable expected to be collected in the following year, but are not available soon enough to pay for the current period's expenditures, and therefore are reflected as unearned revenue in governmental funds  |    | 71,581             |
| Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of bonds payable of \$2,475,000, compensated absences payable of \$62,457, and the net OPEB obligation of \$356,344. |    | <u>(2,893,801)</u> |
| Total net position - governmental activities   | \$ | <u>3,653,682</u>   |

The Notes to Financial Statements are an integral part of this statement.

**SCHOOL DISTRICT NUMBER 3**  
**CASCADE COUNTY**  
**CASCADE, MONTANA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2014**

|  | General<br>Fund   | Miscellaneous<br>Programs Fund<br>Elementary | Transportation<br>Fund<br>Elementary | Transportation<br>Fund<br>High School | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|-------------------|--|--------------------------------------|---------------------------------------|--------------------------------|--------------------------------|
| <b>REVENUES</b>                                      |                   |  |                                      |                                       |                                |                                |
| District levy  | \$ 637,778        | \$ -   | \$ 97,021                            | \$ 128,864                            | \$ 512,104                     | \$ 1,375,767                   |
| Interest   | 2,191             | -  | 282                                  | 411                                   | 1,792                          | 4,676                          |
| Miscellaneous  | -                 | -  | -                                    | -                                     | -                              | -                              |
| Direct state aid                                     | 1,125,515         | -  | -                                    | -                                     | -                              | 1,125,515                      |
| State guaranteed<br>tax base subsidy                 | 361,022           | -  | -                                    | -                                     | 25,852                         | 386,874                        |
| State special education                              | 48,122            | -  | -                                    | -                                     | -                              | 48,122                         |
| Other state payments                                 | 79,379            | -  | 1,301                                | 5,233                                 | 15,438                         | 101,351                        |
| Federal/state aid                                    | -                 | 278,221                                      | -                                    | -                                     | 111,537                        | 389,758                        |
| County reimbursement                                 | -                 | -  | 44,774                               | 44,816                                | 276,886                        | 366,476                        |
| State reimbursement                                  | -                 | -  | 44,774                               | 44,816                                | 372                            | 89,962                         |
| Tuition and fees                                     | -                 | -  | -                                    | -                                     | 3,560                          | 3,560                          |
| Lunch sales  | -                 | -  | -                                    | -                                     | 60,181                         | 60,181                         |
| <b>Total</b>   | <u>2,254,007</u>  | <u>278,221</u>                               | <u>188,152</u>                       | <u>224,140</u>                        | <u>1,007,722</u>               | <u>3,952,242</u>               |
| <b>EXPENDITURES</b>                                  |                   |  |                                      |                                       |                                |                                |
| Current:   |                   |  |                                      |                                       |                                |                                |
| Regular Programs:                                    |                   |  |                                      |                                       |                                |                                |
| Instructional services                               | 957,379           | 98,458                                       | -                                    | -                                     | 388,520                        | 1,444,357                      |
| Supportive services                                  | 56,221            | -  | -                                    | -                                     | -                              | 56,221                         |
| Educational media services                           | 70,501            | -  | -                                    | -                                     | -                              | 70,501                         |
| General administrative<br>services                   | 252,754           | -  | -                                    | -                                     | 67                             | 252,821                        |
| School administrative<br>services                    | 162,870           | -  | -                                    | -                                     | 4,754                          | 167,624                        |
| Operation and mainten-<br>ance services              | 330,245           | -  | -                                    | -                                     | -                              | 330,245                        |
| Special Programs:                                    |                   |  |                                      |                                       |                                |                                |
| Instructional services                               | 93,192            | 172,608                                      | -                                    | -                                     | 21,148                         | 286,948                        |
| Vocational Programs:                                 |                   |  |                                      |                                       |                                |                                |
| Instructional services                               | 170,740           | -  | -                                    | -                                     | 25,000                         | 195,740                        |
| Extracurricular activities                           | 109,269           | -  | -                                    | -                                     | -                              | 109,269                        |
| School food services                                 | 46,013            | -  | -                                    | -                                     | 130,196                        | 176,209                        |
| Student transportation<br>services                   | -                 | -  | 199,591                              | 224,144                               | -                              | 423,735                        |
| Resources transferred (to)<br>from other districts   | 4,946             | -  | -                                    | -                                     | -                              | 4,946                          |
| Capital outlay                                       | -                 | -  | -                                    | 6,846                                 | 122,053                        | 128,899                        |
| Debt service   | -                 | -  | -                                    | -                                     | 236,793                        | 236,793                        |
| <b>Total</b>   | <u>2,254,130</u>  | <u>271,066</u>                               | <u>199,591</u>                       | <u>230,990</u>                        | <u>928,531</u>                 | <u>3,884,308</u>               |
| Excess (Deficiency) of<br>revenues over expenditures | <u>(123)</u>      | <u>7,155</u>                                 | <u>(11,439)</u>                      | <u>(6,850)</u>                        | <u>79,191</u>                  | <u>67,934</u>                  |
| <b>OTHER FINANCING SOURCES (USES)</b>                |                   |  |                                      |                                       |                                |                                |
| Proceeds from sale of bonds                          | -                 | -  | -                                    | -                                     | 2,640,000                      | 2,640,000                      |
| Payment to refunded bond escrow agent                | -                 | -  | -                                    | -                                     | (2,829,265)                    | (2,829,265)                    |
| Proceeds from sale of assets                         | -                 | -  | -                                    | -                                     | 9,500                          | 9,500                          |
|  | <u>-</u>          | <u>-</u>                                     | <u>-</u>                             | <u>-</u>                              | <u>(179,765)</u>               | <u>(179,765)</u>               |
| <b>NET CHANGE IN FUND BALANCE</b>                    | (123)             | 7,155  | (11,439)                             | (6,850)                               | (100,574)                      | (111,831)                      |
| Fund balance at July 1                               | 279,737           | 9,671  | 8,201                                | 31,047                                | 335,027                        | 663,683                        |
| Prior period adjustment                              | <u>20,726</u>     | <u>2,374</u>                                 | <u>18,273</u>                        | <u>5,423</u>                          | <u>48,233</u>                  | <u>95,029</u>                  |
| Fund balance at July 1, as restated                  | <u>300,463</u>    | <u>12,045</u>                                | <u>26,474</u>                        | <u>36,470</u>                         | <u>383,260</u>                 | <u>758,712</u>                 |
| Fund balance at June 30                              | <u>\$ 300,340</u> | <u>\$ 19,200</u>                             | <u>\$ 15,035</u>                     | <u>\$ 29,620</u>                      | <u>\$ 282,686</u>              | <u>\$ 646,881</u>              |

The Notes to Financial Statements are an integral part of this statement.

SCHOOL DISTRICT NUMBER 3  
 CASCADE COUNTY  
 CASCADE, MONTANA  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
 REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 TO THE STATEMENT OF ACTIVITIES  
 For the Year Ended June 30, 2014

|   |                    |
|---|--------------------|
| Total net change in fund balances - governmental funds  | \$ (111,831)       |
| Amounts reported for governmental activities in the statement of activities are different because:  |                    |
| Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$283,674) exceeds capital outlays (\$128,899) in the period.   | (154,775)          |
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.  | 165,000            |
| Refunding of bonds is an other financing use in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.   | 2,780,000          |
| Issuance of bonds is an other financing source in the governmental funds, but increases long-term liabilities in the statement of net position.   | (2,640,000)        |
| Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues and are unearned in the governmental funds. Unearned tax revenues increased by this amount this year.  | 8,010              |
| In the statement of activities, certain operating expenses such as compensated absences are measured by the amounts <i>earned</i> during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used or <i>paid</i> . This is the amount by which vacation and sick leave used exceeded the amounts earned. | 27,431             |
| In the statement of activities, the accrued cost associated with the provision of other post-employment benefits as part of the employees overall compensation package is expensed, but is not recognized as an expenditure in governmental funds until paid.   | <u>(121,613)</u>   |
| Total change in net position - governmental activities  | \$ <u>(47,778)</u> |

**SCHOOL DISTRICT NUMBER 3**  
**CASCADE COUNTY**  
**CASCADE, MONTANA**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**June 30, 2014**

|   | Extracurricular<br>Fund | Interlocal<br>Agreement<br>Fund | Agency<br>Fund<br><u>Insurance</u><br>Fund |
|---|-------------------------|---------------------------------|--|
| <b>ASSETS</b>                                     |                         |                                 |  |
| Cash in bank                                      | \$ 65,676               | \$ -                            | \$ -                                       |
| Cash in treasury                                  | -                       | 24,168                          | 11   |
| Petty cash  | -                       | -                               | -  |
| Taxes receivable                                  | -                       | -                               | -  |
| Due from other governments                        | -                       | -                               | -  |
| Inventories                                       | <u>-</u>                | <u>-</u>                        | <u>-</u>                                   |
| <b>TOTAL ASSETS</b>                               | <u>\$ 65,676</u>        | <u>\$ 24,168</u>                | <u>\$ 11</u>                               |
| <b>LIABILITIES</b>                                |                         |                                 |  |
| Other current liabilities                         | \$ -                    | \$ -                            | \$ 11                                      |
| Due to traffic education fund                     | 3,560                   | -                               | -  |
| Unearned revenue                                  | -                       | -                               | -  |
| Compensated absences payable                      | -                       | -                               | -  |
| Retirement incentive payable                      | -                       | -                               | -  |
| Bonds payable                                     | <u>-</u>                | <u>-</u>                        | <u>-</u>                                   |
| <b>TOTAL LIABILITIES</b>                          | <u>3,560</u>            | <u>-</u>                        | <u>11</u>                                  |
| <b>NET POSITION</b>                               |                         |                                 |  |
| Net position held in trust for student activities | <u>\$ 62,116</u>        |                                 |  |
| Net position held in trust for technology updates |                         | <u>\$ 24,168</u>                |  |

The Notes to Financial Statements are an integral part of this statement.

**SCHOOL DISTRICT NUMBER 3**  
**CASCADE COUNTY**  
**CASCADE, MONTANA**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**For the Year Ended June 30, 2014**

|   | <u>Extracurricular<br/>Fund</u> | <u>Interlocal<br/>Agreement<br/>Fund</u> |
|---|---------------------------------|--|
| <b>ADDITIONS</b>                                |                                 |  |
| Contributions/donations from private sources    | \$ -                            | \$ -                                     |
| Transfers from other funds                      | -                               | -  |
| Student extracurricular activity receipts       | <u>182,880</u>                  | <u>-</u>                                 |
| <br>Total                                       | <br><u>182,880</u>              | <br><u>-</u>                             |
| <b>DEDUCTIONS</b>                               |                                 |  |
| Student extracurricular activity expenses       | 176,462                         | -  |
| Instruction and general administrative services | <u>-</u>                        | <u>23,832</u>                            |
| <br>Total                                       | <br><u>176,462</u>              | <br><u>23,832</u>                        |
| <b>Change in net position</b>                   | 6,418                           | (23,832)                                 |
| <br>Net position at July 1                      | <br><u>55,698</u>               | <br><u>48,000</u>                        |
| <br>Net position at June 30                     | <br><u>\$ 62,116</u>            | <br><u>\$ 24,168</u>                     |

The Notes to Financial Statements are an integral part of this statement.

SCHOOL DISTRICT NUMBER 3  
CASCADE COUNTY  
CASCADE, MONTANA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The District is a primary government, meeting the criteria embodied in GASB Statement No. 61, "The Financial Reporting Entity" of a separately elected governing body, a separate legal standing, and fiscal independency. The District supplies public education services at all levels below the college and university level and actually consists of two legally separate districts - the high school district and the elementary district. Both districts must be maintained separately per state law because of differences in funding provided by the state legislature, but are under common control of a single school board and therefore reported together on the basic financial statements. The school system was established by an act of the state legislature which designated the school board as the governing authority. Members of the school board are elected by the public. The school board has control over hiring and firing employees, the power to contract for schools, authority to purchase equipment, and control over other day-to-day management functions. The school board is responsible for financing the District's deficit and may issue bonds to finance District construction.

Cascade County provides substantial services to the District. Taxes are levied and collected by the County. Cash is maintained and invested by the county treasurer. However, as management policies of the District are the sole responsibility of the school board, the District is not considered to be a component of the County. The County does not significantly influence the operations of the school system; therefore the District is being treated as a separate and independent unit of local government.

**Fund Accounting**

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund balance, revenues, and expenditures. The following funds are maintained by the District:

**Governmental Fund Types**

*General Fund* (Elementary and High School) - accounts for revenues and expenditures not included in any other fund.

*Special Revenue Funds*

*Transportation Fund* (Elementary and High School) - accounts for the revenues and expenditures for the District's pupil transportation program.

*Bus Depreciation Reserve Fund* (Elementary and High School) - accounts for moneys accumulated for the replacement of District owned school buses.

*Food Services Fund* (Elementary) - accounts for that portion of the school food services program which is self-supporting, including state and federal reimbursements. Other costs are budgeted for and expended through the General Fund.

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CASCADE, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Accounting (Continued)**

**Governmental Fund Types (Continued)**

*Special Revenue Funds (Continued)*

*Retirement Fund* (Elementary and High School) - accounts for the employer's contribution to the Teachers' Retirement System, the Public Employees' Retirement System, Unemployment Insurance, and Social Security.

*Miscellaneous Programs Fund* (Elementary and High School) - accounts for federal and state grant and reimbursement moneys received by the District.

*Compensated Absence Fund* (Elementary and High School) - accounts for moneys transferred from the General Fund for the purpose of paying accumulated compensated absence benefits that a nonteaching employee is entitled to upon termination.

*Impact Aid Fund* (Elementary and High School) - accounts for the receipt and expenditure of Public Law 81-874 moneys.

*Tuition Fund* (Elementary and High School) - accounts for tuition payments for elementary and high school pupils who are residents of the District but attend school outside the District.

*Traffic Education Fund* (High School) - accounts for the revenues and expenditures for the District's driver education program.

*Adult Education Fund* (High School) - accounts for the revenues and expenditures for the District's adult education program.

*Technology Fund* (Elementary and High School) - accounts for State grant money received under House Bill 47 to be used for technology related expenditures.

*Flexibility Fund* (Elementary and High School) - accounts for State grant and voted levy moneys received for the purpose of paying salaries, operating expenses, building expenses, and purchasing supplies and equipment.

*Debt Service Fund* (Elementary and High School) - accounts for principal and interest payments on outstanding bonds and street improvement special assessment payments, and the revenue derived for this purpose from a property tax levy.

*Capital Projects Fund*

*Building Fund* (Elementary and High School) - accounts for a building construction project and the bond proceeds received for that purpose.

SCHOOL DISTRICT NUMBER 3  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Accounting (Continued)**

**Fiduciary Fund Types**

*Private Purpose Trust Fund*

*Extracurricular Fund* (High School) - accounts for various student activities, such as athletics, clubs, classes, student government organizations, student publications, and other such activities. Separate fund accounts within the Extracurricular Fund are maintained to account for these various activities. Such a fund is established under the authority of Section 20-9-504, MCA. The Fund is administered by School District administrators and faculty members and the student organizations, operating under guidelines and policies established by the Board of Trustees and the Montana Association of School Business Officials handbook *Guidelines to Student Activity Fund Accounting*.

*Interlocal Agreement Fund* (High School) - accounts for operation and maintenance of the district's educational and support programs to include technology updates. Such a fund is established under the authority of Section 20-3-363, MCA.

*Agency Funds*

*Insurance Fund* (Elementary) - accounts for the receipt and disbursement of premium payments received from current District employees, and former District employees who have retired or terminated employment and elected to continue to participate in the District's health insurance program.

*Claims Clearing Fund* (High School) - accounts for receipts from operating funds for payment of approved expenditure claims of the District. Cash remaining in this fund at year-end represents warrants issued but not yet presented by the payee for payment. The total of the outstanding warrants are netted against the cash balance of the fund on the basic financial statements.

*Payroll Clearing Fund* (High School) - accounts for receipts from operating funds for their portions of payroll costs and the payroll disbursements to employees and state and federal agencies. Cash remaining in this fund at year-end represents warrants issued but not yet presented by the payee for payment. The total of the outstanding warrants are netted against the cash balance of the fund on the basic financial statements.

Under state statutes, the General, Transportation, Bus Depreciation, Retirement, Tuition, Adult Education, Technology, Flexibility and Debt Service funds are considered budgeted funds, which means that a budget must be adopted to spend any money from the funds. The statutes define the Food Services, Miscellaneous Programs, Traffic Education, Compensated Absences, Impact Aid, Building, Extracurricular, and Interlocal Agreement funds as nonbudgeted funds. A budget is not required to spend money from these funds.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation**

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District's financial statements consist of government-wide financial statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

*Government-wide Financial Statements*

The statement of net position and the statement of activities display information about the District as a whole, with the exception of the fiduciary fund types. Any interfund activity has been eliminated to minimize any possible double-counting of such internal activities.

The statement of net position presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from general revenues of the District. The District's policy is to apply restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

*Fund Financial Statements*

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The emphasis of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. A separate statement is presented for the District's fiduciary funds. Generally accepted accounting principles require the general fund be reported as a major fund, as well as all other governmental funds whose assets, liabilities, revenues, or expenditures exceed 10% or more of the total for all governmental funds. Accordingly, the District reports the General Fund, the Elementary District's Miscellaneous Programs Fund, and the Elementary District's and High School District's Transportation Funds as major funds.

SCHOOL DISTRICT NUMBER 3  
CASCADE COUNTY  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus/Basis of Accounting**

The government-wide financial statements of the District are reported using the economic resources measurement focus under 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. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund financial statements of the District are reported using a current financial resources measurement focus and the modified accrual basis of accounting. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Revenues are recorded when susceptible to accrual, that is, when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Certain revenues of the District require specific revenue recognition terms. The District considers property taxes as available if they are collected within 30 days after the date the taxes become delinquent. Uncollected property taxes become delinquent each May 31. Therefore, property tax levies collected through June 30 are reported as revenue in the fiscal year ended June 30. Amounts not collected by June 30 are reported as deferred inflows. In applying the susceptible to accrual concept to grant revenues, two types of revenues must be considered. In one type, moneys must be expended on the specific purpose or project before any amounts will be paid to the District. Therefore, revenues are recognized based upon the expenditures recorded. In the other type, moneys are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These moneys are recognized as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenues of the District are recognized as revenue when both the measurable and available criteria are met.

Expenditures are recognized when the liability is incurred, except for unmatured interest on general long-term debt.

**New Accounting Pronouncement**

The District has adopted the provisions of the following GASB pronouncement for the year ended June 30, 2014:

- Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This statement defines new financial statement items called deferred inflows of resources and deferred outflows of resources, and reclassifies certain items previously classified as asset or liabilities as deferred outflows or deferred inflows, respectively.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounting Standards Effective in a Future Period**

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers. This Statement establishes standards for measuring and recognizing net pension liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This Statement is effective for fiscal years beginning after June 15, 2014. The effect of adopting the Standard cannot be determined at this time.

**Budgets and Budgetary Accounting**

A budget is adopted by the Board of Trustees each fiscal year for the General Fund and those other "governmental fund type" funds classified by state law as budgeted funds. A listing of these funds is included above, under "Fund Accounting". All budgets are formulated in accordance with state law. The Board of Trustees must meet on or before August 25 to consider all budget information and must have that final budget adopted by the fourth Monday in August. Budget appropriations not expended or obligated lapse at the end of the fiscal year.

The District's budget is prepared on the basis of accounting described above for the governmental fund financial statements. The legal level of control (the level on which expenditures may not legally exceed appropriations) is at the fund level. The General Fund budget is based on the state's direct aid program, which is designed to equalize taxing effort throughout the state and bases the budgets primarily on enrollment. Budgets of other funds are based primarily on estimated expenditures and revenues. Budgeted fund expenditures are limited by state law to budgeted amounts, except that they can be increased for emergencies as defined by state law. Transfers may be made between expenditure objects and/or functions within the same fund.

**Cash and Investments**

Except for the cash of the Extracurricular Fund, all cash and investments are held by the county treasurer. Cash and investments of the Extracurricular Fund are held in the Stockmens Bank of Cascade.

**Capital Assets**

All purchased capital assets are valued at historical cost where historical cost records are available and at estimated historical cost where no historical records exist. Purchases of capital assets with a cost of \$5,000 or greater are included as additions to capital assets. Donated fixed assets are recorded at estimated fair market value as of the date received.

SCHOOL DISTRICT NUMBER 3  
CASCADE COUNTY  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital Assets (Continued)**

Capital assets are depreciated using the straight-line method over the following useful lives:

|                            |             |
|----------------------------|-------------|
| Land and improvements      | 15-20 years |
| Buildings and improvements | 50 years    |
| Machinery and equipment    | 5-15 years  |

**Inventories**

Inventories of materials and supplies are expensed at the time of purchase. Inventories of materials and supplies on hand are not maintained, which is not in accordance with generally accepted accounting principles. The amounts on hand are not material to the financial statements taken as a whole. Inventories of food are valued at cost and expensed when used in operations.

**Liability for Compensated Absences**

Compensated absences for vacation and sick leave are recorded as expenditures in the governmental funds when taken. Vacation leave, within certain limitations, may be payable to the employee on termination. Sick leave is accumulated for administrative and classified (nonteaching) employees at the rate of 12 working days for each year of service, while certified (teaching) employees accumulate sick leave at the rate of 10 working days for each year of service, up to a maximum of 130 days. Upon termination, qualifying employees are eligible for compensation at one-fourth of the accumulated sick leave amount.

**Fund Balance**

The District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. 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**

Amounts that can be used only for specific purposes determined by a formal action of the Board of Trustees. The Board of Trustees is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through a majority vote on a motion proposed by the Board of Trustees.

SCHOOL DISTRICT NUMBER 3  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Balance (Continued)**

**Assigned**

Amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. Intent can be expressed by the Board of Trustees or by the District's superintendent of schools to which the Board of Trustees delegates that authority.

**Unassigned**

All other spendable amounts that are not categorized in the above fund balance categories.

The requirements of GASB No. 54 include the restatement of fund balances for reporting on the fund financial statements if a substantial portion of inflows into a special revenue fund are not derived from restricted or committed revenue sources. Of the inflows into the Elementary and High School District's compensated absences funds, a substantial portion is not derived from restricted or committed revenue sources.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

**Estimates**

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

**NOTE 2. CASH AND INVESTMENTS**

Montana statutes authorize the District to invest in direct obligations of the United States government; in savings or time deposits in a state or national bank, building or loan association, savings and loan association, or credit union located in the state and insured by the FDIC, FSLIC, or NCUA; in repurchase agreements; or in the State Short-Term Investment Pool (S.T.I.P.).

Cash and investments, except for those of the Extracurricular Fund, are held by the county treasurer in the name of the District. The treasurer invests these moneys, along with the moneys of other governmental entities within the county, in an investment pool, consisting of bank certificates of deposit, repurchase agreements, United States Government Securities, and investments in the State short-term investment pool.

SCHOOL DISTRICT NUMBER 3  
 CASCADE COUNTY  
 CASCADE, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 2. CASH AND INVESTMENTS (CONTINUED)**

The District receives a pro-rata share of investment earnings at each distribution date. Under generally accepted accounting principles, the District is required to comply with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools." This pronouncement requires governmental entities to record certain investments in external investment pools at fair market value, rather than historical cost. The market value of the District's share of the county-wide investment pool is not materially different from its carrying value at June 30, 2014. The county-wide pool's investment in S.T.I.P. is subject to various risks.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, investment in S.T.I.P. is not considered to be subject to interest rate risk as it is treated as a "2a-7-like" pool, allowing reporting at amortized cost rather than fair value.

**Credit risk**

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Obligations of or guaranteed by the U.S. government do not require disclosure of credit quality. Investments within S.T.I.P. have credit risk as measured by major credit rating services. This risk is that the issuer of a S.T.I.P. investment may default in making timely principal and interest payments. The Montana Board of Investment's policy requires that S.T.I.P. investments have the highest investment grade rating in the short-term category by at least one Nationally Recognized Statistical Rating Organization (NRSRO).

The three NRSRO's recognized by S.T.I.P. include Standard and Poor's (S&P), Moody's, and Fitch. The short-term credit ratings presented below for S.T.I.P. in total are provided by S&P's rating services. An A1+ rating is the highest short-term rating by the S&P rating service. If a S.T.I.P. investment received a long-term rating, such as AAA, this rating was converted to a short-term rating. If an S&P rating is not available, a Moody's rating has been used.

| <u>Investment Type</u>           | <u>Fair Value</u>       | <u>Credit Quality<br/>Rating</u> |
|----------------------------------|-------------------------|----------------------------------|
| Asset Backed Commercial Paper    | \$ 777,417,680          | A1                               |
| Corporate Commercial Paper       | 138,958,389             | A1                               |
| Corporate Variable-Rate          | 658,894,083             | A1                               |
| Certificates of Deposit Fixed    | 100,000,000             | A1                               |
| Certificates of Deposit Variable | 391,996,239             | A1+                              |
| Other Asset Backed               | 38,440,281              | NR                               |
| U.S. Government Agency Fixed     | 75,003,275              | A1+                              |
| U.S. Government Agency Variable  | 200,003,406             | A1+                              |
| Money Market Funds (Unrated)     | 133,439,814             | NR                               |
| Money Market Funds (Rated)       | 21,000,000              | A1+                              |
|                                  | <u>\$ 2,535,153,167</u> | <u>A1</u>                        |

SCHOOL DISTRICT NUMBER 3  
CASCADE COUNTY  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 2. CASH AND INVESTMENTS (CONTINUED)**

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. At June 30, 2014, none of the District's deposits were uninsured or uncollateralized.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District does not have a formal investment policy limiting the amount the District may invest in any one issuer. As there is minimal credit risk associated with investments issued or guaranteed by the U.S. government, no disclosure of concentration of credit risk is required for these investments. The S.T.I.P. investment policy adopted by the Montana Board of Investments specifies concentration of credit risk exposure by limiting portfolio investment types by 2% per issuer or 3% if the amount is greater than 2% and matures within seven days. Investments explicitly guaranteed by the U.S. Government are excluded from the concentration of credit risk requirement. In October 2008, the U.S. Government extended the explicit guarantee to certain government agencies such as Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corp. (Freddie Mac). Given the explicit guarantee extension, the Board had no concentration of credit risk exposure to Fannie Mae and Freddie Mac in S.T.I.P.

Investments of S.T.I.P. include certain derivative-type investments, such as asset-backed securities and variable-rate securities. Asset-backed securities are collateralized by non-mortgage assets pledged by the issuer, and have one or more forms of credit enhancement to raise the quality of the security. Asset-backed securities have less credit risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar nonasset-backed securities. Asset-backed securities make up 32.19% of the total S.T.I.P. assets at June 30, 2014.

The variable-rate securities are designed to minimize the investors' interest rate risk by periodically resetting the interest rate to either the prime rate or the London Interbank Offering Rate. Variable-rate securities have credit risk identical to similar fixed-rate securities, while their market risk is less volatile than fixed-rate securities because their value will usually remain at or near par as a result of their interest rates being periodically reset to maintain a current market yield. Variable-rate securities make up 49.34% of the total S.T.I.P. assets at June 30, 2014.

**Cash in Bank**

Cash and investments of the Extracurricular Fund of the High School District totaling \$65,676, consist of cash held in a checking account at the Stockmens Bank of Cascade.

SCHOOL DISTRICT NUMBER 3  
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CASCADE, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 3. PROPERTY TAXES RECEIVABLE**

The District is permitted by state statute to levy taxes for various purposes. Property taxes are levied in August of each fiscal year, based on the assessed value as of the prior January 1. Taxes are normally billed in October and are payable 50% by November 30 and 50% by May 31. Property tax lien dates are December 1 and June 1. The taxes levied by the District for the year ended June 30, 2014, were properly established and were within the legal limits as approved by the voters. Property taxes are accounted for and collected by the county treasurer; the District records property taxes as a receivable when billed by the county treasurer. Amounts billed but not collected by June 30, yet still expected to be received in the future, are reported as revenue in the government-wide financial statements and as unearned revenue in the governmental fund financial statements.

Protested taxes are also recorded as receivable when the original assessment is billed by the county treasurer as the District is not entitled to receive any of the protested amount until the protest is settled.

Uncollected property taxes are attached as an enforceable lien on the underlying property. After a period of three years, Cascade County, the collecting agent, may begin foreclosure proceedings and sell the property at auction. The District receives its share of the sale proceeds from Cascade County. No allowance for uncollectible property taxes is reflected in the basic financial statements as the District considers all property taxes receivable at June 30, 2014 to be fully collectible.

**NOTE 4. DUE FROM OTHER GOVERNMENTS**

Due from other governments of \$46,880 consists of \$1,458 of the High School District's Traffic Education Fund, \$4,848 of the Elementary District's Food Services Fund, \$38,357 of the Elementary District's Miscellaneous Programs Fund due from the State of Montana, and \$2,217 of the High School District's Miscellaneous Programs Fund due from the State of Montana.

**NOTE 5. INVENTORIES**

Inventories of the Elementary District's Food Services Fund consist of the following:

|                   |                 |
|-------------------|-----------------|
| Food (non-O.P.I.) | \$ <u>7,015</u> |
|-------------------|-----------------|

SCHOOL DISTRICT NUMBER 3  
 CASCADE COUNTY  
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 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 6. CAPITAL ASSETS**

|  | Balance<br>July 1, 2013 | Additions           | Deletions        | Balance<br>June 30, 2014 |
|--|-------------------------|---------------------|------------------|--------------------------|
| Capital assets not being depreciated   |                         |                     |                  |                          |
| Land                                   | \$ 35,000               | \$ -                | \$ -             | \$ 35,000                |
| Capital assets being depreciated:      |                         |                     |                  |                          |
| Improvements                           | 265,956                 | -                   | -                | 265,956                  |
| Buildings and improvements             | 7,979,405               | -                   | (29,000)         | 7,950,405                |
| Machinery and equipment                | <u>1,277,921</u>        | <u>128,899</u>      | <u>(135,566)</u> | <u>1,271,254</u>         |
| Total capital assets being depreciated | <u>9,523,282</u>        | <u>128,899</u>      | <u>(164,566)</u> | <u>9,487,615</u>         |
| Less accumulated depreciation          |                         |                     |                  |                          |
| Improvements                           | (127,389)               | (16,095)            | -                | (143,484)                |
| Buildings and improvements             | (2,511,650)             | (181,588)           | 29,000           | (2,664,238)              |
| Machinery and equipment                | <u>(935,447)</u>        | <u>(85,991)</u>     | <u>135,566</u>   | <u>(885,872)</u>         |
|  | <u>(3,574,486)</u>      | <u>(283,674)</u>    | <u>164,566</u>   | <u>(3,693,594)</u>       |
| Capital assets being depreciated, net  | <u>5,948,796</u>        | <u>(154,775)</u>    | <u>-</u>         | <u>5,794,021</u>         |
| Capital assets, net                    | <u>\$ 5,983,796</u>     | <u>\$ (154,775)</u> | <u>\$ -</u>      | <u>\$ 5,829,021</u>      |

Depreciation expense was charged to functions as follows:

|                                    |                   |
|------------------------------------|-------------------|
| Instructional services             | \$ 778            |
| Operation and maintenance services | 206,704           |
| Student transportation services    | 75,432            |
| School food services               | <u>760</u>        |
| Total depreciation expense         | <u>\$ 283,674</u> |

**NOTE 7. LONG-TERM DEBT**

**Long-term Debt Transactions**

The following is a summary of long-term debt transactions of the District for the fiscal year ended June 30, 2014:

|                              | Balance<br>July 1, 2013 | Additions           | Reductions            | Balance<br>June 30, 2014 |
|------------------------------|-------------------------|---------------------|-----------------------|--------------------------|
| Compensated absences payable | \$ 89,888               | \$ -                | \$ (27,431) *         | \$ 62,457                |
| Bonds payable                | <u>2,780,000</u>        | <u>2,640,000</u>    | <u>(2,945,000)</u>    | <u>2,475,000</u>         |
| Total                        | <u>\$ 2,869,888</u>     | <u>\$ 2,640,000</u> | <u>\$ (2,972,431)</u> | <u>\$ 2,537,457</u>      |

\* This is the net decrease to compensated absences payable.

SCHOOL DISTRICT NUMBER 3  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 7. LONG-TERM DEBT (CONTINUED)**

**Compensated Absences Payable**

Compensated absences payable, representing vacation and sick leave benefits earned by employees and payable upon termination, are \$62,457 and are recorded as a liability in the government-wide financial statements. As benefits earned during the next fiscal year are expected to be used by employees before any accrued benefits, benefits payable at June 30, 2014 are considered a long-term liability. Payment of benefits is expected to be made out of the compensated absences funds of the Elementary and High School Districts.

**Bonds Payable**

On June 20, 2000, the District issued \$3,850,000 in general obligation bonds, \$1,860,000 in the Elementary District and \$1,990,000 in the High School District, to be used for building construction.

On May 16, 2006, the District issued \$1,400,000 in general obligation bonds, \$700,000 in the Elementary District and \$700,000 in the High School District, to be used for roof repair.

On June 10, 2007, the District issued \$2,625,000 in general obligation refunding bonds (\$1,270,000 in the Elementary District and \$1,355,000 in the High School District) to advance refund \$1,195,000 and \$1,280,000 of Series 2000 general obligation school building bonds in the Elementary and High School Districts, respectively.

On March 20, 2014, the District issued \$2,640,000 in general obligation refunding bonds (\$1,295,000 in the Elementary District and \$1,345,000 in the High School District) to assist in advance refunding \$1,360,000 and \$1,420,000 of Series 2006 and Series 2007 general obligation school building bonds in the Elementary and High School Districts, respectively. The net proceeds of \$2,587,651 (after payment of \$52,349 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the Series 2006 and Series 2007 general obligation school building bonds. As such, the advance refunded bonds are considered defeased and the liability for those bonds has been removed from the financial statements. The advance refunding was undertaken to reduce total debt service payments over the next thirteen years by \$466,065 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$227,360.

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 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 7. LONG-TERM DEBT (CONTINUED)**

**Bonds Payable (Continued)**

The general obligation bonds payable as of June 30, 2014, are as follows:

| <u>Date of Issue</u> | <u>Term</u> | <u>Interest Rate</u> | <u>Annual Serial Payment</u> | <u>Authorized and Issued</u> | <u>Retired</u> | <u>Outstanding June 30, 2014</u> | <u>Current Portion</u> |
|----------------------|-------------|----------------------|------------------------------|------------------------------|----------------|----------------------------------|------------------------|
| <i>Elementary</i>    |             |                      |                              |                              |                |                                  |                        |
| 6/20/00              | 20 Yrs.     | 5.25%                | Varies                       | \$1,860,000                  | \$(1,860,000)  | \$ -                             | \$ -                   |
| 5/16/06              | 15 Yrs.     | 4.10%                | Varies                       | 700,000                      | (700,000)      | -                                | -                      |
| 6/10/07              | 13 Yrs.     | 4.00%                | Varies                       | 1,270,000                    | (1,270,000)    | -                                | -                      |
| 3/20/14              | 8 Yrs.      | 1.00%                | Varies                       | 1,295,000                    | (80,000)       | 1,215,000                        | 185,000                |
| <i>High School</i>   |             |                      |                              |                              |                |                                  |                        |
| 6/20/00              | 20 Yrs.     | 6.00%                | Varies                       | 1,990,000                    | (1,990,000)    | -                                | -                      |
| 5/16/06              | 15 Yrs.     | 4.10%                | Varies                       | 700,000                      | (700,000)      | -                                | -                      |
| 6/10/07              | 13 Yrs.     | 4.00%                | Varies                       | 1,355,000                    | (1,355,000)    | -                                | -                      |
| 3/20/14              | 8 Yrs.      | 1.00%                | Varies                       | 1,345,000                    | (85,000)       | <u>1,260,000</u>                 | <u>190,000</u>         |
| Total bonds payable  |             |                      |                              |                              |                | <u>\$ 2,475,000</u>              | <u>\$ 375,000</u>      |

The annual requirements to amortize all bond debt outstanding as of June 30, 2014, including interest payments of \$137,325, are as follows:

| <u>Year Ending</u> | <u>Principal</u>    | <u>Interest</u>   | <u>Total</u>        |
|--------------------|---------------------|-------------------|---------------------|
| 2015               | \$ 375,000          | \$ 32,563         | \$ 407,563          |
| 2016               | 380,000             | 28,812            | 408,812             |
| 2017               | 400,000             | 25,012            | 425,012             |
| 2018               | 390,000             | 21,012            | 411,012             |
| 2019               | 395,000             | 16,626            | 411,626             |
| 2019-2021          | <u>535,000</u>      | <u>13,300</u>     | <u>548,300</u>      |
| Total              | <u>\$ 2,475,000</u> | <u>\$ 137,325</u> | <u>\$ 2,612,325</u> |

**NOTE 8. OTHER POST-EMPLOYMENT BENEFITS**

The District has adopted the provisions of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", which requires the District to accrue other post-employment benefits (OPEB) expense related to its post-retirement healthcare plan based on a computed annual required contribution (ARC) that includes the current period's service cost and an amount to amortize unfunded actuarial accrued liabilities.

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 June 30, 2014

**NOTE 8. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

Instead of recording expense on a “pay-as-you-go” basis, the District, under GASB No. 45, has recorded a liability of approximately \$356,344 for the difference between the actuarially calculated ARC and the estimated contributions made since the adoption of GASB No. 45. Such liability is included in other noncurrent liabilities in the accompanying June 30, 2014 statement of net position. The effect of GASB No. 45 for the year ended June 30, 2014 was to increase the District’s expenditures by \$121,613, the amount of the increase in the OPEB liability at the end of the fiscal year.

The basis for the annual OPEB cost (expense) is the annual required contribution (ARC). 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 thirty years.

Cascade Public Schools Health Plan (the Health Plan) is a single-employer defined benefit healthcare plan administered by the District. The Health Plan provides for, and Montana statute (Sec. 2-18-704, MCA) requires local governments to allow, employees with at least 5 years of service and who are at least age 50, along with surviving spouses and dependents, to stay on the government’s health plan as long as they pay the same premium. Since retirees are usually older than the average age of the active plan participants, they receive a benefit of lower insurance premiums than they otherwise would have. The benefit is reported as the other post-employment benefits (OPEB) liability. The government has less than 100 plan members, and thus qualifies to use the “alternative measurement method” for the calculation of the OPEB liability.

For the fiscal year ended June 30, 2014, the District’s contribution toward the Health Plan was entirely to fund “pay-as-you-go” costs, and not to pre-fund benefits.

The following displays the components of the annual OPEB cost, the estimated amount contributed to the Health Plan, and changes in the net OPEB obligation to the Health Plan for the year ended June 30, 2014:

|  |                          |
|--|--------------------------|
| Normal cost - Unit Credit Method   | \$ 93,197                |
| Amortization of unfunded actuarial<br>accrued liability (UAAL) at transition | <u>28,416</u>            |
| Annual Required Contribution (ARC)   | 121,613                  |
| Interest on net OPEB obligation  | -                        |
| Adjustment to annual required contribution                                   | <u>-</u>                 |
| Annual OPEB cost (expense)   | 121,613                  |
| Contributions made   | <u>-</u>                 |
| Increase in net OPEB obligation  | 121,613                  |
| Net OPEB obligation - beginning of year                                      | <u>234,731</u>           |
| Net OPEB obligation - end of year  | <u><u>\$ 356,344</u></u> |

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 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 8. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation are as follows:

| Fiscal Year<br>Ended | Annual OPEB<br>Cost | Percentage of<br>Annual OPEB<br>Cost<br>Contributed | Net OPEB<br>Obligation |
|----------------------|---------------------|---|------------------------|
| 6/30/2014            | \$ 121,613          | 0.0%  | \$ 356,344             |
| 6/30/2013            | 121,613             | 0.0%  | 234,731                |
| 6/30/2012            | 37,706              | 0.0%  | 113,118                |

The funded status of the Health Plan as of June 30, 2014, is as follows:

|   |                   |
|---|-------------------|
| Actuarial accrued liability (AAL) - Unit Credit   | \$ 615,077        |
| Actuarial value of plan assets                    | -                 |
| Unfunded actuarial accrued liability (UAAL)       | <u>\$ 615,077</u> |
| <br>  |                   |
| Funded ratio (actuarial value of plan assets/AAL) | 0.0%              |
| Covered payroll                                   | \$ 2,502,915      |
| UAAL as a percentage of covered payroll           | 24.6%             |

**Actuarial Methods and Assumptions**

The basis of projections of benefits for financial reporting purposes is the substantive plan (the Health Plan as understood by the District and members of the Health Plan) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the District and members of the Health Plan to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The most current actuarial valuation, as of June 30, 2013, used the unit credit actuarial cost method. The actuarial assumptions included a 2.25% investment rate of return (net of administrative expenses) and an initial annual healthcare cost trend rate of 3.8% for medical/pharmacy to an ultimate rate of 6.9% after 8 years. All trend rates include a 1.75% inflation assumption. The unfunded actuarial accrued liability (UAAL) at transition is being amortized as a level dollar amount on a closed basis. The remaining amortization period at June 30, 2014 was 25.0 years. The UAAL is recalculated each year and amortized as a level dollar amount on an open basis over 30 years.

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 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 9. FUND BALANCE**

As of June 30, 2014, fund balances are comprised of the following:

|   | General<br>Fund   | Miscellaneous<br>Programs<br>Fund<br>Elementary | Transportation<br>Fund<br>Elementary | Transportation<br>Fund<br>High School | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|-------------------|---|--------------------------------------|---------------------------------------|-----------------------------------|--------------------------------|
| <b>NONSPENDABLE</b>                     |                   |   |                                      |                                       |                                   |                                |
| Inventories                             | \$ -              | \$ -  | \$ -                                 | \$ -                                  | \$ 7,015                          | \$ 7,015                       |
| <b>RESTRICTED</b>                       |                   |   |                                      |                                       |                                   |                                |
| Student transportation services         | -                 | -   | 15,035                               | 29,620                                | -                                 | 44,655                         |
| Bus conversion, remodel, or replacement | -                 | -   | -                                    | -                                     | 79,701                            | 79,701                         |
| School food service                     | -                 | -   | -                                    | -                                     | 14,306                            | 14,306                         |
| Retirement costs                        | -                 | -   | -                                    | -                                     | 52,777                            | 52,777                         |
| Vacation/sick leave costs               | 5,107             | -   | -                                    | -                                     | -                                 | 5,107                          |
| Traffic education services              | -                 | -   | -                                    | -                                     | 6,163                             | 6,163                          |
| Student tuition                         | -                 | -   | -                                    | -                                     | 3,359                             | 3,359                          |
| Adult education services                | -                 | -   | -                                    | -                                     | 16                                | 16                             |
| Other purposes                          | -                 | -   | -                                    | -                                     | 8,453                             | 8,453                          |
| Debt service                            | -                 | -   | -                                    | -                                     | 63,798                            | 63,798                         |
| <b>COMMITTED</b>                        |                   |   |                                      |                                       |                                   |                                |
| Budgetary reserves - instruction        | 227,526           | -   | -                                    | -                                     | -                                 | 227,526                        |
| <b>ASSIGNED</b>                         |                   |   |                                      |                                       |                                   |                                |
| District operations - instruction       | -                 | 19,200  | -                                    | -                                     | 47,098                            | 66,298                         |
| <b>UNASSIGNED</b>                       |                   |   |                                      |                                       |                                   |                                |
| Budgetary reappropriation               | 67,707            | -   | -                                    | -                                     | -                                 | 67,707                         |
| Total fund balances                     | <u>\$ 300,340</u> | <u>\$ 19,200</u>                                | <u>\$ 15,035</u>                     | <u>\$ 29,620</u>                      | <u>\$ 282,686</u>                 | <u>\$ 646,881</u>              |

**NOTE 10. RETIREMENT PLANS**

The School District participates in the following retirement plans:

**Plan Description**

*Teachers' Retirement System (TRS)*

All certified teaching employees, including the principals and the superintendent, participate in the Teachers' Retirement System (TRS). The TRS is a statewide retirement plan established in 1937 and is governed by Title 19, Chapter 4 of the Montana Code Annotated providing retirement services to all certified teaching employees. The TRS is a mandatory multiple-employer, cost sharing plan administered by the Teachers' Retirement Board (TRB).

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 10. RETIREMENT PLANS (CONTINUED)**

**Plan Description (Continued)**

*Teachers' Retirement System (TRS) (Continued)*

The TRS offers retirement, disability and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least five years of service, or 30 years of service regardless of age. Actuarial reduced benefits may be taken at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 1/60 times the number of years of service times the final average salary. Members' rights become vested after five years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State legislature.

The TRS financial information is reported in the Teachers' Retirement Board's published "Comprehensive Annual Financial Report" for the fiscal year end. It is available from TRB at 1500 Sixth Avenue, Helena, MT 59620-0139, 406-444-3134.

*Public Employees' Retirement System (PERS)*

All nonteaching employees of the District that work the equivalent of 120 working days or more in any fiscal year participate in the Public Employees' Retirement System (PERS). The PERS is a statewide retirement plan established in 1945 and is governed by Title 19, Chapters 2 and 3 of the Montana Code Annotated providing retirement services for substantially all public employees. The PERS is a mandatory multiple-employer, cost sharing plan administered by the Public Employees' Retirement Division (PERD), consisting of a defined benefit plan and a defined contribution plan. New employees to the system have twelve months to decide whether to participate in the defined contribution plan or the defined benefit plan. If an election is not made within the twelve months, the employee must then participate in the defined benefit plan.

The PERS offers retirement, disability and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarial reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the highest average salary for employees with less than 25 years of service, or 1/50 times the number of years of service times the highest average salary for those employees with at least 25 years of service. Members' rights become vested after five years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State legislature.

The PERS financial information is reported in the Public Employees' Retirement Board's published "Comprehensive Annual Financial Report" for the fiscal year end. It is available from PERD at 1712 Ninth Avenue, P.O. Box 200131, Helena, MT 59620-0131, 406-444-3154.

SCHOOL DISTRICT NUMBER 3  
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 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 10. RETIREMENT PLANS (CONTINUED)**

**Funding Policy**

|  | <u>PERS</u>                   | <u>TRS</u>                    |
|--|-------------------------------|-------------------------------|
| Authority to establish and amend contribution rates to the plan    | State legislature             | State legislature             |
| Required plan member contributions:                                | 7.9 % of monthly compensation | 8.15% of monthly compensation |
| Required employer contributions:                                   | 7.8 % of monthly compensation | 8.47% of monthly compensation |
| Required state contributions                                       | .37 % of monthly compensation | 2.49% of monthly compensation |
| Required employer contributions received and % of required amount: |                               |                               |
| June 30, 2014  | \$ 32,480<br>100%             | \$ 148,359<br>100%            |
| June 30, 2013  | \$ 26,656<br>100%             | \$ 113,539<br>100%            |
| June 30, 2012  | \$ 30,241<br>100%             | \$ 124,854<br>100%            |

On-behalf payments made by the State of Montana totaled \$1,541 and \$37,416 for PERS and TRS, respectively, for the year ended June 30, 2014.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 11. INTERLOCAL AGREEMENTS**

The District has entered into an agreement with School District Number 1, Cascade County, Great Falls, Montana (GFPS) for the purpose of collectively purchasing technology equipment, in-service training, and technology support services. The fund was established by GFPS under the authority of Section 20-3-363, MCA, as the prime agency. The District contributed \$10,000 from the Elementary and High School Technology Funds in fiscal year 2012, and contributed another \$8,000 from the Elementary and High School Technology Funds and Miscellaneous Programs Funds in fiscal year 2013. Upon termination of the agreement, the fund balance attributed to each entity will be transferred back to the district of origin.

The District has also entered into an internal agreement between the Elementary and High School for the purpose of operation and maintenance of the District's educational and support programs to include update of technology, including salaries, contracted services and equipment as needed. The fund was established under the authority of Section 20-3-363, MCA, with the High School District as the prime agency. The District contributed \$24,000 each from the Elementary and High School Bus Depreciation Funds in fiscal year 2013. Upon termination of the agreement, the fund balance attributed to each entity will be transferred back to the district of origin.

**NOTE 12. RISK MANAGEMENT**

The District faces a considerable number of risks of loss, including damage to and loss of property and contents, employee torts, professional liability (i.e., errors and omissions), environmental damage, workers' compensation (i.e., employee injuries), and medical insurance costs of employees. A variety of 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 content damage and professional liabilities. Coverage limits and the deductibles in the commercial policies have stayed relatively constant for the last several years. The premiums for the policies are paid out of the District's general fund. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years. Given the lack of coverage available, the District has no coverage for potential losses from environmental damages.

The District participates in a state wide public entity risk pool, Montana Schools Group's Workers' Compensation Risk Retention Program (WCRRP), for workers' compensation coverage. This group operates for the benefit of 204 individual governmental units within the State. The District pays a quarterly premium for the workers' compensation coverage which is allocated to the employer funds based on total paid salaries and wages. 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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 12. RISK MANAGEMENT (CONTINUED)**

The District obtains medical insurance coverage for its employees through policies offered by Montana Unified School Trust (MUST). Premiums under the policies are paid partly by the District and partly by the employees.

**NOTE 13. ENCUMBRANCES**

The District utilizes encumbrance accounting in its governmental funds. Encumbrances are recognized as a valid and proper charge against a budget appropriation in the year in which a purchase order, contract, or other commitment is issued and, accordingly, encumbrances outstanding at year end are reported as budget expenditures in the current year. Generally, all unencumbered appropriations lapse at year end, except as set forth in Section 20-9-209, MCA. Open encumbrances at fiscal year-end are included in restricted, committed, or assigned fund balance, as appropriate.

Total encumbrances as of June 30, 2014 for all funds were \$-0-.

**NOTE 14. PRIOR PERIOD ADJUSTMENT**

During the year ended June 30, 2014, the District recorded in various funds prior period adjustments increasing beginning net position in the Statement of Activities by \$95,029, consisting of reimbursements for prior year expenditures. In accordance with GASB No. 65, the District also recorded a prior period adjustment decreasing beginning net position in the Statement of Activities by \$49,337, to remove the prior deferred amount on refunding from the Statement of Net Position, as the prior general obligation bonds were refunded during the year ended June 30, 2014.

REQUIRED SUPPLEMENTAL INFORMATION

**SCHOOL DISTRICT NUMBER 3**  
**CASCADE COUNTY**  
**CASCADE, MONTANA**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**For the Year Ended June 30, 2014**

|   | Budgeted Amounts   |                  | Actual<br>(Budgetary<br>Basis) | Variance<br>Favorable<br>(Unfavorable) |
|---|--------------------|------------------|--------------------------------|--|
|   | Original<br>Budget | Final<br>Budget  |                                |  |
| <b>REVENUES</b>   |                    |                  |                                |  |
| District levy   | \$ 643,505         | \$ 643,505       | \$ 637,778                     | \$ (5,727)                             |
| Interest  | 667                | 667              | 2,179                          | 1,512                                  |
| Miscellaneous   | -                  | -                | -                              | -                                      |
| Direct state aid  | 1,125,515          | 1,125,515        | 1,125,515                      | -                                      |
| State guaranteed tax base subsidy   | 361,022            | 361,022          | 361,022                        | -                                      |
| State special education allowable costs                                     | 48,122             | 48,122           | 48,122                         | -                                      |
| Other state payments  | <u>79,379</u>      | <u>79,379</u>    | <u>79,379</u>                  | <u>-</u>                               |
| <b>Total</b>  | <u>2,258,210</u>   | <u>2,258,210</u> | <u>2,253,995</u>               | <u>(4,215)</u>                         |
| <b>EXPENDITURES</b>   |                    |                  |                                |  |
| Current:  |                    |                  |                                |  |
| Regular Programs:   |                    |                  |                                |  |
| Instructional services  | 1,000,582          | 1,000,582        | 950,696                        | 49,886                                 |
| Supportive services   | 56,444             | 56,444           | 56,221                         | 223                                    |
| Educational media services  | 66,243             | 66,243           | 70,501                         | (4,258)                                |
| General administrative services   | 222,765            | 222,765          | 252,754                        | (29,989)                               |
| School administrative services  | 148,316            | 148,316          | 162,870                        | (14,554)                               |
| Operation and maintenance services  | 310,800            | 310,800          | 330,245                        | (19,445)                               |
| Special Programs:   |                    |                  |                                |  |
| Instructional services  | 93,175             | 93,175           | 93,192                         | (17)                                   |
| Vocational Programs:  |                    |                  |                                |  |
| Instructional services  | 166,923            | 166,923          | 170,740                        | (3,817)                                |
| Extracurricular activities  | 91,584             | 91,584           | 109,269                        | (17,685)                               |
| School food services  | 68,078             | 68,078           | 46,013                         | 22,065                                 |
| Resources transferred to (from)   |                    |                  |                                |  |
| other school districts  | 6,300              | 6,300            | 4,946                          | 1,354                                  |
| Capital outlay  | <u>27,000</u>      | <u>27,000</u>    | <u>-</u>                       | <u>27,000</u>                          |
| <b>Total</b>  | <u>2,258,210</u>   | <u>2,258,210</u> | <u>2,247,447</u>               | <u>10,763</u>                          |
| Excess of Revenues  |                    |                  |                                |  |
| Over Expenditures   | <u>-</u>           | <u>-</u>         | <u>6,548</u>                   | <u>6,548</u>                           |
| <b>OTHER FINANCING SOURCES (USES)</b>                                       |                    |                  |                                |  |
| Cash reappropriated   | <u>-</u>           | <u>-</u>         | <u>-</u>                       | <u>-</u>                               |
|   | <u>-</u>           | <u>-</u>         | <u>-</u>                       | <u>-</u>                               |
| Excess of Revenues and<br>Other Sources Over<br>Expenditures and Other Uses | <u>\$ -</u>        | <u>\$ -</u>      | <u>6,548</u>                   | <u>\$ 6,548</u>                        |
| Fund Balance at July 1  |                    |                  | 267,959                        |  |
| Prior period adjustment   |                    |                  | <u>20,726</u>                  |  |
| Fund Balance at July 1, as restated   |                    |                  | <u>288,685</u>                 |  |
| Fund Balance at June 30   |                    |                  | <u>\$ 295,233</u>              |  |

See accompanying Notes to Required Supplemental Information.

**SCHOOL DISTRICT NUMBER 3**  
**CASCADE COUNTY**  
**CASCADE, MONTANA**  
**BUDGETARY COMPARISON SCHEDULE**  
**ELEMENTARY TRANSPORTATION FUND**  
**For the Year Ended June 30, 2014**

|   | Budgeted Amounts   |                 | Actual<br>(Budgetary<br>Basis) | Variance<br>Favorable<br>(Unfavorable) |
|---|--------------------|-----------------|--------------------------------|--|
|   | Original<br>Budget | Final<br>Budget |                                |  |
| <b>REVENUES</b>   |                    |                 |                                |  |
| District levy   | \$ 97,819          | \$ 97,819       | \$ 97,021                      | \$ (798)                               |
| Interest  | -                  | -               | 282                            | 282                                    |
| Other state payments  | 1,301              | 1,301           | 1,301                          | -                                      |
| County reimbursement  | 52,732             | 52,732          | 44,774                         | (7,958)                                |
| State reimbursement   | <u>52,732</u>      | <u>52,732</u>   | <u>44,774</u>                  | <u>(7,958)</u>                         |
| <b>Total</b>  | <u>204,584</u>     | <u>204,584</u>  | <u>188,152</u>                 | <u>(16,432)</u>                        |
| <b>EXPENDITURES</b>   |                    |                 |                                |  |
| Current:  |                    |                 |                                |  |
| Regular Programs:   |                    |                 |                                |  |
| Instructional services  | -                  | -               | -                              | -                                      |
| Supportive services   | -                  | -               | -                              | -                                      |
| Educational media services  | -                  | -               | -                              | -                                      |
| General administrative services   | -                  | -               | -                              | -                                      |
| School administrative services  | -                  | -               | -                              | -                                      |
| Operation and maintenance services  | -                  | -               | -                              | -                                      |
| Special Programs:   |                    |                 |                                |  |
| Instructional services  | -                  | -               | -                              | -                                      |
| Vocational Programs:  |                    |                 |                                |  |
| Instructional services  | -                  | -               | -                              | -                                      |
| Extracurricular activities  | -                  | -               | -                              | -                                      |
| School food services  | -                  | -               | -                              | -                                      |
| Student transportation services   | 204,584            | 204,584         | 199,591                        | 4,993                                  |
| School activity   | -                  | -               | -                              | -                                      |
| Resources transferred to (from)   |                    |                 |                                |  |
| other school districts  | -                  | -               | -                              | -                                      |
| Capital outlay  | -                  | -               | -                              | -                                      |
| Debt service  | <u>-</u>           | <u>-</u>        | <u>-</u>                       | <u>-</u>                               |
| <b>Total</b>  | <u>204,584</u>     | <u>204,584</u>  | <u>199,591</u>                 | <u>4,993</u>                           |
| Excess of Revenues  |                    |                 |                                |  |
| Over Expenditures   | <u>-</u>           | <u>-</u>        | <u>(11,439)</u>                | <u>(11,439)</u>                        |
| <b>OTHER FINANCING SOURCES (USES)</b>                                       |                    |                 |                                |  |
| Cash reappropriated   | <u>-</u>           | <u>-</u>        | <u>-</u>                       | <u>-</u>                               |
|   | <u>-</u>           | <u>-</u>        | <u>-</u>                       | <u>-</u>                               |
| Excess of Revenues and<br>Other Sources Over<br>Expenditures and Other Uses | <u>\$ -</u>        | <u>\$ -</u>     | <u>\$ (11,439)</u>             | <u>\$ (11,439)</u>                     |
| Fund Balance at July 1  |                    |                 | 8,201                          |  |
| Prior period adjustment   |                    |                 | <u>18,273</u>                  |  |
| Fund Balance at July 1, as restated   |                    |                 | <u>26,474</u>                  |  |
| Fund Balance at June 30   |                    |                 | <u>\$ 15,035</u>               |  |

See accompanying Notes to Required Supplemental Information.

**SCHOOL DISTRICT NUMBER 3**  
**CASCADE COUNTY**  
**CASCADE, MONTANA**  
**BUDGETARY COMPARISON SCHEDULE**  
**HIGH SCHOOL TRANSPORTATION FUND**  
**For the Year Ended June 30, 2014**

|   | Budgeted Amounts   |                 | Actual<br>(Budgetary<br>Basis) | Variance<br>Favorable<br>(Unfavorable) |
|---|--------------------|-----------------|--------------------------------|--|
|   | Original<br>Budget | Final<br>Budget |                                |  |
| <b>REVENUES</b>   |                    |                 |                                |  |
| District levy   | \$ 130,037         | \$ 130,037      | \$ 128,864                     | \$ (1,173)                             |
| Interest  | -                  | -               | 411                            | 411                                    |
| Other state payments  | 5,233              | 5,233           | 5,233                          | -                                      |
| County reimbursement  | 52,752             | 52,752          | 44,816                         | (7,936)                                |
| State reimbursement   | <u>52,752</u>      | <u>52,752</u>   | <u>44,816</u>                  | <u>(7,936)</u>                         |
| <b>Total</b>  | <u>240,774</u>     | <u>240,774</u>  | <u>224,140</u>                 | <u>(16,634)</u>                        |
| <b>EXPENDITURES</b>   |                    |                 |                                |  |
| Current:  |                    |                 |                                |  |
| Regular Programs:   |                    |                 |                                |  |
| Instructional services  | -                  | -               | -                              | -                                      |
| Supportive services   | -                  | -               | -                              | -                                      |
| Educational media services  | -                  | -               | -                              | -                                      |
| General administrative services   | -                  | -               | -                              | -                                      |
| School administrative services  | -                  | -               | -                              | -                                      |
| Operation and maintenance services  | -                  | -               | -                              | -                                      |
| Special Programs:   |                    |                 |                                |  |
| Instructional services  | -                  | -               | -                              | -                                      |
| Vocational Programs:  |                    |                 |                                |  |
| Instructional services  | -                  | -               | -                              | -                                      |
| Extracurricular activities  | -                  | -               | -                              | -                                      |
| School food services  | -                  | -               | -                              | -                                      |
| Student transportation services   | 237,774            | 237,774         | 224,144                        | 13,630                                 |
| School activity   | -                  | -               | -                              | -                                      |
| Resources transferred to (from)   |                    |                 |                                |  |
| other school districts  | -                  | -               | -                              | -                                      |
| Capital outlay  | 3,000              | 3,000           | 6,846                          | (3,846)                                |
| Debt service  | <u>-</u>           | <u>-</u>        | <u>-</u>                       | <u>-</u>                               |
| <b>Total</b>  | <u>240,774</u>     | <u>240,774</u>  | <u>230,990</u>                 | <u>9,784</u>                           |
| Excess of Revenues  |                    |                 |                                |  |
| Over Expenditures   | <u>-</u>           | <u>-</u>        | <u>(6,850)</u>                 | <u>(6,850)</u>                         |
| <b>OTHER FINANCING SOURCES (USES)</b>                                       |                    |                 |                                |  |
| Cash reappropriated   | <u>-</u>           | <u>-</u>        | <u>-</u>                       | <u>-</u>                               |
|   | <u>-</u>           | <u>-</u>        | <u>-</u>                       | <u>-</u>                               |
| Excess of Revenues and<br>Other Sources Over<br>Expenditures and Other Uses | <u>\$ -</u>        | <u>\$ -</u>     | <u>\$ (6,850)</u>              | <u>\$ (6,850)</u>                      |
| Fund Balance at July 1  |                    |                 | 31,047                         |  |
| Prior period adjustment   |                    |                 | <u>5,423</u>                   |  |
| Fund Balance at July 1, as restated   |                    |                 | <u>36,470</u>                  |  |
| Fund Balance at June 30   |                    |                 | <u>\$ 29,620</u>               |  |

SCHOOL DISTRICT NUMBER 3  
 CASCADE COUNTY  
 CASCADE, MONTANA  
 NOTES TO REQUIRED SUPPLEMENTAL INFORMATION  
 June 30, 2014

**NOTE 1. BUDGETARY BASIS OF ACCOUNTING**

The major difference between the budgetary basis of accounting and generally accepted accounting principles used in preparing the financial statements are the recording of encumbrances under the budgetary basis. Encumbrances allowed under state law are commitments related to unperformed contracts for the purchase of personal property or to complete construction projects. Under the budgetary basis of accounting such encumbrances are allowed to be recorded as expenditures in the year the commitments arise. Encumbrances outstanding at year-end are reported within the fund balance classifications related to the purposes for which resources have already been provided. All unexpended appropriations in funds for which appropriations are adopted lapse at year end, other than those encumbered as set forth in Section 20-9-209, MCA. Encumbered amounts will be added to the following year's budget for each fund encumbering expenditures in order to maintain budget authority. Encumbrances reported at the end of the current fiscal year must be liquidated by the end of the following fiscal year. The District utilized an encumbrance system for budgetary reporting for the year ended June 30, 2014. Encumbrances of \$0 of the General Fund and the Elementary and High School Transportation Funds are reflected as expenditures on the Budgetary Comparison Schedules for the year ended June 30, 2014.

The "actual" results of operations as presented in the Budgetary Comparison Schedules for the General Fund and the Elementary and High School Transportation Funds is in accordance with the legally enacted budgetary basis to provide a meaningful comparison of actual results with budget. They do not, however, include the activity of the District's compensated absence funds which were required under GASB No. 54 to be included with the activity of the general fund on the Statement of Revenues, Expenditures, and Changes in Fund Balances.

Adjustments necessary to convert the results of operations as of June 30, 2014 on the modified accrual basis for the General Fund and the Elementary and High School Transportation Funds to the budgetary basis are as follows:

|   | <u>General Fund</u> | <u>Elementary<br/>Transportation Fund</u> | <u>High School<br/>Transportation Fund</u> |
|---|---------------------|---|--|
| Deficiency of revenue over expenditures (GAAP)      | \$ (123)            | \$ (11,439)                               | \$ (6,850)                                 |
| Due to implementation of GASB No. 54:               |                     |   |  |
| Compensated absence funds' net activity for 6/30/14 | 6,671               | -   | -  |
| Due to expenditure:                                 |                     |   |  |
| Encumbrances at 6/30/13                             | -                   | -   | -  |
| Encumbrances at 6/30/14                             | -                   | -   | -  |
| Deficiency of revenue over expenditures (budget)    | <u>\$ 6,548</u>     | <u>\$ (11,439)</u>                        | <u>\$ (6,850)</u>                          |

Adjustments necessary to convert fund balance as of June 30, 2014 on the modified accrual basis for the general fund and elementary transportation fund to the budgetary basis are as follows:

|   | <u>General Fund</u> | <u>Elementary<br/>Transportation Fund</u> | <u>High School<br/>Transportation Fund</u> |
|---|---------------------|---|--|
| Fund balance, 6/30/14 (GAAP)                        | \$ 300,340          | \$ 15,035                                 | \$ 29,620                                  |
| Due to implementation of GASB No. 54:               |                     |   |  |
| Compensated absence funds' net activity for 6/30/14 | (5,107)             | -   | -  |
| Due to expenditure:                                 |                     |   |  |
| Encumbrances at 6/30/14                             | -                   | -   | -  |
| Fund balance, 6/30/14 (budget)                      | <u>\$ 295,233</u>   | <u>\$ 15,035</u>                          | <u>\$ 29,620</u>                           |

**SCHOOL DISTRICT NUMBER 3**  
**CASCADE COUNTY**  
**CASCADE, MONTANA**  
**SCHEDULE OF FUNDING PROGRESS FOR THE HEALTH PLAN**  
**June 30, 2014**

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial Accrued<br>Liability (AAL)<br>Unit Credit<br>(b) | Unfunded<br>Liability<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | Percentage<br>of Covered<br>Payroll<br>((b-a)/c) |
|--------------------------------|--|--|--|--------------------------|---------------------------|--|
| 6/30/2014                      | \$ -                                   | \$ 615,077   | \$ 615,077                               | 0.0%                     | \$ 2,502,915              | 24.6%  |
| 6/30/2013                      | -                                      | 615,077  | 615,077                                  | 0.0%                     | 2,502,915                 | 24.6%  |
| 6/30/2012                      | -                                      | 191,316  | 191,316                                  | 0.0%                     | 1,320,881                 | 14.5%  |

OTHER SUPPLEMENTAL SCHEDULES

**SCHOOL DISTRICT NUMBER 3**  
**CASCADE COUNTY**  
**CASCADE, MONTANA**  
**SCHEDULE OF REVENUES AND EXPENDITURES – ALL FUND ACCOUNTS**  
**EXTRACURRICULAR FUND**  
**For the Year Ended June 30, 2014**

| <b>FUND ACCOUNT</b>     | Beginning<br>Balance | Revenues          | Expenditures      | Transfers<br>In (Out) | Ending<br>Balance |
|-------------------------|----------------------|-------------------|-------------------|-----------------------|-------------------|
| 6-7-8th Grade           | \$ 469               | \$ 1,570          | \$ 1,786          | \$ -                  | \$ 253            |
| Annual                  | 2,420                | 1,975             | 2,173             | 2,010                 | 4,232             |
| Athletics               | 2,428                | 27,699            | 28,790            | 205                   | 1,542             |
| Badger Cubs             | 57                   | 750               | 705               | (60)                  | 42                |
| Badger Paws             | 66                   | -                 | -                 | -                     | 66                |
| Band                    | 4,169                | 4,414             | 7,981             | 3,679                 | 4,281             |
| Book Fair               | 271                  | 2,595             | 3,344             | 1,229                 | 751               |
| BPA                     | 4,566                | 32,864            | 27,773            | (3,399)               | 6,258             |
| Choir                   | 287                  | -                 | 111               | -                     | 176               |
| Class of 2013           | 222                  | -                 | -                 | (222)                 | -                 |
| Class of 2014           | 1,299                | 43                | 556               | (513)                 | 273               |
| Class of 2015           | 201                  | 1,950             | 679               | (287)                 | 1,185             |
| Class of 2016           | 741                  | -                 | -                 | (250)                 | 491               |
| Class of 2017           | 93                   | 1,803             | 1,273             | (250)                 | 373               |
| Concessions             | 7,265                | 18,176            | 19,233            | (633)                 | 5,575             |
| Conversion              | -                    | -                 | (66)              | (66)                  | -                 |
| Counseling              | 387                  | 1,603             | 82                | -                     | 1,908             |
| Destination Imagination | 361                  | -                 | -                 | (361)                 | -                 |
| Drama                   | 313                  | -                 | -                 | (313)                 | -                 |
| Elem Conc Acct          | 1,766                | 237               | 350               | 60                    | 1,713             |
| Elem Earn and Learn     | 312                  | 894               | 89                | -                     | 1,117             |
| FCCLA                   | 257                  | -                 | -                 | (257)                 | -                 |
| FCS (Home Economics)    | 619                  | 1,920             | 2,140             | 257                   | 656               |
| FFA                     | 759                  | 44,854            | 41,928            | 248                   | 3,933             |
| HS Boys Basketball      | 526                  | 235               | 273               | -                     | 488               |
| HS Cross Country        | 104                  | -                 | -                 | -                     | 104               |
| HS Football             | 1,129                | 7,244             | 7,919             | (30)                  | 424               |
| HS Girls' Basketball    | 572                  | 1,369             | 720               | -                     | 1,221             |
| HS Honor Society        | 387                  | -                 | 45                | -                     | 342               |
| HS Student Council      | 765                  | 64                | 131               | -                     | 698               |
| HS Track                | -                    | 118               | -                 | -                     | 118               |
| HS Volleyball           | 149                  | 1,761             | 1,260             | -                     | 650               |
| HS Wrestling            | 1,383                | 1,090             | 1,655             | 497                   | 1,315             |
| JH Boys Basketball      | -                    | 707               | 660               | -                     | 47                |
| JH Football             | 669                  | -                 | 20                | -                     | 649               |
| JH Girls Basketball     | -                    | 24                | -                 | -                     | 24                |
| JH Honor Society        | 273                  | -                 | -                 | -                     | 273               |
| JH Student Council      | 562                  | 576               | 1,028             | -                     | 110               |
| JMG                     | 13                   | 200               | (10)              | (52)                  | 171               |
| Pals (FFA)              | 93                   | 4,500             | 4,072             | -                     | 521               |
| PAWS                    | 1,371                | 981               | 1,450             | -                     | 902               |
| Pop Machine             | 1,641                | 641               | 100               | -                     | 2,182             |
| Revolving               | 9,436                | 7,464             | 7,310             | (1,354)               | 8,236             |
| Robotics                | 127                  | 227               | 275               | (56)                  | 23                |
| Scholarship             | 3,023                | 2,350             | 955               | -                     | 4,418             |
| Shop Fund               | 165                  | 3,216             | 2,758             | 8                     | 631               |
| Technology              | -                    | 375               | 207               | (90)                  | 78                |
| XCELL                   | 3,982                | 6,391             | 6,707             | -                     | 3,666             |
|                         | <u>\$ 55,698</u>     | <u>\$ 182,880</u> | <u>\$ 176,462</u> | <u>\$ -</u>           | <u>\$ 62,116</u>  |

SCHOOL DISTRICT NUMBER 3  
 CASCADE COUNTY  
 CASCADE, MONTANA  
 SCHEDULE OF ENROLLMENT  
 Fiscal Year Ended June 30, 2014

|  | Elementary<br><u>District</u> | High School<br><u>District</u> |
|--|-------------------------------|--------------------------------|
| <u>Fall Enrollment 10/13</u>   |                               |                                |
| Reported Enrollment Totals per<br>"2013-2014 School Fall Reports"                  | <u>191</u>                    | <u>95</u>                      |
| Reported Enrollment Totals per<br>2013-2014 School Attendance<br>Enrollment Counts | <u>191</u>                    | <u>95</u>                      |
| <u>Winter Enrollment 10/13</u>   |                               |                                |
| Reported Enrollment Totals per<br>"2013-2014 School Winter Reports"                | <u>180</u>                    | <u>97</u>                      |
| Reported Enrollment Totals per<br>2013-2014 School Attendance<br>Enrollment Counts | <u>180</u>                    | <u>97</u>                      |
| <u>Spring Enrollment 2/14</u>  |                               |                                |
| Reported Enrollment Totals per<br>"2013-2014 School Spring Reports"                | <u>174</u>                    | <u>93</u>                      |
| Reported Enrollment Totals per<br>2013-2014 School Attendance<br>Enrollment Counts | <u>174</u>                    | <u>92</u>                      |

INTERNAL CONTROL/COMPLIANCE SECTION

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

Board of Trustees  
School District Number 3  
Cascade County  
Cascade, 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 3, Cascade County, Cascade, Montana (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 21, 2015.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations as Finding #2014-01 through #2014-06, that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and recommendations as Finding #2014-03, #2014-04 and #2014-05.

### **The District's Response to Findings**

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, 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.

A handwritten signature in cursive script that reads "Anderson Zurmuehlen & Co., P.C." The signature is written in black ink and is positioned above the printed name of the firm.

Great Falls, Montana  
January 21, 2015

SCHOOL DISTRICT NUMBER 3  
CASCADE COUNTY  
CASCADE, MONTANA  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
Year Ended June 30, 2014

**Findings Relating to Financial Statements**

**Finding #2014-01**

*Criteria:* The District's responsibility is to prepare its financial statements in accordance with generally accepted accounting principles.

*Condition:* The District is certainly allowed to hire out preparation of its financial statements but the ultimate responsibility for the fairness of the financial statement presentation remains with the District.

*Cause:* The District does not have anyone on staff with the training necessary to prepare or oversee the preparation of its financial statements in accordance with generally accepted accounting principles.

*Effect:* The District is unable to adequately determine if their financial statements as prepared on their behalf fairly present the District's activity as of and for the period ended, in accordance with generally accepted accounting principles.

*Recommendation:* The District should hire an outside qualified person or send appropriate in-house individuals to training courses to obtain the qualifications necessary to prepare, or oversee the preparation of, the District's financial statements in accordance with generally accepted accounting principles.

*Management Response:* The District will send appropriate in-house individuals to training courses to obtain the qualifications necessary to prepare the District's financial statements in accordance with generally accepted accounting principles. Also, district personnel have and will continue to participate in webinars and training events as deemed appropriate.

**Finding #2014-02**

*Criteria:* District policy and the MASBO Student Activity Fund Accounting Handbook requires the District to reconcile gate receipts per the gate balance sheets, using the beginning and ending ticket numbers.

*Condition:* The gate balance sheet selected for testing was not reconciled using the beginning and ending ticket numbers, in order to ensure the deposit made was complete.

*Cause:* The District's volunteers do not appear to be aware of this required procedure, nor are staff of the District training volunteers and enforcing this required procedure.

*Effect:* The District's failure to account for the sequence of beginning and ending ticket numbers makes verification of the completeness of cash receipts difficult.

*Recommendation:* The District should perform this reconciliation on all gate balance sheets to ensure the completeness of cash receipts in the student activity fund.

*Management Response:* The District has implemented new procedures to ensure that gate receipts are reconciled to the number of tickets sold at each student event. They will use beginning and ending ticket numbers, preprinted on tickets and annotated on the reconciliation sheets, when performing the gate balance sheet reconciliation after each student event to ensure completeness of the deposit.

SCHOOL DISTRICT NUMBER 3  
CASCADE COUNTY  
CASCADE, MONTANA  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
Year Ended June 30, 2014

**Findings Relating to Financial Statements (Continued)**

**Finding #2014-03**

*Criteria:* Section 20-9-220, MCA, requires the District to keep accurate records in regards to clearing accounts, which would include the reconciliation of such funds. These accounts should all be reconciled and/or matched to the County records to ensure that the assets of the District are safeguarded and fully accounted for, and to ensure the District is complying with state statute.

*Condition:* The District's cash balances reported in the Payroll and Claims Clearing Funds differ from those reported by the County Treasurer. District personnel were unable to completely determine the source of the differences, although continued work has been put into reconciling the differences.

*Cause:* The District transferred funds out of the clearing accounts back to the various funds during the year, leaving the clearing accounts short of cash to pay the outstanding warrants.

*Effect:* The District is unable to adequately determine if the clearing accounts reconcile to and match the records of the County.

*Recommendation:* District personnel should reconcile the County Treasurer's records with the District's to determine the cause of any differences between County and District balances, and adjust accordingly.

*Management Response:* The District Clerk has continued to take steps to correct errors in the Payroll & Claims clearing accounts. To date, all funds of the District match their respective accounts held at the County Treasurer's office.

**Finding #2014-04**

*Criteria:* O.P.I. requires the District to report student enrollment in the Fall, Winter and Spring to be used in the state's funding formula. That enrollment count must not include students that have officially withdrawn from the District prior to the count date.

*Condition:* The District included a student that withdrew prior to the count date in the Spring enrollment count.

*Cause:* The District counted a student that withdrew prior to the Spring count date, as the student didn't transfer to another school district.

*Effect:* The District over reported by 1 student in the Spring (10<sup>th</sup> grade).

*Recommendation:* District personnel should carefully review the enrollment reports for the count day and 10 days prior to ensure all students are properly accounted for and reported to O.P.I. These reports should be maintained to support the Fall, Winter and Spring enrollment counts. If any discrepancies occur, proper documentation should be maintained to explain the difference.

*Management Response:* The District will maintain accurate entry/exit dates on enrollment records and will correctly report them on the Fall/Winter/Spring count days to O.P.I. and retain proper documentation. The District has implemented a new program, Infinite Campus, which correlates directly to AIM, that data collection site of O.P.I. These two programs use the same reporting system so there should no longer be any discrepancies.

SCHOOL DISTRICT NUMBER 3  
CASCADE COUNTY  
CASCADE, MONTANA  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
Year Ended June 30, 2014

**Findings Relating to Financial Statements (Continued)**

**Finding #2014-05**

*Criteria:* Section 20-9-133(2), MCA, requires the expenditures of a budgeted fund to be limited to the appropriation allowed in that fund's final budget.

*Condition:* The Elementary Flexibility Fund expenditures exceeded the appropriated budget by \$1,047.

*Cause:* The District erred in not including this fund when amending other budgeted funds before the end of the fiscal year.

*Effect:* The District did not comply with Section 20-9-133(2), MCA.

*Recommendation:* District personnel should closely monitor the available budget authority of each fund to ensure over expenditures do not occur. If allowed, a budgeted fund whose expenditures will exceed the appropriated budget should be amended before the end of the fiscal year.

*Management response:* The District will ensure that budgets are not over expended by monitoring them prior to fiscal year end. If it appears that more budget authority is required to satisfy the needs of the District, appropriate amendments will be filed with O.P.I requesting additional authority.

**Finding #2014-06**

*Criteria:* The District's responsibility is to prepare its financial statements in accordance with generally accepted accounting principles, which includes year end accruals.

*Condition:* Several instances were noted where audit adjustments were required to correct the balances reported on the Trustees Financial Summaries, in order to reconcile back to the County Treasurer records and activity. These adjustments included prior period adjustments to transfer funds back from the clearing accounts to individual funds, properly recording the activity of the refunding bonds issued, and properly recording due to and from individual funds.

*Cause:* District personnel were not accurately reconciling their records and activity to the County Treasurer, as well as internally (ex: reclassifying expenditures between funds).

*Effect:* The District's failure to accurately record the activity of the District could cause the financial statements to be misstated, and not be in conformity generally accepted accounting principles. This also affects the reserves of budgeted funds and ultimately, the District levies for the next fiscal year.

*Recommendation:* District personnel should reconcile the County Treasurer's records with the District's to determine the cause of any differences and adjust accordingly. The District should continue to work to reconcile all activity, both with the County Treasurer as well as internally.

*Management Response:* The District will ensure that monthly reconciliations of district funds are being made with the County Treasurer's reports. All district fund balances, as well as clearing accounts, will be matched to the activity and balances reported in the County Treasurer's reports.

SCHOOL DISTRICT NUMBER 3  
CASCADE COUNTY  
CASCADE, MONTANA  
STATUS OF PRIOR AUDIT FINDINGS  
June 30, 2014

Previously noted deficiencies of School District Number 3, Cascade County, Cascade, Montana, and their current status are as follows:

| <u>Finding</u>   | <u>Current Status of Recommendation</u>                    |
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| #2013-01<br>The District does not have an individual on staff trained to prepare its financial statements in accordance with generally accepted accounting principles. | Not implemented.<br>See current year's finding on page 52. |
| #2013-02<br>Gate receipts were not reconciled using beginning and ending ticket numbers.   | Not implemented.<br>See current year's finding on page 52. |
| #2013-03<br>District clearing funds were not properly reconciled to the County Treasurer records.  | Not implemented.<br>See current year's finding on page 53. |
| #2013-04<br>Enrollment counts were incorrectly reported to O.P.I.  | Not implemented.<br>See current year's finding on page 53. |
| #2013-05<br>Meal counts were incorrectly reported to O.P.I.  | Implemented.   |



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