

Doyle & Associates, P.C.

The accompanying financial statements and reports are intended for the original recipient.

They must be presented in their entirety and may not be modified in any manner.

**CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

June 30, 2014

(With Independent Auditor's Report Thereon)

**CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA**

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**CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA**

Organization

June 30, 2014

Board of Trustees

Shane Reum	Chairperson
Art Soukkala	Vice-Chairperson
LaDonna Fryberger.....	Trustee
Duane Weible.....	Trustee
Dave DeGrandpre	Trustee
Daniel Krantz	Trustee
Tonya Truman.....	Trustee
Reece Middlemist*	Trustee

* High School Only

Officers/Clerks

Thom Peck	Superintendent
Sara Vaughan	Business Manager
Mitch Young	County Attorney
Michelle Wood.....	County Superintendent

Doyle & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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Lolo, MT 59847-0446

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Charlo School Districts
District No. 7J, Lake County
Charlo, 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 the Charlo School Districts, District No. 7J, Lake County, 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Report on Summarized Comparative Information

We have previously audited Charlo School Districts' fiscal year 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 4, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9, other post employment benefits on page 29, and budgetary comparison information on page 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing 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 schedule of school district enrollment and the extracurricular fund schedule of revenues, expenditures and changes in fund balance by student activity are presented for purposes of additional analysis as required by Montana law and also are not required parts of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records

used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements. Statistical information in schedules of student enrollment, school district taxable valuations, school district tax levies, tax collection and maximum bonded indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 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, 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 the 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.

Dafu & Associates, P.C.

Lolo, Montana
March 31, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

This management's discussion and analysis provides an overview of the School's financial activities for the fiscal year ended June 30, 2014. Please read it along with the School's financial statements listed in the table of contents.

FINANCIAL HIGHLIGHTS

The School's financial position remained relatively stable district-wide despite small enrollment changes. A large part of the financial stability in the School can be tied to the financial responsibility, dedication and sacrifices of the School staff. With additional state funding for 2015, the District added back programs that were cut over the years because of decreased funding due to enrollment. Our continuing philosophy is that successful management of School resources requires a unified front involving students and staff, administration and trustees, and the community. Additionally, in fiscal year 2014 the School continued to participate in a federally funded Striving Readers grant, providing financial support for training and curriculum to enhance the learning environment for our students.

USING THIS ANNUAL REPORT

The general format of this report is required by generally accepted accounting principles developed by the Government Accounting Standards Board. This annual report consists of financial statements for the School as a whole with more detailed information for certain funds. The Statement of Net Position and the Statement of Activities (listed in the table of contents) provide information about the activities of the School as a whole and present a long-term view of the School's finances (they include capital assets and long-term liabilities).

Fund financial statements (listed in the table of contents) present a short-term view of the School's activities. They include only current assets expected to be collected in the very near future and liabilities expected to be paid in the very near future. Generally accepted accounting principles require that only major funds be disclosed individually in these financial statements. These statements provide detailed information about the School's General Fund, the Elementary Miscellaneous Fund and the Elementary and High School Debt Service funds, which qualify as major funds. The fund financial statements report balances and activities of the 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. Also attached are summarized financial reports about the student activity and scholarship trust funds, which the School oversees. The budgetary comparison statement, listed in the table of contents, shows how actual expenditures compared to the original and final budgeted expenditures for the general fund.

THE DISTRICT AS A WHOLE

One important question asked about the School’s finances is “Is the School better or worse off as a result of the year’s activities?” The changes in net position, program revenues and general revenues, and expenditures are explained on the following pages. The information in the government-wide financial statements includes all assets and liabilities using the accrual basis of accounting, with the addition of reporting depreciation on capital assets. This is similar to the basis of accounting used by most private-sector companies.

Changes in the School’s net position (rounded to the nearest \$1,000) were as follows:

	2014	2013	Change	%
Current Assets	\$ 2,687,000	\$ 2,554,000	\$ 133,000	5%
Capital Assets - Net	<u>2,244,000</u>	<u>2,246,000</u>	<u>(2,000)</u>	<u>0%</u>
Total Assets	<u>4,931,000</u>	<u>4,800,000</u>	<u>131,000</u>	<u>3%</u>
Current Liabilities	(38,000)	(41,000)	3,000	-7%
Non-current Liabilities	<u>(1,625,000)</u>	<u>(1,553,000)</u>	<u>(72,000)</u>	<u>5%</u>
Total Liabilities	<u>(1,663,000)</u>	<u>(1,594,000)</u>	<u>(69,000)</u>	<u>4%</u>
Net Position	<u>\$ 3,268,000</u>	<u>\$ 3,206,000</u>	<u>\$ 62,000</u>	<u>2%</u>
Net Position				
Invested in Capital Assets	\$ 1,029,000	\$ 1,047,000	\$ (18,000)	-2%
Restricted Net Position	1,531,000	1,490,000	41,000	3%
Unrestricted Net Position	<u>708,000</u>	<u>669,000</u>	<u>39,000</u>	<u>6%</u>
Total Net Position	<u>\$ 3,268,000</u>	<u>\$ 3,206,000</u>	<u>\$ 62,000</u>	<u>2%</u>

Net position showed a slight increase due mainly to the increase in current assets, with revenue exceeding expenses overall for the year. The decrease in net capital assets is mainly due to depreciation. The increase in non-current liabilities is due to an increase in OPEB obligation for fiscal year 2014 (see Note 4 to the financial statements).

Management’s Discussion and Analysis (continued)

Changes in the School’s revenues (rounded to the nearest \$1,000) were as follows:

	2014	2013	Change	%
Program Revenues:				
Federal Program Revenue	\$ 492,000	\$ 683,000	\$ (191,000)	-28%
State Program Revenue	267,000	248,000	19,000	8%
County Transportation Funding	33,000	40,000	(7,000)	-18%
Other	37,000	43,000	(6,000)	-14%
Total Program Revenue	829,000	1,014,000	(185,000)	-18%
General Revenues:				
Property Taxes	384,000	372,000	12,000	3%
State Revenue	1,781,000	1,849,000	(68,000)	-4%
County Revenue	279,000	176,000	103,000	59%
Federal Impact Aid	45,000	48,000	(3,000)	-6%
Investment Earnings	20,000	18,000	2,000	11%
Other	46,000	22,000	24,000	109%
Total General Revenues	2,555,000	2,485,000	70,000	3%
Total Revenues	\$ 3,384,000	\$ 3,499,000	\$ (115,000)	-3%

Program Revenue – Program revenues decreased overall primarily due to a reduction in revenue for the Striving Readers grant in 2014 as compared to 2013.

General Revenue – General revenues held steady year-to-year overall. The increase in county revenue occurred as a result of the School budgeting more for retirements in fiscal year 2014 than in fiscal year 2013.

Management’s Discussion and Analysis (continued)

Change in the District’s expenses (rounded to the nearest \$1,000) were as follows:

	2014	2013	Change	%
Expenses:				
Instruction	\$ 2,051,000	\$ 1,892,000	\$ 159,000	8%
Support Services	120,000	256,000	(136,000)	-53%
Operation and Maintenance	257,000	296,000	(39,000)	-13%
Administration	332,000	344,000	(12,000)	-3%
Student Transportation	159,000	258,000	(99,000)	-38%
School Food	133,000	117,000	16,000	14%
Extracurricular	96,000	113,000	(17,000)	-15%
Other - Unallocated	9,000	6,000	3,000	0%
Interest Expense	15,000	15,000	-	0%
Depreciation - Unallocated	149,000	105,000	44,000	42%
Total Expenses	3,321,000	3,402,000	(81,000)	-2%
Less Program Revenues	830,000	1,014,000	(184,000)	-18%
Net (Expenses) Revenues	(2,491,000)	(2,388,000)	(103,000)	4%
Less General Revenues	2,554,000	2,485,000	69,000	3%
Changes in Net Position	63,000	97,000	(34,000)	-35%
Beginning of the Year	3,206,000	3,109,000		
End of the Year	\$ 3,269,000	\$ 3,206,000		

The decrease in total expenses is consistent with the goals of the budgeting process.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets (net) decreased by \$2,000 over the prior year with the increase in depreciation exceeding capital additions, a variety of building and land improvements. See Note 3 for more detail on capital assets and Note 4 for an explanation of changes in long-term debt.

THE FUTURE OF THE DISTRICT

With present General Fund funding tied to State imposed budget caps and student enrollment, the District finds future choices of increasing revenue without a voted levy limited. The burden to the tax payer would be significant with this levy due to the low mill value.

With enrollment being tied to the District General Fund budget, declining enrollment is still a major concern for the district but seems to be maintaining. This may allow for some stability in the District’s budget in the future years.

Management's Discussion and Analysis (continued)

At the end of fiscal year 2013, the School committed to the purchase of a school bus for \$119,000. The bus was purchased in fiscal year 2014.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Charlo School District's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Sara Vaughan, District Clerk, at Charlo School district No. 7J.

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CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA

STATEMENT OF NET POSITION
JUNE 30, 2014

(WITH COMPARATIVE AMOUNTS AS OF JUNE 30, 2013)

	2014	2013
<u>Assets</u>		
Current Assets		
Cash and Investments	\$ 2,672,047	\$ 2,529,631
Property Taxes Receivable	15,186	16,942
Due from Other Governments	-	7,347
Total Current Assets	2,687,233	2,553,920
Non-current Assets		
Capital Assets	5,023,977	4,877,364
Less: Accumulated Depreciation	(2,779,893)	(2,631,075)
Total Non-current Assets	2,244,084	2,246,289
Total Assets	4,931,317	4,800,209
 <u>Liabilities</u>		
Current liabilities		
Accounts Payable and Other Current Liabilities	6,764	11,034
Current Liabilities - Due Within One Year	31,704	30,223
Total Current Liabilities	38,468	41,257
Non-current Liabilities		
Due in More Than One Year	1,624,444	1,553,357
Total Non-current Liabilities	1,624,444	1,553,357
Total Liabilities	1,662,912	1,594,614
 <u>Net Position</u>		
Net Investment in Capital Assets	1,029,165	1,046,289
Restricted	1,530,876	1,490,004
Unrestricted	708,364	669,302
Total Net Position	\$ 3,268,405	\$ 3,205,595

The accompanying notes are an integral part of these financial statements.

CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013)

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	2014	2013
Government Operations					
Instruction	\$ 2,050,879	\$ 125,865	\$ 481,298	\$ (1,443,716)	\$ (1,188,246)
Support Services	120,365	-	-	(120,365)	(148,333)
Administration	331,678	22,514	-	(309,164)	(344,177)
Transportation	159,254	-	65,571	(93,683)	(177,079)
Operation and Maintenance	256,581	-	-	(256,581)	(295,604)
School Food	132,646	37,204	97,034	1,592	4,832
Extracurricular	96,082	-	-	(96,082)	(112,719)
Interest Expense	15,400	-	-	(15,400)	(15,400)
Other Expense	8,968	-	-	(8,968)	(7,780)
Unallocated Depreciation	148,818	-	-	(148,818)	(104,532)
Totals	3,320,671	185,583	643,903	(2,491,185)	(2,389,038)
General Revenues:					
District Property Taxes				384,290	376,395
Lake County				278,756	176,144
State of Montana				1,780,066	1,848,782
Federal Impact Aid				44,693	47,668
Investment Earnings				19,866	17,533
Other				46,324	18,739
Total general revenues				2,553,995	2,485,261
Change in net position				62,810	96,223
Net Position, Beginning of the Year				3,205,595	3,109,372
Net Position, End of the Year				\$ 3,268,405	\$ 3,205,595

The accompanying notes are an integral part of these financial statements.

CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	Major Funds					Total
	General	Elementary Miscellaneous	Elementary Debt Service	High School Debt Service	Other Governmental Funds	
<u>Assets</u>						
Cash and Investments	\$ 1,119,100	\$ 452,341	\$ 319,726	\$ 300,540	\$ 480,340	\$ 2,672,047
Property Taxes Receivable	4,327	-	1,789	1,811	7,259	15,186
Due from Other Funds	35,786	-	-	-	82,742	118,528
Total Assets	\$ 1,159,213	\$ 452,341	\$ 321,515	\$ 302,351	\$ 570,341	\$ 2,805,761
<u>Liabilities:</u>						
Accrued Interest	\$ -	\$ -	\$ 3,382	\$ 3,382	\$ -	\$ 6,764
Due to Other Funds	1,307	117,221	-	-	-	118,528
Total Liabilities	1,307	117,221	3,382	3,382	-	125,292
<u>Deferred Inflows of Resources</u>						
Uncollected Property Taxes	4,327	-	1,789	1,811	7,259	15,186
Total Deferred Inflows of Resources	4,327	-	1,789	1,811	7,259	15,186
<u>Fund Balance:</u>						
Restricted	-	335,120	316,344	297,158	563,082	1,511,704
Un-Assigned	1,153,579	-	-	-	-	1,153,579
Total Fund Balance	1,153,579	335,120	316,344	297,158	563,082	2,665,283
Total Liabilities, Deferred Inflows and Fund Balance	\$ 1,159,213	\$ 452,341	\$ 321,515	\$ 302,351	\$ 570,341	\$ 2,805,761

The accompanying notes are an integral part of these financial statements.

CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA

RECONCILIATION OF THE BALANCE SHEET GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Fund balance as reported in the governmental fund statement	\$	2,665,283
Add assets not reported in the governmental funds statements:		
Capital assets	5,023,977	
Less accumulated depreciation	<u>(2,779,893)</u>	2,244,084
Less liabilities not reported in the governmental fund statements:		
Bonds Payable	(1,200,000)	
OPEB Obligation	(361,228)	
Compensated absences	<u>(94,920)</u>	(1,656,148)
Deferred inflow of resources for property taxes recognized as revenue in the government-wide statements		<u>15,186</u>
Net position as reported in the government-wide statement of net position	\$	<u><u>3,268,405</u></u>

The accompanying notes are an integral part of these financial statements.

**CHARLO SCHOOL DISTRICTS
DISTRICT NO.7J, LAKE COUNTY
CHARLO, MONTANA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Major Funds					Total Governmental Funds
	General	Elementary Miscellaneous	Elementary Debt Service	High School Debt Service	Other Governmental Funds	
Revenues:						
District Property Taxes	\$ 108,685	\$ -	\$ 40,752	\$ 51,486	\$ 185,124	\$ 386,047
County Revenues	-	-	-	-	311,560	311,560
State Equalization	944,960	-	-	-	-	944,960
State Revenues - Other	815,605	-	46,685	29,529	62,009	953,828
Federal Revenues	44,693	384,845	-	-	107,532	537,070
Charges for Service	-	144,354	-	-	41,229	185,583
Interest Income	11,171	-	2,215	2,127	4,353	19,866
Other	1,154	31,187	3,100	3,100	7,783	46,324
Total Revenues	\$ 1,926,268	\$ 560,386	\$ 92,752	\$ 86,242	\$ 719,590	\$ 3,385,238
Expenditures:						
Current Operations:						
Instruction	1,073,758	608,194	-	-	324,933	2,007,340
Support Services	120,365	-	-	-	-	120,365
General Administration	282,884	443	-	-	19,323	302,650
Transportation	-	-	-	-	159,254	159,254
Operation and Maintenance	247,676	9,360	-	-	-	256,581
School Food	-	-	-	-	132,646	132,646
Extracurricular	96,082	-	-	-	-	96,082
Debt Service:						
Interest	-	-	7,200	7,200	-	14,400
Filing and Agent Fees	-	-	500	500	-	1,000
Other	4,682	-	-	-	4,286	8,968
Capital Outlay	-	19,755	-	-	126,858	146,613
Total Expenditures	1,825,447	637,752	7,700	7,700	767,300	3,245,899
Excess of (Deficiency of) Revenues over Expenditures	100,821	(77,366)	85,052	78,542	(47,710)	139,339
Fund Balance						
Beginning of the Year	1,052,758	412,486	231,292	218,616	610,792	2,525,944
End of the Year	\$ 1,153,579	\$ 335,120	\$ 316,344	\$ 297,158	\$ 563,082	\$ 2,665,283

The accompanying notes are an integral part of these financial statements.

CHARLO SCHOOL DISTRICTS
DISTRICT NO.7J, LAKE COUNTY
CHARLO, MONTANA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Changes in fund balances as reported in the governmental funds statement	\$ 139,339
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets purchased	146,613
Depreciation Expense	(148,818)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund financial statements:	
Long-term receivables (deferred inflows of resources)	(1,756)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental fund financial statements:	
Increase in Other Post Employment Benefit Obligation	(78,393)
Decrease in Compensated Absence Liability	<u>5,825</u>
Changes in net position on the statement of activities	<u><u>\$ 62,810</u></u>

The accompanying notes are an integral part of these financial statements.

CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA

STATEMENT OF FIDUCIARY NET POSITION AND
CHANGES IN FIDUCIARY NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	Scholarship Fund	Endowment Fund	Student Activity Fund	Total Fiduciary Funds	Agency Funds
Fiduciary Net Position:					
Assets					
Cash	\$ 111,744	\$ 32,280	\$ 28,800	\$ 172,824	\$ 150,506
Liabilities					
Other Current Liabilities	-	-	-	-	150,506
NetPosition:					
Student Activities	-	-	28,800	28,800	-
Land Acquisition Fund	-	32,280	-	32,280	-
College Scholarships	111,744	-	-	111,744	-
Total Net Assets	\$ 111,744	\$ 32,280	\$ 28,800	\$ 172,824	\$ -
Changes in Fiduciary Net Position:					
Additions:					
Contributions	\$ 9,901	\$ -	\$ -	\$ 9,901	
Revenue from Student Activities	-	-	109,067	109,067	
Investment Earnings	917	450	-	1,367	
Total Additions	10,818	450	109,067	120,335	
Deductions:					
Expenses of Student Activities	-	-	122,833	122,833	
College Scholarships	-	-	-	-	
Other Expenses	12,400	28,536	-	40,936	
Total Deductions	12,400	28,536	122,833	163,769	
Change in Net Position	(1,582)	(28,086)	(13,766)	(43,434)	
Net Position, Beginning of the Year	113,326	60,366	42,566	216,258	
Net Position, End of the Year	\$ 111,744	\$ 32,280	\$ 28,800	\$ 172,824	

The accompanying notes are an integral part of these financial statements.

**CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA**

NOTES TO FINANCIAL STATEMENTS

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**CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies and Practices

The accounting policies and practices of the Charlo School Districts No. 7J (the District), as reflected in the accompanying financial statements for the fiscal year ended June 30, 2014, conform to accounting principles generally accepted in the United States of America (GAAP) for local government entities as prescribed by the Governmental Accounting Standard Board (GASB).

B. Reporting Entity

The District is a second class district in Montana, providing education from kindergarten through the twelfth grade. All operations of the District are controlled by a Board of Trustees, elected in district-wide elections, and responsible for all of the District's activities. The financial statements include all of the District's operations controlled by the Board of Trustees. Because the District is controlled by an elected governing board, is a separate legal entity, is not financially or fiscally dependent upon any other local government, or controlled by any other government, it is considered to be an independent reporting entity and has no component units.

The District consists of two separate legal entities: (1) the high school district, and (2) the elementary district. The elementary district provides education from kindergarten through eighth grade; the high school district provides education from grades nine through twelve. Due to differences in funding separate accounting records of both entities must be maintained. Both entities are managed by the Board of Trustees as noted above and by a central administration responsible to the Board.

Although the elementary and high school districts are accounted for separately they are combined for financial reporting purposes because both districts are controlled by a central Board of Trustees and managed by a central administration.

C. Basis of Presentation and Basis of Accounting

The District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, fund financial statements, and the notes to the financial statements.

Government-wide Statements - The statement of net position and the statement of activities show information about the overall financial position and activities of the District with the exception of the fiduciary funds. The fiduciary funds, which account for the extracurricular activities of the District's students, a privately funded trust for the elementary school, and a scholarship fund for graduating seniors, are reported as private purpose trust funds in the fund financial statements section.

These government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the District are generally financed through

**CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

property taxes, state equalization funding, and federal and state grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place.

On the accrual basis of accounting revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which eligibility requirements have been met.

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

The District applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted net assets are available.

Prior Period Comparative Amounts – The government-wide financial statements include certain prior year comparative amounts but the fund financial statements and the notes to the financial statements do not contain the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2013, from which comparative information was derived.

Fund Financial Statements - These statements provide information about the District's funds, including a separate statement for the District's fiduciary funds. The emphasis of fund financial statements is on major governmental funds. Each major fund is displayed in a separate column. All of the remaining funds are aggregated and reported in a single column as other governmental funds. These funds (except the fiduciary funds which use the total resources focus and accrual basis of accounting) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected soon after year-end are recognized as revenue. Most current property taxes receivable are delinquent at June 30 and amounts collected soon after year-end are not significant. Deferred inflows of resources are recorded for these receivables.

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

**CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

General Fund - This is the District's main operating fund and it accounts for all current financial resources of the District except those required to be accounted for in other funds. The elementary and high school general funds have been combined and reported as the general fund in the accompanying financial statements.

Elementary Miscellaneous Fund – This fund accounts for local, state or federal grants and reimbursements received by the District.

Elementary Debt Service Fund – This fund is for the purpose of paying interest and principal on outstanding bonds.

High School Debt Service Fund – This fund is for the purpose of paying interest and principal on outstanding bonds.

Additionally, the District also reports the following fund type:

Fiduciary Funds - The District also has three private-purpose trust funds, its student activity fund, which accounts for the extracurricular activities of its students, its scholarship fund, which provides scholarships to students, and an endowment fund (Land Acquisition Fund), to be used for the purchase of an approximately ten acre tract of land.

D. Budgets

State law requires the District to prepare budgets for certain funds - generally funds supported by property tax revenues. Budgets are prepared on the modified accrual basis. Budgeted fund expenditures are limited by State law to the total budgeted amount which may be amended as defined by State law. There were no budget amendments during fiscal year 2014.

General fund budgets are based on the State of Montana's foundation program which is based primarily on enrollment. Budgets of other funds are based on expected revenues and expenditures. The Board approves the final budget by the fourth Monday in August. State law permits the inclusion of obligations (encumbrances) for construction-in-progress and the purchase of personal property as expenditures for budget purposes. The amounts shown in the budget column of the schedule are the original and final budgeted amounts. State law requires only that a fund's total expenditures not exceed total budgeted expenditures.

**CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Investments

Except for student activity funds, petty cash, and interim accounts maintained in separate bank accounts, the District's cash and investments are held in the investment pool managed by the Lake County Treasurer. The County Treasurer invests the pooled cash pursuant to State law (MCA 20-9-213[4]).

State law permits investment of school district's funds in insured savings or time deposits, bank repurchase agreements, direct obligations of the U.S. Government, and the State's unified investment program. Investments are valued at cost, which is immaterially different from fair value.

F. Property Taxes

Property taxes are maintained and collected by the County Treasurer. Most property taxes are levied in August of each fiscal year, based on assessments as of the prior January 1. Real property taxes are billed in October and are payable 50% on November 30 and 50% on May 31.

Property taxes receivable at June 30 consist primarily of delinquent property taxes from prior year levies and are offset by deferred revenue. Uncollectible property taxes are not considered to be material and no allowance for uncollectible receivables is recorded.

G. Inventories

Inventories are considered immaterial and are not recorded.

H. Capital Assets

Capital assets are carried at actual or estimated historical cost based on appraisals. Capital asset purchases are recorded as expenditures in the District's funds. Proceeds from the sale of District assets are reported as revenue in other funds. Major additions and betterments are recorded as additions to capital assets and are not depreciated.

Repairs, maintenance, and minor additions (equipment costing less than \$5,000) are not capitalized. Depreciation is computed using the straight-line method and the estimated useful lives are as follows:

Buildings	50 years
Buildings and Land Improvements	5 - 30 years
Equipment and Vehicles	5 - 25 years

**CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Warrants Payable

Disbursements are made by warrants which are demands for payment drawn on the County Treasurer. Outstanding warrants are recorded as disbursements in individual funds and cash balances in individual funds are reduced for outstanding warrants. The warrants are orders to the County Treasurer to pay a specified sum to the person named or to the bearer. State law requires that warrants be paid and registered if presented for a budgeted fund with insufficient cash and refused for payment for a non-budgeted fund with insufficient cash. Registered warrants become a liability of the District. Interest accrues thereon until publication of the call for payment. The District has no registered warrants as of June 30, 2014.

J. Deferred Outflows of Resources and Deferred Inflows of Resources

The District implemented GASB Statement No. 65 for fiscal year 2013. The impact of implementing GASB Statement No. 65 on the District was items that were previously referred to as deferred revenue in the governmental fund financial statements which mainly consists of property taxes receivable, is now reported as a deferred inflow of resources rather than as a liability. The District did not have any items that were required to be reported as deferred outflows of resources as of June 30, 2014.

K. Compensated Absences

Compensated absences for vacation and sick leave are recorded as expenditures in the government fund financial statements when taken. Vacation and personal leave, within certain limitations, is payable on termination. Employees, other than principals and teachers, earn vacation pay and sick leave in accordance with State law applicable to State employees.

Teachers and principals earn 9 days of sick leave and 4 days of personal leave per year. Sick leave can be accumulated to a maximum of 72 days. Sick leave in excess of 72 days and unused personal leave is paid at \$55 per day at the end of the year. Upon termination, these employees are eligible for compensation for the accumulated sick leave based on years of service with a maximum of \$20 per day.

L. Estimates

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

2. CASH AND INVESTMENTS

The District participates in the Lake County Treasurer's investment program. All funds, except for the student activity cash and a scholarship fund, are pooled and invested in the County's investment pool in accordance with State law. Interest earnings are distributed monthly and allocated to the District based on month-end cash balances. Funds are withdrawn as needed to pay warrants. It is not practical for the District to determine investment risk (including amounts invested in financial derivatives), insurance

**CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

2. CASH AND INVESTMENTS (continued)

coverage or collateral for its share of the pooled investments in the County Treasurer's program. Information on the County's investment pool can be obtained from the County's annual financial report. The District has not formally adopted deposit and investment policies that limit the District's allowable deposits or investments and address the specific types to which the District is exposed.

The student activity fund is deposited in an interest bearing checking account and the scholarship fund is invested in a certificate of deposit. Both are deposited in separate banks and covered by FDIC insurance.

3. CAPITAL ASSETS

The changes in capital assets during 2014 were as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Cost of Assets				
Land	\$ 395	\$ -	\$ -	\$ 395
Land Improvements	143,711	-	-	143,711
Buildings and Improvements	3,911,272	13,853	-	3,925,125
Equipment and Vehicles	821,986	132,760	-	954,746
Total	<u>4,877,364</u>	<u>146,613</u>	<u>-</u>	<u>5,023,977</u>
Accumulated Depreciation				
Land Improvements	(12,985)	(4,541)	-	(17,526)
Building and Improvements	(2,054,188)	(88,332)	-	(2,142,520)
Equipment and Vehicles	(563,902)	(55,945)	-	(619,847)
Total	<u>(2,631,075)</u>	<u>(148,818)</u>	<u>-</u>	<u>(2,779,893)</u>
Net capital assets	<u>\$ 2,246,289</u>	<u>\$ (2,205)</u>	<u>\$ -</u>	<u>\$ 2,244,084</u>

Depreciation expense was allocated to functions in the government-wide financial statements as follows:

Student Transportation	\$ 41,953
School Food	1,467
Unallocated	<u>105,398</u>
Total	<u>\$ 148,818</u>

**CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

4. LONG-TERM DEBT

Changes in long-term debt during 2014 are as follows:

	Balance		Balance		Due Within
	June 30, 2013	Additions	Reductions	June 30, 2014	One Year
General Obligation Bonds	\$ 1,200,000	\$ -	\$ -	\$ 1,200,000	\$ -
Compensated Absences	100,745	-	(5,825)	94,920	31,704
OPEB Obligation	282,835	-	-	282,835	-
	<u>\$ 1,583,580</u>	<u>\$ -</u>	<u>\$ (5,825)</u>	<u>\$ 1,577,755</u>	<u>\$ 31,704</u>

Compensated Absences - The payable represents vacation and sick leave earned by employees which is payable upon termination. Payments can be made by the compensated absences fund or by the affected fund, usually the general fund. Vacation pay is classified as compensated absences due within one year and accrued sick leave is classified as non-current.

Bonds Payable - During fiscal year 2011, the District issued \$1,200,000 in Qualified School Construction general obligation bonds (tax credit bonds) to pay the cost of designing, constructing, furnishing and equipping a new gym/multipurpose room. The bonds mature in June 2019, provide a tax credit at a rate of 6.05% and bear interest rate of 1.2% for ten years. Interest is payable semiannually. Annually, \$66,666 for the Elementary and \$66,666 for the High School is required to be set aside in a sinking fund. The sinking fund deposits, along with earnings on these deposits, will be used to retire the bonds.

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

Fiscal Year Ending June 30,	Elementary School District		High School District		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	-	7,200	-	7,200	-	14,400
2016	-	7,200	-	7,200	-	14,400
2017	-	7,200	-	7,200	-	14,400
2018	-	7,200	-	7,200	-	14,400
2019	600,000	7,200	600,000	7,200	1,200,000	14,400
Totals	<u>\$ 600,000</u>	<u>\$ 36,000</u>	<u>\$ 600,000</u>	<u>\$ 36,000</u>	<u>\$ 1,200,000</u>	<u>\$ 72,000</u>
Less current portion	-	-	-	-	-	-
	<u>\$ 600,000</u>		<u>\$ 600,000</u>		<u>\$ 1,200,000</u>	

5. GOVERNMENT-WIDE RESTRICTED NET POSITION

Restricted Net Position – Consists of net assets with constraints placed on the use either by (a.) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or (b.) law through constitutional provisions or enabling legislations. The District applies restricted resources first to expenses when both restricted and unrestricted net assets are available.

**CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

5. GOVERNMENT-WIDE RESTRICTED NET POSITION (continued)

Restricted net position at June 30, 2014 consists of the following:

Capital projects	\$ 3,510
Debt Service	617,102
Program	910,264
Total Restricted Net Position	<u>\$ 1,530,876</u>

6. GOVERNMENT FUND BALANCE REPORTING

Reserved Fund Balances – State law permits a reserve for operations in certain budgeted funds. The maximum reserve for operations permitted for the District, which is a percentage of the subsequent year’s budgeted expenditures, are as follows:

General Fund	10%
Transportation Fund	20%
Retirement Fund	20%
Adult Education Fund	35%

Restricted Fund Balances - The District spends restricted amounts first. When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts are available, the District spends committed first, then assigned, and lastly, unassigned funds. Committed funds must be so designated by the Board of Trustees and assigned funds are designated by the Superintendent as authorized by the Board of Trustees. There were no committed, assigned or nonspendable funds at June 30, 2014.

Restricted fund balances consist of:

Restricted for expenditures related to:	
Instruction	\$ 391,222
Debt Service	613,502
Transportation	279,626
Retirement	140,974
School Food	41,658
Technology	26,898
Adult Education	5,336
Traffic Education	7,805
Operation and Maintenance	3,510
Compensated Absences	675
Tuition	498
Total Restricted Fund Balance	<u>\$ 1,511,704</u>

Unassigned fund balances consist of the following:

General Fund	<u>\$ 1,153,579</u>
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**CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

6. GOVERNMENT FUND BALANCE REPORTING (continued)

Of restricted funds, \$391,222 is restricted due to external requirements. The remainder of \$1,120,482 is restricted by state law.

Because the Impact Aid funds are considered primarily general aid to the recipient school district, the Impact Aid Fund was aggregated to the General Fund as follows:

	<u>General Fund</u>	<u>Elementary Impact Aid Fund</u>	<u>High School Impact Aid Fund</u>	<u>Total</u>
Revenues	\$ 1,872,868	\$ 35,641	\$ 17,759	\$ 1,926,268
Expenditures	1,825,447	-	-	1,825,447
Changes in Fund Balance	47,421	35,641	17,759	100,821
Fund Balance:				
Beginning of the Year	213,140	478,542	361,076	1,052,758
End of the Year	\$ 260,561	\$ 514,183	\$ 378,835	\$ 1,153,579

7. RETIREMENT PLANS

The District participates in two statewide, mandatory, cost-sharing, multiple employer, defined benefit retirement plans which cover all employees, except certain substitute teachers and part-time, non-teaching employees. The Montana Teachers' Retirement System (MTRS) covers teaching employees, including principals and superintendents. The Montana Public Employees' Retirement System (MPERS) covers other non-teaching employees.

The plans are established by State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. Contribution rates for both plans are required and determined by State law.

The contribution rates for fiscal year 2014, expressed as a percentage of covered payroll, were as follows:

	<u>Employer</u>	<u>Employee</u>	<u>State</u>	<u>Total</u>
MTRS.....	8.47%	8.15%	2.49%	19.10%
MPERS	7.80%	7.90%	0.37%	16.07%

The amounts contributed to MTRS and MPERS during the years ended June 30, 2012, 2013 and 2014 were equal to the required contribution for each year. The amounts contributed by both the School and its employees were as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
MTRS	\$ 181,264	\$ 182,704	\$ 214,949
MPERS	43,456	44,539	45,886
TOTAL	\$ 224,720	\$ 227,243	\$ 260,835

**CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

7. RETIREMENT PLANS (continued)

The State's contribution qualifies as an on-behalf payment. The amounts have not been recorded in the District's financial statements and were considered immaterial.

Both plans issue a publicly available financial report that includes financial statements and required supplementary information for the plans. Those reports may be obtained from the following:

Mt. Teachers Retirement System P.O. Box 200139 1500 Sixth Avenue Helena, Montana 56920-0139 Telephone (406) 444-3134	Mt. Public Employees Retirement System P.O. Box 200131 1712 Ninth Avenue Helena, Montana 59620-0131 Telephone (406) 444-3154
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8. POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description – The District's healthcare plan provides for, and Montana State Law (2-18-704) 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 care plan as long as they pay the same premium. Since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. This benefit is reported as the Other Post Employment Benefits (OPEB) liability. The District has less than 100 plan members and thus qualifies to use the "Alternative Measurement Method" for calculating the liability. The above described OPEB plan does not provide a stand-alone financial report.

Fund Policy – The government pays OPEB liability costs on a pay-as-you-go basis. A trust fund for future liabilities has not been established. The District provides no direct subsidy to the health insurance premiums for retirees. Retirees pay for the entire cost of the health insurance premium.

Funding Status and Funding Progress – The funded status of the plan as of June 30, 2014, was as follows:

Actuarial Valuation Date	7/1/2009
Actuarial Accrued Liability (AAL)	\$ 397,869
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 397,869</u>
Funded Ratio (Actuarial Value of Plan Assets/UAAL)	<u>0%</u>

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

**CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

8. POSTEMPLOYMENT HEALTHCARE PLAN (continued)

The following table shows the components of the government's net OPEB obligation:

Annual Required Contribution (ARC)	\$	76,373
Interest on Net OPEB Obligation		12,020
Adjustment to ARC		(10,000)
Annual OPEB Cost (Expense)		78,393
Net OPEB Obligation - Beginning of the Year		282,835
Net OPEB Obligation - End of the Year	\$	361,228

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 78,393	0%	\$ 361,228
6/30/2013	76,373	0%	282,835
6/30/2012	73,485	0%	206,462

Actuarial Methods and Assumptions – The actuarial funding method used to determine the cost of the Charlo School District is the projected unit credit funding method. The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, the total benefit to which each participant is expected to become entitled at retirement is broken into units, each associated with a year of past or future credited service. Typically, when this method is introduced, there will be an initial liability for benefits credited for service prior to that date, and to the extent that the liability is not covered by assets of the plan, there is an unfunded liability to be funded over a stipulated period in accordance with an amortization schedule.

Actuarial valuations for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trend. Actuarially determined amounts are subject to continuous revision as actual results are compared to past expectations and new estimates about the future are formulated. Although the valuation results are based on values which the District's actuary believes are reasonable assumptions, the valuation results reflect a long-term perspective and, as such, are merely an estimate of what future costs may actually be. Deviations in any of the several factors could result in actual costs being less or greater than estimated.

**CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

8. POSTEMPLOYMENT HEALTHCARE PLAN (continued)

The actuarial assumptions included the following:

Actuarial Cost Method	Unit Credit Cost Method
Discount Rate (Average Anticipated Rate)	4.25%
Average Salary Increase	2.50%
Participation Rate	45%

The healthcare cost trend rate (HCCTR) was based on projections from historical rates of the District. The valuation used a HCCTR assumption of 8% grading down by .50% each year until an ultimate HCCTR rate of 5.0% is reached.

9. RISK MANAGEMENT

The School faces a number of risks including (a) loss or damage to property and contents, (b) general and legal liability, (c) workers' compensation, (d) environmental damage, and (e) medical insurance costs for employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Commercial insurance policies are purchased for loss or damage to property, general and legal liability and employee medical insurance. The District has no coverage for potential losses from environmental damages given the lack of coverage available. The School participates in the Montana Schools Group Workers' Compensation Risk Retention Program (WCRRP) for workers' compensation coverage and the Montana Schools Unemployment Insurance Program (MSUIP) for unemployment insurance. All school district participants in these pools are jointly and severally liable for the liabilities of these public risk pools. Audited financial statements are available from WCRRP and MSUIP.

10. JOINT VENTURE

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose.

Special Education Cooperative - Charlo School District is a member of the Missoula Area Education Cooperative. The Cooperative is comprised of 17 districts, each of which contributes to the operating costs of the Cooperative based on an annual fiscal budget adopted by the Cooperative and the benefits derived from the Cooperative's services. Every year, each member district appoints a member to the Joint Advisory Board. From this board, a four member Management Council is elected to administer the Cooperative. The County Superintendent of Schools is the prime fiscal agent. The District's payment to the cooperative for fiscal year 2014 was \$21,145. Separate financial statements can be obtained from the Missoula Area Education Cooperative.

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REQUIRED SUPPLEMENTAL INFORMATION

**CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA
JUNE 30, 2014**

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS -
OTHER POST EMPLOYMENT BENEFITS

Actuarial Valuation Date	7/1/2009
Actuarial Accrued Liability	\$ 397,869
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 397,869</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Annual Covered Payroll (Active Plan Members)	\$ 1,211,685
UAAL as a Percentage of Covered Payroll	33%

Information for years prior and subsequent to 2009 is not available.

**CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA**

**SCHEDULE OF REVENUES, EXPENDITURES, AND ENCUMBRANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014**

	-----Elementary-----		-----High School-----	
	-----General Fund-----		-----General Fund-----	
	Original and Final Budget	Actual	Original and Final Budget	Actual
Revenues:				
District Property Taxes	\$ 62,011	\$ 62,042	\$ 46,644	\$ 46,643
Intergovernmental				
State Equalization	540,879	540,879	404,081	404,081
State Other	471,583	471,583	344,022	344,022
Interest	1,778	1,826	1,163	1,772
Other	17,983	20	3,679	-
Total Revenues	<u>1,094,234</u>	<u>1,076,350</u>	<u>799,589</u>	<u>796,518</u>
Expenditures:				
Current Operations:				
Instruction	-	681,121	-	392,636
Support Services	-	60,182	-	60,183
General Administration	-	148,444	-	134,440
Transportation	-	-	-	-
Operation and Maintenance	-	134,712	-	112,965
School Food	-	-	-	-
Extracurricular	-	28,898	-	67,184
Debt Service				
Interest	-	-	-	-
Filing and Agent Fees	-	-	-	-
Other	-	4,682	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>1,094,234</u>	<u>1,058,039</u>	<u>799,589</u>	<u>767,408</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ -</u>	<u>\$ 18,311</u>	<u>\$ -</u>	<u>\$ 29,110</u>
Fund balance - beginning (Budget basis):				
		<u>129,502</u>		<u>83,638</u>
Fund balance - ending (Budget basis)				
		<u>147,813</u>		<u>112,748</u>
Current year encumbrances:				
		<u>-</u>		<u>-</u>
Fund balance ending (GAAP basis):				
		<u>\$ 147,813</u>		<u>\$ 112,748</u>

NOTE: The elementary miscellaneous fund is a major special revenue fund for which a legally adopted budget is not required.

SUPPLEMENTAL INFORMATION
REQUIRED BY THE
MONTANA OFFICE OF PUBLIC INSTRUCTION

CHARLO SCHOOL DISTRICT No. 7J
Lake County, Montana
SCHEDULE OF ENROLLMENT
For the Fiscal Year Ended June 30, 2014

Fall Enrollment - October, 2013

Elementary School District

	FALL		
	Per Enrollment Reports	Audit Per District Records	Difference
Kindergarten Full	25	25	0
Grades 1-6	127	127	0
Grades 7-8	45	45	0
Total Elementary	197	197	0

Per Enrollment Reports				Audit per District Records		Difference
< 181 hrs/yr	181-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	< 181 hrs/yr	181-359 hrs/yr	
0	0	0	0	0	0	0
0	0	N/A	N/A	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0

High School District

	FALL		
	Per Enrollment Reports	Audit Per District Records	Difference
Grades 9-12	95	95	0
19 year-olds	0	0	0
Job Corps students	1	1	0

Per Enrollment Reports				Audit per District Records		Difference
< 181 hrs/yr	181-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	< 181 hrs/yr	181-359 hrs/yr	
1	0	0	0	0	0	0

Winter Enrollment - December, 2013

Elementary School District

	WINTER		
	Per Enrollment Reports	Audit Per District Records	Difference
Kindergarten Full	25	25	0
Grades 1-6	130	130	0
Grades 7-8	45	45	0
Total Elementary	200	200	0

Per Enrollment Reports				Audit per District Records		Difference
< 181 hrs/yr	181-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	< 181 hrs/yr	181-359 hrs/yr	
0	0	0	0	0	0	0
0	0	N/A	N/A	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0

High School District

	WINTER		
	Per Enrollment Reports	Audit Per District Records	Difference
Grades 9-12	94	94	0
19 year-olds	0	0	0
Job Corps students	0	0	0

Per Enrollment Reports				Audit per District Records		Difference
< 181 hrs/yr	181-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	< 181 hrs/yr	181-359 hrs/yr	
0	0	0	0	0	0	0

CHARLO SCHOOL DISTRICT No. 7J
Lake County, Montana
SCHEDULE OF ENROLLMENT
For the Fiscal Year Ended June 30, 2014

Spring Enrollment - February, 2014

Elementary School District

	SPRING		
	Per Enrollment	Audit Per	
	Reports	District Records	Difference
Kindergarten Full	25	25	0
Grades 1-6	128	128	0
Grades 7-8	45	45	0
Total Elementary	198	198	0

Per Enrollment Reports				Audit per District Records		Difference
< 181 hrs/yr	181-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	< 181 hrs/yr	181-359 hrs/yr	
0	0	0	0	0	0	0
0	0	N/A	N/A	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0

High School District

	SPRING		
	Per Enrollment	Audit Per	
	Reports	District Records	Difference
Grades 9-12	95	95	0
19 year-olds	0	0	0
Early Graduates	0	0	0
Job Corps students	0	0	0

Per Enrollment Reports				Audit per District Records		Difference
< 181 hrs/yr	181-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	< 181 hrs/yr	181-359 hrs/yr	
0	0	0	0	0	0	0

**CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA**

SCHEDULE OF REVENUE COLLECTED, EXPENDITURES PAID,
EXTRACURRICULAR FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Balance June 30, 2013	Revenues	Expenditures	Transfers In/(Out)	Balance June 30, 2014
Student Activity					
General	\$ 3,551	\$ 10,947	\$ 12,635	\$ 1,277	\$ 3,140
Athletics	14,003	59,575	65,975	-	7,603
Annual	7,310	2,441	2,775	100	7,076
Shop	(1,101)	3,797	4,125	-	(1,429)
Spirit Club	819	-	-	-	819
Student Council	984	-	181	-	803
Music	572	-	-	-	572
Skills USA	2,504	6,870	4,894	(1,771)	2,709
BPA	3,872	4,847	11,384	1,360	(1,305)
Class of 2014	2,987	591	2,751	(827)	-
Class of 2015	674	2,387	1,857	-	1,204
Class of 2016	3,728	-	-	-	3,728
Class of 2017	68	-	-	-	68
Class of 2018	201	1,914	1,373	-	742
Class of 2019	-	310	84	-	226
Culture Awareness Club	238	-	-	-	238
Cross Country	-	75	-	-	75
Cheerleading	-	4,244	4,065	-	179
Student Incentives	1,510	4,231	3,194	-	2,547
Participation Fee	646	6,838	7,540	(139)	(195)
Totals	\$ 42,566	\$ 109,067	\$ 122,833	\$ -	\$ 28,800

OTHER INFORMATION

**CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA**

SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2014

SCHEDULE OF AVERAGE ENROLLMENT

The average fall enrollment of students attending the School is as follows:

	2009	2010	2011	2012	2013	2014
Pre-Kindergarten	-	-	3	-	-	-
Kindergarten - Grade 6	179	167	145	156	145	152
Grades 7 - 8	45	50	44	48	45	45
Grades 9 - 12	127	100	102	83	85	95
Total	351	317	294	287	275	292
Change in Enrollment		(34)	(23)	(7)	(12)	17
Percent Change		-10%	-7%	-2%	-4%	6%

SCHOOL DISTRICT TAXABLE VALUATIONS

<u>As of January 1,</u>	<u>Elementary</u>	<u>High School</u>
2004	\$ 1,428,557	\$ 1,895,932
2005	\$ 1,452,128	\$ 1,913,868
2006	\$ 1,448,680	\$ 1,896,002
2007	\$ 1,502,646	\$ 1,952,470
2008	\$ 1,514,108	\$ 1,952,724
2009	\$ 1,611,575	\$ 2,055,209
2010	\$ 1,632,830	\$ 2,130,431
2011	\$ 1,585,563	\$ 2,048,163
2012	\$ 1,553,236	\$ 1,996,057
2013	\$ 1,581,529	\$ 2,023,556
2014	\$ 1,567,038	\$ 2,005,051

**CHARLO SCHOOL DISTRICTS
DISTRICT NO. 7J, LAKE COUNTY
CHARLO, MONTANA**

SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2014

SCHOOL DISTRICT TAX LEVIES (in mills)

	2009	2010	2011	2012	2013	2014
Elementary						
General	45.34	44.26	41.84	39.93	41.80	39.22
Transportation	66.77	63.94	37.73	42.19	52.00	33.39
Bus Depreciation	15.85	16.83	15.43	18.32	8.26	25.05
Debt Service	0	0	6.27	15.57	28.90	25.69
Total	127.96	125.03	101.27	116.01	130.96	123.35
High School						
General	29.02	28.7	24.6	24.35	22.74	23.08
Transportation	51.47	42.45	30.34	27.36	38.64	26.53
Bus Depreciation	12.29	12.63	11.59	12.05	5.48	19.57
Debt Service	0	0	10.35	15.26	18.69	26.34
Total	92.78	83.78	76.88	79.02	85.55	95.52

MAXIMUM BONDED INDEBTEDNESS

State statutes (MCA 20-9-406) limit the maximum bonded indebtedness to 50% of the School's taxable valuation at June 30, 2014. However, for school districts that qualify for guaranteed tax base aid, the law permits maximum bonded indebtedness equal to 50% of the statewide taxable valuation per student (average number belonging). Maximum bonded indebtedness under this exception is as follows:

<u>Debt Limit Calculation</u>	<u>Elementary</u>	<u>High School</u>
2013/14 Statewide Taxable Value Per Student	\$ 32,540	\$ 75,220
x 2014/15 Budget ANB	207	99
TOTAL	6,735,780	7,446,780
x Debt Limit Rate of 50%	50%	50%
MAXIMUM DEBT CAPACITY	3,367,890	3,723,390
Less Outstanding Debt at June 30, 2014:		
General Obligation Bonds	(600,000)	(600,000)
Remaining Bond Capacity at June 30, 2014	\$ 2,767,890	\$ 3,123,390

Doyle & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

103 Tyler Way, Suite 2 ♦ P.O. Box 446
Lolo, MT 59847-0446

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www.doyleandassoc.com

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

To the Board of Trustees
Charlo School Districts
District No. 7J, Lake County
Charlo, 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 Charlo School Districts, District No. 7J, Lake County, 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 March 31, 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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses and are identified as findings **2014-1, 2014-2, and 2014-3.**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described below to be significant deficiencies and are identified as findings **2014-4 and 2014-5**.

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 below as items **2014-4 and 2014-5**.

FINDINGS – MATERIAL WEAKNESSES

2014-1 – Reconciliation of Accounting Records

Condition – The Trustees Financial Summary (TFS) submitted to the State was not supported by the underlying accounting records for the fiscal year ended June 30, 2014. We noted several differences between the TFS and the underlying accounting records.. The financial statements have been adjusted accordingly.

Criteria - The Trustees Financial Summary (TFS) should reconcile with the underlying financial statements and accounting records. The accounting records should be an accurate reflection of the activities of the District and due care should be taken to assure transactions are recorded correctly.

Effect – The lack of reconciling the accounting records by the District increases the risk of undetected errors and material misstatements in the financial statements.

Cause – This condition is caused by the lack of funding for the District to retain and train personnel to evaluate or prepare GAAP financial statements.

Recommendation – It is noted that the District has made progress in implementing the recommendations related to this finding in prior years' audit reports. However, we continue to recommend the hiring of a qualified consultant to provide assistance in developing systems to assure accuracy in the recording of transactions and reconciliation of the TFS with underlying accounting records.

2014-2 – Financial Reporting

Condition – Independent auditors often assist clients with the preparation of their financial statements; however, such assistance poses no problem if it is provided merely as a matter of convenience rather than out of necessity. Management represented that they do not possess the skills to prepare the financial statements in accordance with generally accepted accounting principles and there were significant material audit adjustments necessary to comply with generally accepted accounting principles.

Criteria – Auditing standards that became effective December 15, 2006, require the auditor to determine whether the District’s internal control system allows for the reliable reporting of financial data in accordance with GAAP.

Effect – Not having the expertise to prepare or to evaluate the auditor prepared financial statements increases the risk of not preparing financial statements in accordance with GAAP.

Cause – This condition is caused by the lack of funding for the District to retain and train personnel to evaluate or prepare GAAP financial statements.

Recommendation – Although it may not be cost effective for the District to retain and train personnel to evaluate or prepare GAAP financial statements, we continue to recommend the District consider correcting this material weakness in their internal controls over financial reporting by hiring a qualified consultant to evaluate the auditor prepared financial statements. Management should be aware of and continue to evaluate the impact of this deficiency.

2014-3 – Lack of Segregation of Accounting Duties

Condition – Due to the size of the District’s staff, ideal segregation of financial and accounting duties is not always possible. During our audit we noted instances of the lack of ideal segregation of duties. For example the District’s Business Manager was not independent of the reconciliation of the cash accounts, cash deposits, processing vendor invoices, authorization, check preparation, and purchasing and receiving.

Criteria - Internal control procedures require a proper segregation of accounting duties. Because ideal segregation of accounting duties is not always possible, compensating controls performed by the board are important.

Effect – The lack of compensating controls performed by the Board increases the risk of errors and irregularities.

Cause – The condition is caused by organizations with a small staff requiring compensating controls to be performed by the Board.

Recommendation – We continue to recommend that the Board monitor and approve the District’s activities and transactions. The District should ensure that all financial reports submitted to the Board include a list of payroll warrants in sequential order to ensure that all are accounted for. Summary and detail extracurricular reports should be provided to the Board monthly for their review and approval. The review and approval should be noted in the minutes with reports initialed by the Board evidencing the review. In addition, the District should utilize the signature stamps in accordance with State Law and ensure that the minutes include all pertinent information.

FINDINGS – SIGNIFICANT DEFICIENCIES

2014-4 Expenditure Coding for IDEA Part B

Condition – During our audit we noted that the District does record expenditures for IDEA Part B as required by the Missoula Area Education Cooperative (MAEC). We also noted that the expenditure coding did not comply with MAEC guidelines.

Criteria - The MAEC coordinates special education services for their member districts and relies on the districts to implement procedures as instructed for the benefit of all member districts. Procedures include transfer of related expenditures into the District's Miscellaneous Fund and the MAEC provides specific fund and account coding instructions to the District.

Cause – Management oversight.

Effect – Because of management's oversight and improper coding, MAEC must record these expenses as state rather than federal flow-through expenditures, which impacts their maintenance of effort calculations.

Recommendation – We recommend that management implement procedures to ensure compliance with MAEC guidelines and coding requirements.

2014-5 Federal Retirement Benefits and Payroll Taxes Paid from Non-Federal Sources

Condition – During our audit we noted that the District charges retirement benefits and Social Security, Medicare, and unemployment taxes associated with employees whose wages are paid from federal funds to the Retirement Fund.

Criteria – State law (MCA 20-9-501) requires the District to pay retirement benefits and payroll taxes of employees whose wages are paid from state and local funds, the Food Service Fund, and Impact Aid Fund from Fund 114 – Retirement Fund. Retirement benefits and payroll taxes for employees whose salaries are paid from federal grants should be paid from the Miscellaneous Funds.

Cause - Management oversight.

Effect – The District is out of compliance with Montana Code Annotated section 20-9-501.

Recommendation – We recommend that the District implement procedures to ensure that retirement benefits and other payroll related costs associated with employees whose wages are paid with federal grants be paid out of the Miscellaneous Funds.

Prior Year Audit Findings

The prior audit report contained seven audit recommendations. The actions taken on the recommendations are as follows:

2013-1 – Reconciliation of Accounting Records – Repeated 2014-1.

2013-2 – Financial Reporting – Repeated 2014-2.

2013-3 – Lack of Segregation of Accounting Duties – Repeated 2014-3.

2013-4 – Reporting Requirements – Implemented for FY 2014 (federal audit not required).

2013-5 – Encumbrances – Implemented for FY 2014.

2013-6 – Expenditure Coding for IDEA Part B – Repeated 2014-4.

2013-7 – Federal Retirement Benefits and Payroll Taxes paid from Nonfederal Sources – Repeated 2014-5.

The District’s response to the findings identified in our audit is described on pages 41 and 42. The District’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express an opinion on the response.

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 District’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 District’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dafe & Associates, P.C.

Lolo, Montana
March 31, 2015



Charlo School District 7J

404 1st Avenue West
Box 10 - Charlo, MT 59824
(406) 644-2206 - FAX (406) 644-2400



March 31, 2015

Department of Administration
301 South Park Ave. Room 340
PO Box 200547
Helena, MT 59620-0547

To Whom It May Concern:

In regards to the audited report completed by Doyle & Associates, P.C., the District has prepared the following response or plan of action.

2014-1 Reconciliation of Accounting Records: The School District will make yearend adjustments to reconcile with the District Account software, and continue to reconcile on a monthly basis. The Trustee Financial Summary will be completed in the prescribed format and agree with the underlying financial statements. The District will report accumulated depreciation on the TSF at June 30. The District will consider hiring a qualified consultant to provide assistance with reconciling the accounting records.

2014-2 Financial Reporting: As noted in the audit findings, the District does not have the expertise to prepare or to evaluate the auditor prepared financial statements to ensure proper preparation in accordance with GAAP. This is also very difficult for a small school on a limited budget. The School Board is aware of the issue and will continue to evaluate the impact of this deficiency. The District will consider correcting this material weakness in our internal controls over financial statement preparation by hiring a qualified consultant to evaluate the auditor prepared financial statements.

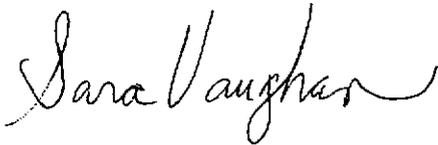
2014-3 Lack of Segregation of Accounting Duties: This is also extremely difficult for a small school on a limited budget. The School Board is aware of the concern and will continue to monitor all activities closely. The review and approval of all payroll, claims and student activity warrants are to be done by the School Board.

2014-4 Expenditure Coding for IDEA: The School District is aware of this and will consider implementing procedures to ensure compliance with the MAEC guidelines and coding requirement. The District is concerned that the coding provided by MAEC does not accurately reflect the expenditures of the District.

2014-5 Federal Retirement Benefits and Payroll Taxes Paid from Non-Federal Sources: The District will ensure that all retirement benefits associated with employee whose wages are paid with federal grants be paid out of the Miscellaneous Fund.

Thank you for your concerns and attention to this matter.

Sincerely,

A handwritten signature in cursive script that reads "Sara Vaughan". The signature is fluid and elegant, with a long, sweeping tail on the final letter.

Sara Vaughan, District Clerk
Charlo School District