

**CHOTEAU SCHOOL DISTRICT NO. 1**

**TETON COUNTY  
CHOTEAU, MONTANA**

**FINANCIAL AND COMPLIANCE REPORT**

**Fiscal year Ended June 30, 2014**

**Strom & Associates, P. C.**

**PO BOX 1980  
Billings, Montana 59103**

Choteau School District No. 1  
Teton County  
Choteau, Montana 59422

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Choteau School District No. 1  
Teton County  
Choteau, Montana 59422

ORGANIZATION

BOARD OF TRUSTEES

Mark Salmond	Chair
Mark Henderson	Vice Chair
Jolene Bowers	Trustee
Brodie Gollehon	Trustee
Lane Yeager	Trustee
Jerry Stott	Trustee
Jonathan Stoltz	Trustee

OFFICIALS

Lynn Utterback	Superintendent
Patty Mellinger	District Clerk
Diane Inbody	County Superintendent
Diane Ameline	County Attorney

**CHOTEAU PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1, TETON COUNTY  
CHOTEAU, MONTANA**

**Management Discussion and Analysis (MD&A)**

**JUNE 30, 2014**

The Superintendent and Business Manager of the Choteau Public Schools have provided this management's discussion and analysis as a part of the audit report to give an overview of the financial position and activities of the school district for the fiscal year ending June 30, 2014.

**FINANCIAL HIGHLIGHTS**

The District's financial position has been relatively stable district-wide despite a continual swing of small enrollment increases and larger enrollment decreases between the elementary and high schools. A large part of the financial stability can be tied to the strong, but conservative fiscal management of the District over the years. These sound management practices have resulted in strong community support for continued local funding of the school system to replace state funding, which continues to decline. This strong community support is evidenced by the passage of a \$1.6 million bond issue in the late 1990's to build additional classrooms and a gymnasium, the passage of a large (\$135,000) general fund operating levy in May 2003 to fund the first substantial teacher salary increase given in a number of years as the District's base teacher salary had slipped way below average, the first successful ballot proposition to establish building reserve funds in May 2004, and by several active parent groups who donate their time and talents in a number of ways to support the District's educational system. Recent evidence of this strong community support is the addition of a multi-purpose building to the campus in 2005, which was built entirely with donated materials and labor, and the installation of 3-4 new large and costly pieces of playground equipment, with the majority of the cost for these being raised through a variety of fund raisers. This community support is also evident in an active Booster Club, which was instrumental in spearheading the installation of new football field bleachers. The cost of this project was over \$56,000 – with the District only contributing \$20,000 and the remainder of the cost was covered by the Booster Club. The community supported in 2013 a Technology levy for each district for a 10 year period to support the ongoing and ever changing advances in technology.

**USING THIS FINANCIAL REPORT**

Statement No. 34 of the Governmental Accounting Standards Board (GASB) requires the general format of this report. This annual report consists of financial statements for the District as a whole with more detailed information for certain District funds, which are explained below.

The **Statement of Net Position** (page 18) shows what is owned as assets, what is owed as liabilities, and the net position of the District as the resources that would remain if all obligations were settled. This statement categorizes assets to show that some are very liquid, such as cash and cash equivalents, while others are restricted for certain purposes or reserved for emergencies or cash flow purposes. Some assets such as buildings, equipment, and other long-lived property are categorized as fixed or capital assets, while others are available to fund budgets for the following year.

The **Statement of Activities** (page 19) shows the amount of program specific and general school district revenues used to support the various functions of the school district. The functions of the school district include instruction, student services, administration, etc. and are shown as governmental activities, which are funded primarily by property taxes and state and federal revenues. Both of these statements provide information about the activities of the District as a whole and present a long-term view of the District's finances.

The **Fund Financial Statements** (pages 20-22) provide detailed information about the funds used by the school 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, such as transportation and debt service, in separate fund accounts.

The fund financial statements report balances and activities of the most significant funds separately under the category of major funds, and combine the activities of less significant funds under a single category of other. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the school district's operations, and the existence of legal budget requirements. The General Fund is always a major fund and the Miscellaneous Federal Fund was shown as a major fund for the District due to a large federal earmark (\$596,100) awarded in 2003-04 for establishing a pilot electronic learning program, but is no longer identified as such.

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

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

The **Statement of Fiduciary Net Position and Changes in Fiduciary Net Position** (page 23) provides the summarized financial reports of the student activity, private trust, and agency funds the District is the trustee, or fiduciary of. The District cannot use these assets to fund its operation and is responsible for ensuring that these assets are used for their intended purpose.

The **Budget Versus Actual Statement of Revenues, Expenditures, and Changes in Fund Balance** (pages 35-36) is a schedule that shows how revenues actually came in and expenditures actually were made in comparison to how they were budgeted for in the general fund. This schedule shows the District did not experience any significant variances in these areas.

**THE DISTRICT AS A WHOLE**

The government wide financial statements include 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.

“Is the District better or worse off as a result of the year’s activities?” is an important question to be answered by the District’s financial statements. The change in net position serves as a useful indicator of the District’s financial position and whether that position is improving or deteriorating. Non-financial factors such as changes in enrollment, changes in the funding formula and the level of state funding, changes in the economy, and changes in the District’s tax base also influence the fiscal health of the district.

See the comparison table below to see the change in net position from 2012-13 is \$140,688. This positive change indicates the financial position of the district continues to improve. This positive change can be attributed to building improvements such as new cabinetry in several elementary classrooms, bleacher tops in the high school gym, the high school gym floor refinished, and a new used coach style yellow bus, new school vehicle, as well as continuing to decrease the District’s long term debt.

**District Net Position**

The District’s net position for fiscal years 2012-13 and 2013-14 were as follows:

<b>GOVERNMENTAL ACTIVITIES</b>	<b>2013</b>	<b>2014</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
Current & Other Assets	\$1,524,244	\$1,713,609	\$189,365	12.42%
Capital Assets	\$2,951,245	\$2,858,244	(\$93,001)	-3.15%
<b>TOTAL ASSETS</b>	<b>\$4,475,489</b>	<b>\$4,571,853</b>	<b>\$96,364</b>	<b>2.15%</b>
Current Liabilities	\$42,473	\$25,472	(\$4,448)	-40.03%
Long-Term Liabilities	\$555,445	\$528,123	(\$27,322)	-4.92%
<b>TOTAL LIABILITIES</b>	<b>\$597,918</b>	<b>\$553,595</b>	<b>(\$44,323)</b>	<b>-7.41%</b>
Invested in Capital Assets, Net of Debt	\$2,701,245	\$2,728,244	\$26,999	1.00%
Restricted	\$878,963	\$880,783	\$1,820	0.21%
Unrestricted	\$297,362	\$409,231	\$111,869	37.62%
<b>TOTAL NET POSITION</b>	<b>\$3,877,570</b>	<b>\$4,018,258</b>	<b>\$140,688</b>	<b>3.63%</b>

**General Revenues**

The District's governmental major fund revenues for fiscal years 2012-13 and 2013-14 were as follows:

**GOVERNMENTAL MAJOR FUND REVENUES**

4	2013	
Revenues	General Fund	Misc. Fund
District Levies	\$1,255,457	
State Equalization	\$1,250,170	
County	\$340,161	
Interest	\$78,707	
Other	\$14,347	
State	\$1,426,908	
Federal	\$0.00	
Charge for Services	\$7,682	
Operating Grants	\$399,114	
<b>TOTAL REVENUES</b>	<b>\$4,772,546</b>	

2014	
General Fund	Misc. Fund
\$1,239,754	
\$1,257,785	
\$407,235	
\$4,428	
\$91,700	
\$926,858	
\$225	
\$65,911	
\$693,531	
<b>\$4,687,427</b>	

Three year averaging continues to be allowed to determine the ANB, which drives the budget formula, and was adjusted upward for full-time kindergarten. This adjusted three year averaging diminishes the impact of declining enrollment, and this year the elementary used the three year average and the high school also used the three year averaging ANB for funding purposes as the one large class of 50 in the District is now counted in the high school enrollment. There was a decrease in the elementary ANB by 7 and also a decrease by 3 in the high school enrollment, for a net decrease of 10 ANB. This net decrease in ANB resulted in a net decrease of approximately \$60,000 in ANB budget levels for 2013-14. It was a legislative year with SB175 being a very large contributor to the school funding with many increases. The many components of funding the budgets were increased with SB175, so instead of having a decrease in our budgets, we saw a small increase which helped to cover the loss of ANB funding. District levy revenues decreased due to continued low interest earnings and to offset the loss of state funding with declining enrollment. The District again did not use a portion of excess reserves collected but saved them to help when the enrollment takes a drastic drop with the loss of the one large class of 50 and the small freshman class of 13 enters high school next year.

**General Expenditures**

The District's governmental major fund expenditures for fiscal years 2012-13 and 2013-14 were as follows:

**GOVERNMENTAL MAJOR FUND EXPENDITURES**

Expenditures	2013		2014	
	General Fund	Misc. Fund	General Fund	Misc. Fund
Instructional Services	\$2,396,292		\$2,421,092	
Support Services	\$191,098		\$275,707	
Educational Media Services	\$92,377		\$14,216	
General Administrative Services	\$477,079		\$591,678	
Operation & Maintenance Services	\$476,344		\$455,301	
Transportation Services	\$317,911		\$254,853	
Extracurricular Services	\$160,540		\$193,402	
Other Charges/School Food	\$176,789		\$168,239	
OPEB	\$59,082			
Interest and other charges	\$21,100		\$14,440	
Unallocated Depreciation Exp	\$160,026		\$124,452	
<b>TOTAL EXPENDITURES</b>	<b>\$4,548,954</b>		<b>\$4,493,064</b>	

Overall expenditures decreased by \$55,890 for the 2013-2014 fiscal year. The 2013-2014 fiscal year was the first year of the collective bargaining agreement which provided \$100 on the base and step and lane increases in teacher salaries. Employees absorbed an approximate 57% increase in insurance costs and the district absorbed a 0% increase. This decrease in expenses was due to a \$54,000 in position savings and decreasing the supply line item budgets by approximately \$2,000. The District has planned on reducing staff through natural attrition due to the dwindling size of a classroom since the only classes of 30 or more are in grades 7-12, with the class size for grades K-6 being in the low to mid 20's range. The administration and staff felt it was important to maintain teacher numbers at this time after a year of a combination 5<sup>th</sup> & 6th grade that allowed some students to slip through the cracks. The administration and elementary teaching staff made the hard decision to not renew a non-tenured teacher due to the continuation of low enrollment. The General Fund had to cover the cost of a special education aide that has been paid through federal IDEA-B, ARRA funds in the past.

**Spending Levels Compared to Resource Levels**

**GOVERNMENTAL MAJOR FUND REVENUES TO EXPENDITURES COMPARISON**

	<b>2013</b>		<b>2014</b>	
	General Fund	Misc. Fund	General Fund	Misc. Fund
Total Revenues	\$4,772,546		\$4,687,427	
Total Expenditures	\$3,877,570		\$4,018,258	
Other Financing:				
Fund Transfers In	\$0			
Fund Transfers Out			\$0	
Excess/Deficiency of Revenues Over Expenditures	\$894,976.		\$669,169	

The District actually collected less revenue during the 2013-2014 as a result of the increased salary and increase in benefits costs within stagnant budget levels. The ending fund balance remains adequate to maintain the full 10% reserve and setting aside some for excess reserves for delinquent taxes, but leaving no unreserved balance for re-appropriation.

**GOVERNMENTAL MAJOR FUNDS SPENDING LEVELS COMPARED TO RESOURCE LEVELS**

	<b>2013</b>		<b>2014</b>	
	General Fund	Misc. Fund	General Fund	Misc. Fund
Expenditures Supported With General Revenues (from taxes and other sources for general school use)	100%		100%	
Expenditures Supported With Program Revenues	0%		0%	
Total Expenditures Related to Governmental Activities	\$3,877,570		\$4,018,258	

## **CHANGES IN FINANCES CAUSED BY CHANGES IN PROGRAMS**

The District has been very fortunate in receiving two federal earmarks, one in fiscal year 2002-03 and one in fiscal year 2003-04, for a total of over \$1,000,000 to implement a pilot electronic learning program. These federal funds allowed the District not to have to budget for expensive technology upgrades out of the General Fund, which in turn freed up dollars in the General Fund for other needs such as wage and benefit increases. The District has been able to keep salaries and benefits at the 80% level of the General Fund budget. The District's enrollment declines and taxable valuation declines have been gradual, which along with slight state funding increases have allowed the District to get by without drastic cuts in staffing or programs. The taxable valuation of the District has actually begun to show some growth after the state wide reappraisal.

The District was planning to cut the part-time elementary music position beginning with the 2002-03 school year, but an anonymous alumni benefactor provided the necessary funding through a trust account for a ten year period so this position was not eliminated. It should be noted the District only received this commitment for two years rather than the ten years promised, but the District was able to budget for this part-time elementary music position in the 2005-06 General Fund because of the legislative approved increases to the funding formula. Two non-instructional aide positions were eliminated beginning with the 2004-05 school year, and the additional reading aide positions due to the past large increase in ESEA Title I, Part A federal funding have now been cut.

The District was preparing for major cuts in the 2005-06 budgets because of declining enrollments. Rather than cut a teacher or program, the District implemented an innovative reduction in administrative staff. The District only needed a .6 FTE 7-12 principal to meet accreditation standards, so when the 1 FTE 7-12 principal indicated he planned to retire he was replaced by a teacher in the process of getting an administrative endorsement. The retiring principal was rehired, using Title funds in part, as a .3 FTE principal to mentor the new principal, who served as .3 FTE principal, .4 FTE activities director and .3 FTE teacher. This resulted in a .7 FTE reduction in staff. This staffing change was approved before, and left in after, the legislature came through with the much needed funding increases. These funding increases allowed the District to negotiate a two year contract with the teachers that gave base salary increases both years along with steps and lanes, adding a necessary one on one special education teacher aide, restaffing the custodial staff with the part-time building custodial position left open last year, covering the large increase in health insurance costs due to more participation, and covering a 26% increase in workman compensation rates, a 17% increase in electrical rates, and over a 40% increase in gas rates.

The District was anticipating almost \$130,000 in increased expenditures for the 2006-07 year, with almost \$115,000 of that accounted for in wage and benefit increases. There was a substantial increase in non-certified staff wages due to an increase in the minimum wage. The District was fortunate to have budget growth from the inflationary basic and per student entitlement increases, along with staff retirement savings to cover this increase in expenditures for the 2006-07 budget year. A portion of the retirement savings came from only having to replace a 1 FTE retiring teacher with a .5 FTE teacher. There were only 9 in the kindergarten class last year so there was no need for two sections of half day kindergarten. Instead the District implemented full day kindergarten for this class, with parents having the option of taking their children out at noon for a half day program. This small class will only require one teacher for the remainder of their K-6 education; so the District elected to reassign teachers and keep a section of full day kindergarten, along with offering a half day section of kindergarten by hiring a .5 FTE kindergarten teacher to replace one of the 1 FTE retiring teachers, which in turn reduced the teaching staff by .5 FTE.

The District was anticipating a minimum of \$60,000 in increased expenditures for the 2007-08 school year. This increase in expenditures was once again primarily for wages and benefits and was covered by the slight budget growth allowed with the increased entitlements and 3 year ANB averaging, as well as savings from budget and staff cuts. There was no longer a need for the .3 FTE High School Principal mentor position so it was cut. The line item for large equipment replacement costs was cut as well.

The District was not planning on being able to offer much in the way of wage increases for 2008-09 with only a \$10,000 increase in budget authority. The District's base teacher wage of \$22,600 is low for the area and Class B schools, but by thinking outside of the box the negotiating committees for the Board of Trustees and the Choteau Education Association came up with a plan that increased the base by almost \$1,000. This was done by dropping to the BA/1 level of the 2007-08 salary schedule and making that the base for 2008-09. This essentially gave everyone their step movement so steps were frozen at the 2007-08 level for the 2008-09 school year and the base was increased from \$22,600 to \$23,504. This resulted in teachers getting a wage increase ranging from a low of \$904 to a high of \$1,833. The classified staff also got a larger wage increase due to the new minimum wage rate and the District's health insurance premiums increased by 9.6%. These salary and benefit increases for the 2008-09 school year cost approximately \$80,000 and were funded with the \$10,000 budget growth; the \$28,000 savings from replacing two highly paid retiring teachers with two mid-level paid teachers; and \$42,000 in line item budget cuts that were covered with a 10% cut for supplies, textbooks, minor equipment and athletic expenditures, as well as deferring possible maintenance and replacement equipment costs out of the General Funds to the One-Time-Only Deferred Capitalization and Maintenance Allocation provided by the legislature and deferring the majority of on-going technology expenditures out of the General Funds to the Building Reserve Funds that were established to maintain and upgrade the technology program purchased with the federal earmarks several years ago.

The salary and benefit increases of approximately \$80,000 for the 2009-10 fiscal year despite stagnant budgets were covered by using the ESEA Title II-A allocation to decrease class size, the Title I-ARRA Stimulus funds to cover professional development costs usually paid for with Title II-A funds and the IDEA Part B ARRA Stimulus funds to reduce maintenance of effort by covering a portion of special education salary costs, specifically two one-on-one special education aides. In the absence of the above listed funds, the below outlined costs, positions or activities would have been eliminated.

In the absence of ESEA Title II, A funds, Choteau Elementary Grade 2 would have 25 students which exceeds the accreditation standard of 20 for that grade level, so the 2009-10 ESEA Title II, A funds will be used to pay for .75 FTE teacher salary and benefits. (The remaining .25 FTE representing the cost that would have been needed to place an aide in that classroom to meet accreditation standards.)

In the absence of ESEA Title I ARRA Stimulus Funds, the professional development costs previously funded through the ESEA Title II, A Grant for pervasive, district wide in-service on RTI, reading, math, science, classroom behavior, etc. would not be covered as the ESEA Title-II, A Funds are now being used to reduce class size. Since the Title I allocation continues to decline, these Title I ARRA Stimulus Funds will also prevent a reduction in hours or positions for all Title I personnel.

The IDEA Part B ARRA Stimulus Funds are being used to provide continued employment for two special education teacher aides, one whose position could be eliminated due to the graduation of the student being served on a one-on-one basis and another whose position could be covered by other teacher aides on staff. The IDEA Part B ARRA Stimulus Funds will also be used for pervasive, district wide in-service on RTI and educating exceptional children.

The salary increases of approximately \$89,000 for the 2010-2011 fiscal year were covered by a \$29,000 growth in budget authority through the high school increase in ANB and over \$70,000 in savings through retirements. The District continues to use the ESEA Title II-A allocation to decrease class size, the Title I-ARRA Stimulus funds to cover professional developments costs usually paid for with Title II-A funds and the IDEA Part B ARRA Stimulus funds to reduce maintenance of effort by covering a portion of special education salary costs, specifically two on-on-one special education aides. In the absence of the above listed funds the costs, positions, or activities as outlined in 2009-2010 above would have been eliminated. It should be noted that there were no increases in the health insurance benefit costs as the District changed carriers in light of a projected 43% increase with MUST. The District went with JPT and actually saw a 12% decrease in the cost of premiums, with the employee seeing all of this savings since the District contribution for health insurance premiums remained the same.

As stated previously, \$101,000 for the salary increases of \$67,000 and the decreased budget levels of \$34,000 were covered through \$91,000 in various position savings and \$10,000 in cuts to the supply line item budgets. The District continues to use the ESEA Title II-A allocation to decrease class size and set aside the 2010-2011 SRS allocation to cover professional development costs for 2011-2012. These professional development costs have been paid with T-I, ARRA funds for the past two years but these funds are no longer available. By setting aside the SRS allocation for a fiscal year, the District will have the 2011-2012 SRS allocation to cover professional development costs for the 2012-2013 year. The District never knows until late fall if the SRS allocation has been funded and at what level, so this schedule gives the District the leeway of a year to determine how to cover these expenses if the SRS funds are discontinued or cut drastically. If necessary the District may determine that the best use of the SRS funds is to reduce class size as in the manner of the T-II, A allocation. The District also has the OTO SB329 transfer funds of \$125,000 available to help down the road to avoid staff and program cuts for a year if need be. These plans are in place to hopefully give the District some leeway and wiggle room to address lower budgets with declining enrollment through natural attrition.

The 2012-2013 fiscal year the salary increases cost about \$46,737 and budget levels decreased by \$39,000 for a total of \$85,737— which was covered by a \$70,000 in position savings and decreasing the supply line item budgets by \$16,000. The District continues to use the ESEA Title II-A allocation to decrease class size and set aside the 2011-2012 SRS allocation to cover professional development costs for 2012-2013. By setting aside the SRS allocation for a fiscal year, the District will have the 2012-2013 SRS allocation to cover professional development costs for the 2013-2014 year. The District never knows until late fall if the SRS allocation has been funded and at what level, so this schedule gives the District the leeway of a year to determine how to cover these expenses if the SRS funds are discontinued or cut drastically. If necessary the District may determine that the best use of the SRS funds is to reduce class size as in the manner of the T-II, A allocation.

In the 2013-2014 fiscal year, the district had a few long term teachers retire and one non-tenured teacher not renewed. With the retirements, these teachers were not replaced, but the positions absorbed by other staff. The elementary teacher was not renewed due to low enrollment numbers and our budgets are unable to sustain the amount of staff that we would like to give the students the best education possible. The District continues to use the ESEA Title II-A allocation to decrease class size and set aside the 2012-2013 SRS allocation to cover professional development costs for 2013-2014. By setting aside the SRS allocation for a fiscal year, the District will have the 2013-2014 SRS allocation to cover professional development costs for the 2014-2015 year. The District never knows until late fall if the SRS allocation has been funded and at what level, so this schedule gives the District the leeway of a year to determine how to cover these expenses if the SRS funds are discontinued or cut drastically. If necessary the District may determine that the best use of the SRS funds is to reduce class size as in the manner of the T-II, A allocation.

## **IDENTIFYING AND RESOLVING FINANCIAL DIFFICULTIES**

The District did not have any budget problems or errors that significantly impacted any fund.

## **SIGNIFICANT EVENTS AND TRENDS**

The District finds itself facing the same difficulties schools across the state are experiencing – declining enrollment, skyrocketing health insurance and utility costs, low base pay rates, meeting federal and state mandates without the funding to do so, etc. The District has been fortunate that it has been able to face these issues without drastic cuts in staffing or programs to date, and continues to look for innovative ways to address these issues without cutting programs. The state funding increases will give the District some flexibility for the two years of the biennium, but declining enrollments will once again erode this small gain and the District will be trying to find ways to provide the same services with less money.

## **ANALYSIS OF FINANCIAL INFORMATION**

The following analysis is provided to help the reader understand the major operations of the District, where the resources come from, what the resources are used for, and trends, decisions and events that are expected to affect the District's financial situation in the future.

### **1. What Does the School Do?**

The District provides instructional, transportation, and special education services for Choteau, which is the Teton County seat, and the outlying rural area. During the 2013-14 school year, Choteau School District No. 1 provided these services for approximately 352 students in grades preschool through 12, which is 20 students less than the 2012-13 school year. In addition to the instructional and transportation services, the District offers a breakfast and hot lunch program and a varied extracurricular program.

### **2. Where Do the Resources Come From?**

The majority of the District's revenue for the operations of the District (General, Transportation, Bus Depreciation, Tuition, Retirement, Building Reserve, and Debt Service Funds) is generated from local property taxes and state funding sources. The District also participates in all of the Elementary and Secondary Education Act Title programs and receives federal funding for these, as well as federal and state vocational education grants. The District was the recipient of over \$500,000 federal earmarks in both the 2002-03 and 2003-04 school years. The nutrition program has been mostly self-supporting through federal reimbursement payments and meal charges. The general fund must now subsidize the program by covering the cost of benefits, repairs, and large equipment purchases. The District is also the recipient of a Trust Fund established by an anonymous alumni benefactor beginning with the 2003-04 school year. This benefactor is providing \$25,000 a school year, for up to ten years, for the District to use as it sees fit to best meet the educational needs of the students. The District only received these funds for the 2003-04 and 2004-05 school years and used this money to fund the elementary music position, as this donation came as the direct result of the local newspaper reporting this position was going to be cut due to shrinking budget caps. Fortunately, the legislative funding increases at that time allowed this position to be budgeted for out of the general fund once again.

### 3. What Does It Cost?

Choteau School District No. 1 spent \$4,584,954 to educate 352 students in fiscal year 2014. Instructional services, including special education, account for 59% of these costs, with operation and maintenance services taking 14% and general administrative services taking 14% of the pie. Support, educational media, transportation, and extracurricular services account for the remaining 13% of the costs.

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

The Choteau School District has capital assets valued at \$2,728,244. The taxable value for the District decreased for the first time in several years. The Choteau Elementary School District increased and is \$5,205,679 which raises \$5,205.68 per mill. The taxable value for the Choteau High School District also increased and is \$6,512,940, which raises \$6,512.94 per mill.

Both the Elementary and High School Districts issued \$800,000 in bonds on June 30, 1995, for a total bond issue of \$1.6 million, to finance the addition of several classrooms and a gymnasium. This bond issue was for a 20 year period and will mature June 30, 2015.

### 5. Does the District Have Fund Deficits?

Choteau School District No. 1 had no fund deficits at the end of the 2014 fiscal year.

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

The No Child Left Behind Act greatly affects how the District should and will approach the instructional process, with more emphasis on differentiated and value added instruction and the assessment process. The federal earmarks for the pilot electronic learning program the District received have allowed the District to implement programs that address this change in the instructional process. Passage of the building reserve levies at the May 2004 election will allow the District to maintain and upgrade the technological program so the District can continue to move forward and progress in changing the instructional process as outlined above.

A special legislative session was held in December 2005 to address the court ruling that the current state funding mechanism is indeed unconstitutional, in that it does not provide the means for schools to provide an equal and quality education. To mitigate the ups and downs of budgeting tied to enrollment, a per educator component was added to the funding formula as well as additional on going At Risk and Indian Education For All funding. One time only funds were also approved for building maintenance, energy costs, and Indian Education programs. Unfortunately, it still is questionable whether these changes fully address the court ruling that the state funding formula is unconstitutional, so there remains uncertainty about the state funding formula.

These additional funding components allowed a much needed growth in the general fund budget. Unfortunately, the funding formula is still too reliant on a district's enrollment figures. The District only has one class at the past average enrollment size of 45. All the rest are in the 30 range or below, except for the 3rd Grade class which only has 14 students. This small class will have a dramatic impact on the budget until they graduate; so without additional changes to the funding formula, the District will be faced with budget cuts once again.

The 2007 legislative session closed without a school funding bill being approved. Without additional funding approved and with declining enrollment, the District was looking at budget cuts of approximately \$45,000 without a voted levy. The District placed \$25,000 on the elementary ballot to mitigate this shortfall, while hoping the legislature would address the school funding issue in a special session. The Governor called for a special session in May to address school funding and once again increases in the basic and per student entitlements were given, along with additional one-time-only funds for deferred capitalization and maintenance. Additionally, the legislature approved funding for full-time kindergarten and one-time-only funds to help school districts implement full day kindergarten, so the District was able to avoid staffing and program cuts because of these increases. Unfortunately, the increases are tied to specific programs and are only funded in the first year of the biennium, but the District was able to provide the same educational opportunities with an essentially flat budget level for the 2008-09 school year because of the measures outlined previously in this analysis and should be able to do the same for the 2009-10 school year.

School districts across the state are once again considering going to court over the school funding issue. The Governor and legislature state they have met the court decision and have provided schools with the necessary funding to provide an equal and quality education. Schools on the other hand, though thankful for the increases given over the past few years, argue that the legislature has never determined the cost of providing an equal and quality education and once determined, provided schools with the sustainable and renewable revenue resources to fund education at that level.

The Choteau School District did not join the Montana Quality Education Coalition to go to court over the school funding issue this time, but the case did go before Judge Sherlock. Judge Sherlock ruled that the state has made strides in adequately funding education with the inflationary increases to the basic and per student entitlements and with the addition of the Quality Educator and At Risk Student components to the funding formula; but Judge Sherlock stressed that the state needs to continue to move forward, not backward, and continue to look at the inequities within the school funding formula as it remains flawed due to its reliance on enrollment. It took a special session at the close of the 2009 legislative year to determine school funding for the biennium. Despite the court findings as outlined above, the legislature cut the At Risk Student funding component for the 2009-10 and 2010-11 school years and would have cut the 3% inflationary basic and per student entitlements to 2% for the first year and 1% for the second year of the biennium by using President Obama's ARRA or federal stimulus dollars to back fill to the 3% level. This was done even though a 3% increase to the basic and per student entitlements would have only meant an increase of 1.6% for state education funding due to the state wide decline in enrollment. To make matters worse, the legislature would not make whole to this 3% increase each year of the biennium when the 2011 legislature convenes to determine the inflationary increases for the next biennium, so Districts across the state will be starting the 2011 education funding battle 4% in the hole!

The District kept the 2009-10 budget levels at the 2008-09 level by placing a \$25,000 voted levy on the ballot to retain budget authority. The District took this approach rather than reducing the budget levels, so that the administration would have a year to effectively and efficiently plan for future staff and program cuts that are anticipated due to the continued economic downturn and the enrollment declining faster than previously projected. The administration is hopeful that any staff and program cuts can be made through natural attrition, but this may prove to be difficult. The high school still has the larger class sizes so staffing levels really need to stay the same, where as the elementary class sizes will soon dictate scaling back to 1 teacher per grade rather than our current level of 2. Unfortunately, there are more high school rather than elementary staff who are eligible and looking at retiring.

Three year averaging was not used for the high school ANB this budget period as the largest class in the District went from the elementary to the high school. This class was at 44 in 2009-10 and is now at 50 for 2010-11 and continues to grow. These class numbers calculated to an increase of 9 ANB for the high school, to help offset the decrease of 14 ANB in the elementary, for a net decrease of 6 ANB. This net decrease resulted in a \$34,000 drop in budget levels, and as previously stated, used the savings from retirements to cover additional increased costs in salaries. The District has avoided staff and program cuts to date through additional budget authority by a vote or an increase in ANB and savings through natural attrition. The T-I and IDEA-B ARRA stimulus funds were not available for the 2011-2012 budget year and the expenditures covered by these funds in the past have been decreased if possible and are now being covered by the General Fund, the SRS funds, and possibly the OTO SB 329 transfer in the future. The administration will still have to determine how to cover necessary increases in costs and how best to make cuts knowing that the District will see a major drop in enrollment when the one large class graduates.

For the 2012-2013 budget year, the elementary used the three year average and the high school used the current year ANB for funding purposes as the one large class of 50 in the District is counted in the high school enrollment, which meant an increase of 2 in the high school and a decrease by 9 in the elementary enrollment, for a net decrease of 7 ANB. This net decrease in ANB resulted in a net decrease of \$39,000 in budget levels for 2012-13. This decrease used the savings from retirements and the re-hiring staff at lower salaries to cover additional increased costs in salaries. Many of the same issues that the district faced last year are the same ones that we face again this year. The administration will have to look at declining enrollment and how to cover the necessary increases in costs that best suit the district.

For the 2013-2014 budget year, both the elementary and high school districts used the three year averaging for funding purposes as the one large class of 50 in the District is counted in the high school enrollment. This meant a decrease of 3 in the high school and a decrease by 7 in the elementary enrollment, for a net decrease of 10 ANB. This net decrease in ANB resulted in a net decrease of approximately \$60,000 in budget levels for 2013-14. This decrease used the savings from retirements and the re-hiring staff at lower salaries to cover additional increased costs in salaries. Also this was a legislative year that saw a very important school funding bill SB175 that had increases built into the base amounts to fund our budgets and this also covered the shortfall of ANB. The district ran, for the first time, a technology levy for a 10 year span to fund the ever continuing changes involving technology. The board felt this was an important levy as most everything that students face in the future will revolve around technology. We need to keep our students appropriately prepared, and the best way the board thought was for it to start in school so that what students learn, they can take with them when they leave our district. The community showed their support as they passed both levies. Many of the same issues that the district faced last year are the same ones that we faced again this year. The administration will have to look at declining enrollment and how to cover the necessary increases in costs that best suit the district.

#### **CONTACT FOR ADDITIONAL INFORMATION**

Contact either Choteau Superintendent of Schools Jim Baldwin or Choteau Business Manager Patty Mellinger at 204 7<sup>th</sup> Ave. NW, Choteau, Montana 59422 or by phone at 406-466-5303 if you have any questions or need additional information about this report.

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

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Choteau School District No. 1  
Teton County  
Choteau, Montana 59422

**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 Choteau School District No. 1 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

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

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Choteau School District No. 1 as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3 - 15) and the schedule of funding for other post-employment benefits other than pensions (pages 34) and budgetary comparison information (pages 35 - 38) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Choteau School District No. 1's basic financial statements. The accompanying schedule of revenues, expenses and balances student activity funds (page 39 - 40) and schedule of reported enrollment (page 41) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2015 on our consideration of Choteau School District No. 1 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 Choteau School District No. 1 internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC  
Billings, Montana  
June 5, 2015

STATEMENT OF NET POSITION  
as of June 30, 2014

	<u>Governmental</u> <u>Activities</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 1,622,905
Taxes Receivable	90,411
Due From Other Governments	283
Other Current Assets	<u>10</u>
Total Current Assets	<u>1,713,609</u>
Noncurrent Assets:	
Capital Assets:	
Land	19,503
Net Depreciable Assets	<u>2,838,742</u>
Total Noncurrent Assets	<u>2,858,245</u>
Total Assets	<u>\$ 4,571,854</u>
LIABILITIES:	
Current Liabilities	
Unearned Grants	\$ 18,873
Current Portions Compensated Absences	<u>9,542</u>
Total Current Liabilities	<u>28,415</u>
Noncurrent Liabilities:	
Long-Term Obligations	239,862
Compensated Absences	155,318
Long-Term Capital Obligations	<u>130,000</u>
Total Noncurrent Liabilities	<u>525,180</u>
Total Liabilities	<u>553,595</u>
NET POSITION:	
Net investment in capital assets	2,728,245
Restricted	880,783
Unrestricted (Deficit)	<u>409,231</u>
Total Net Position	<u>4,018,259</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 4,571,854</u>

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

STATEMENT OF ACTIVITIES  
For the Year Ending June 30, 2014

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
	Expenses	Charge for Services	Operating Grants and Contributions	Primary Government Governmental Activities
<b>GOVERNMENT OPERATIONS</b>				
Instructional Services	\$ 2,421,092	\$ 7,250	\$ 255,126	\$ (2,158,716)
Support Services	275,707	-	266,436	(9,271)
Educational Media Services	14,216	-	3,939	(10,277)
General Administrative Services	591,678	-	-	(591,678)
Operation & Maintenance Services	455,301	584	-	(454,717)
Transportation Services	254,853	-	91,095	(163,758)
School Food Services	168,239	58,077	76,935	(33,227)
Extracurricular	193,402	-	-	(193,402)
Debt Service				
Interest and other charges	14,440	-	-	(14,440)
Unallocated Depreciation Expense *	160,026	-	-	(160,026)
<b>Total Governmental Activities</b>	<u>4,548,954</u>	<u>65,911</u>	<u>693,531</u>	<u>(3,789,512)</u>
<b>GENERAL REVENUES</b>				
District Levies				1,239,755
State Equalization				1,257,785
Other State Revenues				926,858
County				407,235
Federal				225
Interest				4,428
Other				91,700
Gain loss on Sale of Assets				-
<b>Total General Revenues</b>				<u>3,927,986</u>
<b>Change in Net Position</b>				138,474
<b>Net Position</b>				
Beginning of the Year				3,877,570
Prior Period Adjustments				2,215
<b>End of the Year</b>				<u>\$ 4,018,259</u>

\* Excludes depreciation included in direct expenses of the various functions

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
as of June 30, 2014

	MAJOR		Other Governmental Funds	Total Governmental Funds
	General	Miscellaneous Programs (HS)		
<b>ASSETS:</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 771,341	\$ 37,107	\$ 814,457	\$ 1,622,905
Taxes Receivable	66,944	-	23,467	90,411
Receivable From Other Funds	-	-	10	10
Due From Other Governments	-	-	283	283
Other Current Assets	10	-	-	10
<b>Total Assets</b>	<b>\$ 838,295</b>	<b>\$ 37,107</b>	<b>\$ 838,217</b>	<b>\$ 1,713,619</b>
<b>LIABILITIES:</b>				
Current Liabilities				
Unearned Grants	-	18,873	-	18,873
Payable to Other Funds	10	-	-	10
<b>Total Liabilities</b>	<b>10</b>	<b>18,873</b>	<b>-</b>	<b>18,883</b>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Property Taxes Receivable	66,944	-	23,467	90,411
<b>Total Deferred Inflows of resources</b>	<b>66,944</b>	<b>-</b>	<b>23,467</b>	<b>90,411</b>
FUND BALANCE:				
Fund Balances:				
Restricted	-	18,234	814,750	832,984
Assigned	10,754	-	-	10,754
Unassigned:	760,587	-	-	760,587
<b>Total Fund Balance</b>	<b>771,341</b>	<b>18,234</b>	<b>814,750</b>	<b>1,604,325</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 838,295</b>	<b>\$ 37,107</b>	<b>\$ 838,217</b>	<b>\$ 1,713,619</b>

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 1,604,325
Governmental Capital Assets	2,858,245
Long-term Liabilities	
Long-Term Obligations	(239,862)
Compensated Absences	(164,860)
Long-Term Capital Obligations	(130,000)
Unavailable Property Taxes Receivable	90,411
<b>Net Position of Governmental Activities</b>	<b>\$ 4,018,259</b>

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

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

	MAJOR		Other Governmental Funds	Total Governmental Funds
	General	Miscellaneous Programs (HS)		
<b>REVENUES:</b>				
District Levies	\$ 888,065	\$ -	\$ 342,286	\$ 1,230,351
Interest	2,660	-	1,767	4,427
Charges for Services	-	-	65,327	65,327
Other	31,062	31,368	29,854	92,284
County	-	-	454,918	454,918
State	2,187,224	6,192	387,900	2,581,316
Federal	-	23,119	226,282	249,401
<b>Total Revenues</b>	<b>3,109,011</b>	<b>60,679</b>	<b>1,508,334</b>	<b>4,678,024</b>
<b>EXPENDITURES:</b>				
<b>Current</b>				
Instructional Services	1,805,375	56,639	483,254	2,345,268
Support Services	5,525	3,746	266,436	275,707
Educational Media Services	14,023	-	193	14,216
General Administrative Services	482,186	-	89,997	572,183
Operation & Maintenance Services	441,825	-	18,449	460,274
Transportation Services	44,364	-	212,510	256,874
School Food Services	17,890	-	146,656	164,546
Extracurricular	181,756	-	11,646	193,402
<b>Total Current Outlays</b>	<b>2,992,944</b>	<b>60,385</b>	<b>1,229,141</b>	<b>4,282,470</b>
<b>Debt Service</b>				
Principal	-	-	120,000	120,000
Interest and other charges	-	-	14,440	14,440
Capital Outlay	40,163	-	26,863	67,026
<b>Total Expenditures</b>	<b>3,033,107</b>	<b>60,385</b>	<b>1,390,444</b>	<b>4,483,936</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	<u>75,904</u>	<u>294</u>	<u>117,890</u>	<u>194,088</u>
<b>OTHER FINANCING SOURCES/USES</b>				
Fund Transfers In	-	-	12,921	12,921
Fund Transfers (Out)	(12,921)	-	-	(12,921)
<b>Total Other financial Sources/Uses</b>	<u>(12,921)</u>	<u>-</u>	<u>12,921</u>	<u>-</u>
<b>NET CHANGES IN FUND BALANCES</b>				
	62,983	294	130,811	194,088
<b>FUND BALANCE:</b>				
Beginning of the Year	529,059	17,940	861,023	1,408,022
Prior Period Adjustments	179,299	-	(177,084)	2,215
<b>End of the Year</b>	<b>\$ 771,341</b>	<b>\$ 18,234</b>	<b>\$ 814,750</b>	<b>\$ 1,604,325</b>

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

Choteau School District  
Teton County  
Choteau, Montana 59422

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ending June 30, 2014

Net Changes in Fund Balance		\$	194,088
Revenues on the Statement of Activity not included in governmental funds statement:			
Increase (decrease) in taxes receivable			9,404
Expenses on the Statement of Activity not included in the governmental funds statement:			
Depreciation Expense	(160,026)		
(Increase) decrease in Other Post Employment Benefits	(59,082)		
(Increase) decrease in compensated absence liability	<u>(32,936)</u>	(252,044)	
Expenditures reported in the governmental funds statement not included in the Statement of Activity			
Capital outlays	67,026		
Principal payments on bonds	<u>120,000</u>	<u>187,026</u>	
Change in net position reported on the Statement of Activity		\$	<u>138,474</u>

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

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

	Private Purpose	
	Trust Funds	Agency Funds
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	\$ 137,607	\$ 357,030
Total Assets	137,607	357,030
LIABILITIES:		
Current Liabilities		
Warrants Payable		348,149
Other Current Liabilities	-	8,881
Total Liabilities	-	357,030
NET POSITION:		
Restricted for Endowment	13,436	
Restricted for Student Activities	124,171	
Total Net Position	\$ 137,607	

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

	Private Purpose
	Trust Funds
ADDITIONS:	
Revenues from Student Activities	\$ 217,735
Contributions to Endowment	40
Total Additions	217,775
DEDUCTIONS:	
Expenses of Student Activities	208,705
Student Scholarships	-
Total Deductions	208,705
CHANGE IN NET POSITION	9,070
NET POSITION:	
Beginning of the Year	128,537
End of the Year	\$ 137,607

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

CHOTEAU SCHOOL DISTRICT NO. 1

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of Choteau School District No. 1 (School District) have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana, which conforms to generally accepted accounting principles (GAAP). The School District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

During fiscal year 2014 the School District adopted the following

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

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

- GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. This statement revises and establishes new financial reporting requirement that provide employees with pension benefits. The statement is effective for fiscal year 2015. This statement will require the School District to expand its pension foot note disclosures. The School District plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.
- GASB Statement No. 69 – Government Combinations and Disposals of Government Operations. The statement is applicable for fiscal year 2014. The statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The School District is not merging with another School District or ceasing to exist. This statement has no effect on the financial statements.
- GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. This statement amends paragraph 137 of statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The School District plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.

The School District consists of two legally separate entities, an elementary district which provides education for kindergarten through eighth grade and a high school district which provides education for ninth through twelfth grade. For financial reporting purposes the two School Districts are combined because they are controlled by the same central board of trustees and managed by the same administration. The board of trustees is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. GAAP requires only one general fund for each reporting entity so the elementary and high school general funds are combined in the accompanying financial statements.

The criteria for including organizations as component units within the School District's reporting entity is set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) "Codification of Government Accounting and Financial Reporting Standards." The basic criteria include appointing a voting majority of an organization's governing body, as well as the School District's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the School District. Based on those criteria this School District has no component units.

1. b. BASIS OF PRESENTATION AND ACCOUNTING

1. b. 1 GOVERNMENT-WIDE STATEMENTS

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

CHOTEAU SCHOOL DISTRICT NO. 1

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

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

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

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

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

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

1. b. 2 FUND ACCOUNTING

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

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

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

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

GASB Statement No. 34 requires the general fund be reported as a major fund and that only one general fund be reported so the elementary and high school general funds have been combined as one major fund. Other individual governmental funds should be reported in separate columns as major funds based on these criteria:

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

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

The School District reports the following major governmental funds:

CHOTEAU SCHOOL DISTRICT NO. 1

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

- General Fund – The General Fund is the general operating fund of the School District and accounts for all revenues and expenditures of the School District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. On the GASB 34 financial statements the general fund also includes the activities of the flexibility fund since the restrictions on those funds are similar to the general fund.
- High School Miscellaneous Fund – This fund is used to account for local, state or federal grants and reimbursements. Donations that allow the expenditure of both principal and interest for support of School District programs are deposited in this fund.

1. b. 3 OTHER FUND TYPES

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

Agency Funds – Account for assets that the School District holds on behalf of others as their agent in the payroll and claims clearing funds and employee payroll tax withholdings. Cash is held for warrants which were written but have not been paid by the County Treasurer.

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

1. c. 1 CASH AND INVESTMENTS

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

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

1. c. 2 TAXES

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

1. c. 3 INVENTORIES

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

1. c. 4 CAPITAL ASSETS

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

CHOTEAU SCHOOL DISTRICT NO. 1

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

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings	7 – 50 years
Improvements other than buildings	20 years
Machinery and Equipment	8 – 15 years

1.c. 5 DEFERRED INFLOWS OF RESOURCES

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

1.c. 6 VACATION AND SICK LEAVE

Classified School District employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. Classified School District employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave at the current rate of pay. Classified School District employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of unused sick leave. However, upon termination, only 25% of accumulated sick leave is paid at the current rate of pay. Certified School District employees shall accrue 10 days of sick leave each year. Unused sick leave will be accruable without limit. Upon termination, a certified employee with five years of service with the School District will receive 25% of accumulated sick leave to a maximum of 75 days all paid at the employee's current salary.

Liabilities incurred because of unused vacation and sick leave accumulated by employees are reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the statement of activities. The amount expected to be paid within one year is \$9,542 and it is generally paid out of the general fund.

1.c. 7 NET POSITION AND FUND BALANCE

Statement of Net Position include the following:

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

Governmental fund financial statements include the following fund balances:

- Restricted - Includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Assigned – the executing a purchase order for a specific purpose such as an encumbrance.
- Unassigned - Amounts that are available for any purpose; these amounts are reported only in the general fund.

As of June 30, 2014, fund balance components other than unassigned fund balance consist of the following:

<u>Purpose</u>	<u>Restricted</u>	<u>Assigned</u>
Instructional - Regular	\$ 41,557	\$ 4,636
Operations and Maintenance	0	2,452
Student Transportation	213,903	269
Extracurricular	0	3,397
School Food	13,704	0
Third Party Grantor Restrictions	116,605	0
Employer Retirement Benefits	181,951	0
Future Technology	30,130	0
Future Capital Costs	182,342	0
Debt Service	52,792	0
Total	<u>\$ 832,984</u>	<u>\$ 10,754</u>

CHOTEAU SCHOOL DISTRICT NO. 1

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

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

1. d. OTHER

1. d. 1 USE OF ESTIMATES

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

1.d. 2 County Provided Services

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

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

<u>Account Type</u>	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 1,622,905	\$ 494,637	\$ 2,117,542

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

	<u>Amount</u>
Cash on Hand	\$ 190
Demand Accounts	93,355
Time Deposits	26,016
County Investment Pool	1,993,181
STIP	4,800
Total	\$ 2,117,542

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

The cash of the extracurricular funds is held separately by the School District, not at the Teton County. As of June 30, 2014, \$124,171 was exposed to custodial credit risk and was covered by FDIC insurance.

NOTE 3. TAXES RECEIVABLE

The assessed value of the roll as of January 1, 2013, upon which the levy for the 2014 fiscal year was based, was \$5,205,679 for the Elementary School District and \$6,512,940 for the High School District. The tax rates assessed for the year ended June 30, 2014 to finance School District operations and applicable taxes receivable for the elementary and high School Districts follows:

CHOTEAU SCHOOL DISTRICT NO. 1

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

Elementary Fund	Mill Levies	Taxes
		Receivable
General*	106.26	\$ 42,612
Transportation	13.34	5,140
Debt Service	10.40	3,766
Building Reserve	6.92	2,715
<u>High School Fund</u>		
General*	55.07	24,332
Transportation	10.59	4,242
Bus Depreciation	6.19	2,158
Tuition	0.00	15
Debt Service	7.11	3,121
Building Reserve	5.53	2,310
Total	<u>221.41</u>	<u>\$ 90,411</u>

\* Denotes Major Funds

NOTE 4. DUE FROM OTHER GOVERNMENTS

Elementary Fund	Amount	Due From	Reason
Miscellaneous	\$ <u>283</u>	State of MT	Gifted & Talented grant

\* Denotes Major Funds

NOTE 5. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

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

Governmental Activities:	Balance	Additions	Deletions	Balance
	July 1, 2013			June 30, 2014
<u>Non-depreciable:</u>				
Land	\$ 19,503	\$ 0	\$ 0	\$ 19,503
Construction In Progress	14,170	0	14,170	0
Total Non-depreciable	<u>\$ 33,673</u>	<u>\$ 0</u>	<u>\$ 14,170</u>	<u>\$ 19,503</u>
<u>Depreciable:</u>				
Land Improvements	\$ 178,951	\$ 0	\$ 0	\$ 178,951
Buildings	5,007,434	52,896	0	5,060,330
Major Equipment	467,863	28,300	23,699	472,464
Total Depreciable	<u>\$ 5,654,248</u>	<u>\$ 81,196</u>	<u>\$ 23,699</u>	<u>\$ 5,711,745</u>
<u>Accumulated Depreciation:</u>				
Land Improvements	\$ (88,497)	\$ (8,948)	\$ 0	\$ (97,445)
Buildings	(2,334,532)	(121,641)	0	(2,456,173)
Major Equipment	(313,647)	(29,437)	(23,699)	(319,385)
Total Depreciation	<u>\$ (2,736,676)</u>	<u>\$ (160,026)</u>	<u>\$ (23,699)</u>	<u>\$ (2,873,003)</u>
Net Depreciable Assets	<u>2,917,572</u>	<u>(78,830)</u>	<u>0</u>	<u>2,838,742</u>
Net Governmental Capital As- sets	<u>\$ 2,951,245</u>	<u>\$ (78,830)</u>	<u>\$ 14,170</u>	<u>\$ 2,858,245</u>

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

Function	Amount
Instructional	\$ 6,281
School Administration	843
Operation & Maintenance	3,631
Transportation	11,947
School Food	12,802
Extracurricular	719
Unallocated	123,803
Total Depreciation Expense	<u>\$ 160,026</u>

CHOTEAU SCHOOL DISTRICT NO. 1

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

NOTE 6. CURRENT LIABILITIES

6. a. UNEARNED GRANTS

<u>High School Fund</u>	<u>Amount</u>	<u>Reason</u>
Miscellaneous*	16,498	Scoreboard Sponsorships
Miscellaneous*	<u>2,375</u>	MSELC Tuition - MT Digital Academy
Total	<u>\$ 18,873</u>	

\* Denotes Major Funds

NOTE 7. CHANGES IN LONG-TERM DEBT

7. a. At June 30, 2014, the schedule of changes in general Long-Term debt follows:

<u>Governmental Activities</u>	<u>Balance</u>	<u>New Debt</u>	<u>Principal</u>	<u>Balance</u>	<u>Due within</u>
	<u>July 1, 2013</u>	<u>and Other</u>	<u>Payments</u>	<u>June 30, 2014</u>	<u>One Year</u>
		<u>Additions</u>	<u>and Other</u>		
			<u>Reductions</u>		
<u>Bonds and Notes Payable:</u>					
General Obligation Bonds	\$ 250,000	\$ 0	\$ 120,000	\$ 130,000	\$ 0
<u>Other Liabilities:</u>					
Compensated Absences	\$ 131,924	\$ 32,936	\$ 0	\$ 164,860	\$ 9,542
Other Post-Employment Benefits (OPEB)	<u>180,780</u>	<u>59,082</u>	<u>0</u>	<u>239,862</u>	<u>0</u>
Total Other Liabilities	<u>\$ 312,704</u>	<u>\$ 92,018</u>	<u>\$ 0</u>	<u>\$ 404,722</u>	<u>\$ 9,542</u>
Total Governmental Activities - Long-Term Debt:	<u>\$ 562,704</u>	<u>\$ 92,018</u>	<u>\$ 120,000</u>	<u>\$ 534,722</u>	<u>\$ 9,542</u>

7. b. GENERAL OBLIGATION BONDS

The School District issued general obligation bonds in prior years for the acquisition and construction of capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. These bonds were issued for the terms and payment schedules indicated in the following schedule:

<u>Description</u>	<u>Issue Date</u>	<u>Interest</u>	<u>Length of</u>	<u>Maturity</u>	<u>Amount</u>	<u>Outstanding</u>
		<u>Rate</u>	<u>Loan</u>	<u>Date</u>	<u>Issued</u>	<u>June 30,</u>
						<u>2014</u>
Elementary GO Bonds	6/95	5.1-7.5%	20 years	7/15	\$ 675,000	\$ 65,000
High School GO Bonds	6/95	5.1-7.5%	20 years	7/15	<u>675,000</u>	<u>65,000</u>
					<u>\$ 1,350,000</u>	<u>\$ 130,000</u>

Debt service requirements to maturity for principal and interest for all bonded long term obligations are as follows:

<u>For the year</u>	<u>Elementary</u>		<u>High School</u>	
<u>ended 6/30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Principal</u>
2015	\$ 0	\$ 1,820	\$ 0	\$ 1,820
2016	<u>65,000</u>	<u>1,820</u>	<u>65,000</u>	<u>1,820</u>
Totals	<u>\$ 65,000</u>	<u>\$ 3,640</u>	<u>\$ 65,000</u>	<u>\$ 3,640</u>

NOTE 8. TRANSFERS

<u>Elementary Fund - From</u>	<u>Amount</u>	<u>Elementary Fund - To</u>
General*	\$ 7,051	EL - Compensated Absences - Allowable transfer
<u>High School Fund - From</u>		<u>High School Fund - To</u>
General*	<u>5,870</u>	HS - Compensated Absences - Allowable transfer
Total	<u>\$ 12,921</u>	

\* Denotes Major Funds

CHOTEAU SCHOOL DISTRICT NO. 1

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

NOTE 9. DEFERRED INFLOWS OF RESOURCES

9. a. PROPERTY TAXES

<u>Elementary Fund</u>	<u>Amount</u>	<u>Reason</u>
General*	\$ 42,612	Taxes Receivable
Transportation	5,140	Taxes Receivable
Debt Service	3,766	Taxes Receivable
Building Reserve	2,715	Taxes Receivable
<u>High School Fund</u>		
General*	24,332	Taxes Receivable
Transportation	4,242	Taxes Receivable
Bus Depreciation	2,158	Taxes Receivable
Tuition	15	Taxes Receivable
Debt Service	3,121	Taxes Receivable
Building Reserve	2,310	Taxes Receivable
Total	<u>\$ 90,411</u>	

\* Denotes Major Funds

NOTE 10. PRIOR PERIOD ADJUSTMENTS

<u>Elementary Fund</u>	<u>Amount</u>	<u>REASON</u>
General*	\$ 70,809	To include the flexibility fund in the general fund
Flexibility*	(70,809)	To include the flexibility fund in the general fund
<u>High School Fund</u>		
General*	108,490	To include the flexibility fund in the general fund
Flexibility*	(108,490)	To include the flexibility fund in the general fund
Retirement	2,215	Prior Year County payment
Total	<u>\$ 2,215</u>	

\* Denotes Major Funds

NOTE 11. OTHER POST EMPLOYMENT BENEFITS

Plan Description - The School District provides the same health care plan to all of its members. The implicit subsidy is \$4,646 per member and \$9,325 per member and spouse. The School District had fewer than 100 plan participants and thus qualified to use an Alternative Measurement Method instead of an actuarial valuation to determine the OPEB liability. Valuations involve estimates of the reported amounts and assumptions about the probability of events far into the future and estimated amounts are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for the plan are based on types of benefits provided under the current plan. The valuation assumed that 10% of plan participants would elect to continue coverage after retirement.

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

Funding status and progress as of June 30, 2014 was as follows:

Actuarial Accrued Liability (AAL)	\$ 649,689
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>649,689</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 2,257,736
UAAL as a percentage of covered payroll	29%

Annual OPEB Cost and Net OPEB Obligations - The government's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the government's net OPEB obligation for the valuation performed at July 1, 2014.

CHOTEAU SCHOOL DISTRICT NO. 1

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

Annual Required Contribution (ARC)	\$ 59,082
Interest on net OPEB obligation	0
Adjustment to ARC	<u>0</u>
Annual OPEB cost (expense)	59,082
Contribution made	<u>0</u>
Increase in net OPEB obligation	59,082
Net OPEB obligation - beginning of year	<u>180,780</u>
Net OPEB obligation - end of year	<u>\$ 239,862</u>

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

Actuarial Cost Method		Unit Credit Cost Method
Average age of retirement (based on historical data)		67
Discount rate (average anticipated rate)		4.0%
Average Salary Increase		1.0%
Health care cost rate trend		
Year	% Increase	
2015 and after	3.0%	

NOTE 12. OTHER COMMITMENTS

12. a. 1 ENCUMBRANCES

The School District's encumbrance policy is for fiscal year end encumbrances exceeding \$1,000 to be considered significant encumbrances. All encumbrances are classified as assigned or restricted in the funds noted below:

Elementary Fund	Amount
General*	\$ 3,051
School Lunch	42
Miscellaneous	9,727
High School Fund	
General*	7,703
Drivers Education	<u>322</u>
Total	<u>\$ 20,845</u>

\* Denotes Major Funds

NOTE 13. RISK MANAGEMENT

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

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

NOTE 14. EMPLOYEE RETIREMENT SYSTEM

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

CHOTEAU SCHOOL DISTRICT NO. 1

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

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

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

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

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

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>
TRS	\$ 324,318	\$ 323,951	\$ 330,382
PERS	<u>47,210</u>	<u>44,043</u>	<u>48,399</u>
Total	<u>\$ 371,528</u>	<u>\$ 367,994</u>	<u>\$ 378,781</u>

NOTE 15. COOPERATIVE

15. a. SPECIAL EDUCATION

The Choteau School District No. 1 is a member of the Big Sky Special Needs Cooperative, a Special Education Cooperative. The financial records of the Cooperative are prepared and maintained by the Cooperative Clerk. The financial records of the Cooperative are separate from those of Choteau School District No. 1, and the financial statements of the Cooperative are not included in the School Districts' financial statements. The Cooperative's financial statements are audited separately from those of the School District. All revenue received, including Federal, State, or other types of grant payments, and the financial support provided by each of the Cooperative's members are deposited into the Cooperative's funds, which are maintained in the custody of the Pondera County Treasurer. The Superintendent of Public Instruction may directly deposit to the Cooperative the State and Federal portion of any participating member School District's budgeted costs for contracted special education services. All capital assets of the Cooperative are included in the Cooperative's financial statements.

A Joint Board of Directors governs the Cooperative. The Joint Board has the power to set policies, enter into contracts, review the performance of the Cooperative annually, review the financial management of the Cooperative annually, and set and approve the annual fiscal budget of the Cooperative.

NOTE 16. TRANSPORTATION

The School District entered into an operating lease with Teton Bus service for its student transportation needs. Teton provides buses, drivers, and maintenance of the buses for all student transportation needs of the School District. The contract is renewed annually with adjustments for fuel and mileage. Transportation fees paid in fiscal year 2014 were \$206,424.

CHOTEAU SCHOOL DISTRICT NO. 1

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll [(b-a) / c]</u>
<u>7/1/2012</u>	<u>0</u>	<u>649,689</u>	<u>649,689</u>	<u>0</u>	<u>2,257,736</u>	<u>29%</u>

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

	General (Elem)			General (HS)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>REVENUES:</b>						
District Levies	\$ 553,131	\$ 553,131	\$ 538,890	\$ 358,679	\$ 358,679	\$ 349,175
Interest	4,296	4,296	1,159	3,316	3,316	951
Other	-	-	1,272	-	-	750
State	1,119,148	1,119,148	1,119,148	1,027,112	1,027,112	1,044,861
<b>Total Revenues</b>	<b>1,676,575</b>	<b>1,676,575</b>	<b>1,660,469</b>	<b>1,389,107</b>	<b>1,389,107</b>	<b>1,395,737</b>
<b>EXPENDITURES:</b>						
<b>Current</b>						
Instructional Services			\$ 1,059,369			\$ 749,145
Support Services			1,205			4,320
Educational Media Services			9,279			4,744
General Administrative Services			249,532			232,393
Operation & Maintenance Services			233,334			208,491
Transportation Services			4,352			40,012
School Food Services			17,890			-
Extracurricular			51,802			129,278
Capital Outlay			-			29,763
<b>Total Expenditures</b>	<b>1,676,575</b>	<b>1,676,575</b>	<b>1,626,763</b>	<b>1,398,145</b>	<b>1,398,145</b>	<b>1,398,146</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>33,706</b>	<b>(9,038)</b>	<b>(9,038)</b>	<b>(2,409)</b>
<b>OTHER FINANCING SOURCES/USES</b>						
Sale of Capital Assets			-			-
Fund Transfers (Out)			(7,051)			(5,870)
<b>Total Other financial Sources/Uses</b>	<b>-</b>	<b>-</b>	<b>(7,051)</b>	<b>-</b>	<b>-</b>	<b>(5,870)</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>-</b>	<b>-</b>	<b>26,655</b>	<b>(9,038)</b>	<b>(9,038)</b>	<b>(8,279)</b>
<b>FUND BALANCE:</b>						
Beginning of the Year			286,736			234,708
End of the Year			<u>\$ 313,391</u>			<u>\$ 226,429</u>

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

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

	Flexibility Fund (Elem.)			Flexibility Fund (HS)		
	Original	Final	Actual	Original	Final	Actual
	Budget	Budget		Budget	Budget	
<b>REVENUES:</b>						
District Levies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	-	-	209	-	-	341
Other	-	-	16,976	-	-	12,064
State	1,976	1,976	1,977	4,016	4,016	21,238
<b>Total Revenues</b>	<b>1,976</b>	<b>1,976</b>	<b>19,162</b>	<b>4,016</b>	<b>4,016</b>	<b>33,643</b>
<b>EXPENDITURES:</b>						
<b>Current</b>						
Instructional Services			\$ -			\$ -
Support Services			-			-
Educational Media Services			-			-
General Administrative Services			-			261
Operation & Maintenance Services			-			-
Transportation Services			-			-
School Food Services			-			-
Extracurricular			-			676
Capital Outlay			10,400			-
<b>Total Expenditures</b>	<b>72,785</b>	<b>72,785</b>	<b>10,400</b>	<b>112,506</b>	<b>112,506</b>	<b>937</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(70,809)</b>	<b>(70,809)</b>	<b>8,762</b>	<b>(108,490)</b>	<b>(108,490)</b>	<b>32,706</b>
<b>OTHER FINANCING SOURCES/USES</b>						
Sale of Capital Assets			-			-
Fund Transfers (Out)			-			-
<b>Total Other financial Sources/Uses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>(70,809)</b>	<b>(70,809)</b>	<b>8,762</b>	<b>(108,490)</b>	<b>(108,490)</b>	<b>32,706</b>
<b>FUND BALANCE:</b>						
Beginning of the Year			70,809			108,490
End of the Year			<u>\$ 79,571</u>			<u>\$ 141,196</u>

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

CHOTEAU SCHOOL DISTRICT NO. 1

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

NOTE 1. BUDGETS

1. a. BUDGETS

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

1. a. 1 General Budget Policies:

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

1. a. 2 Budget Operation:

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

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

NOTE 2. FUND BALANCE RECONCILIATION

The fund balances of the general fund displayed on the Statement of Revenue, Expenditures, and Changes in Fund Balances is differently displayed on the Schedule of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual) by \$10,754. This is due to the reserve for encumbrances. Encumbrances are not included as expenditures on the first statement as they do not meet the GAAP definition of expenditures. The District reports encumbrances at year end as budgeted expenditures and displays these amounts as assigned or reserve of fund balances, as applicable.

NOTE 3. BUDGET AMENDMENT

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

NOTE 4. EXCESS EXPENDITURES OVER APPROPRIATIONS

<u>High School Fund</u>	<u>Amount</u>	<u>REASON</u>
General*	\$ 5,870	Validation error did not show & clerk missed transfer amount in budget calculation.

CHOTEAU SCHOOL DISTRICT NO. 1

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

NOTE 5. COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE ALL SUB-FUNDS OF THE GENERAL FUND

	<u>Sub-fund</u> <u>General</u> <u>Fund</u> <u>(EL)</u>	<u>Sub-fund</u> <u>General</u> <u>Fund</u> <u>(HS)</u>	<u>Sub-fund</u> <u>Flexibility</u> <u>Fund (EL)</u>	<u>Sub-fund</u> <u>Flexibility</u> <u>Fund (HS)</u>	<u>Total</u> <u>General</u> <u>Fund</u>
<b>REVENUES:</b>					
District Levies	\$ 538,890	\$ 349,175	\$ 0	\$ 0	\$ 888,065
Interest Earnings	1,159	951	209	341	2,660
Other	1,272	750	16,976	12,064	31,062
State Sources	<u>1,119,148</u>	<u>1,044,861</u>	<u>1,977</u>	<u>21,238</u>	<u>2,187,224</u>
Total Revenues	<u>\$ 1,660,469</u>	<u>\$ 1,395,737</u>	<u>\$ 19,162</u>	<u>\$ 33,643</u>	<u>\$ 3,109,011</u>
<b>EXPENDITURES:</b>					
Instructional Services	1,056,318	749,057	0	0	1,805,375
Support Services	1,205	4,320	0	0	5,525
Educational Media	9,279	4,744	0	0	14,023
General Administrative	249,532	232,393	0	261	482,186
Operation & Maintenance	233,334	208,491	0	0	441,825
Transportation	4,352	40,012	0	0	44,364
Extracurricular	51,802	129,278	0	676	181,756
School Food	17,890	0	0	0	17,890
Capital Outlay	<u>0</u>	<u>29,763</u>	<u>10,400</u>	<u>0</u>	<u>40,163</u>
Total Expenditures	<u>\$ 1,623,712</u>	<u>\$ 1,398,058</u>	<u>\$ 10,400</u>	<u>\$ 937</u>	<u>\$ 3,033,107</u>
<b>Excess (Deficiency) of Revenue</b>					
Over Expenditures	36,757	(2,321)	8,762	32,706	75,904
Fund Transfer (Out)	(7,051)	(5,870)	0	0	(12,921)
Net Changes In Fund Balance	29,706	(8,191)	8,762	32,706	62,983
<b>FUND BALANCE:</b>					
Beginning of the Year	286,736	242,323	0	0	529,059
Prior Period Adjustment	<u>0</u>	<u>0</u>	<u>70,809</u>	<u>108,490</u>	<u>179,299</u>
Ending of the Year	<u>316,442</u>	<u>234,132</u>	<u>79,571</u>	<u>141,196</u>	<u>771,341</u>

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

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

CHOTEAU SCHOOL DISTRICT NO. 1

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

Activity Account Name	Beginning Balance	Revenues	Expenses	Transfers	Ending Balance
<u>High School</u>	<u>7/1/2013</u>				<u>6/30/2014</u>
ANNUAL	5,455	3,951	4,929	2,088	6,565
ATHLETICS	5,028	74,449	70,800	6,717	15,394
BAND	17,259	2,647	3,951	535	16,490
CHEERLEADERS	2,337	2,254	3,651	2,143	3,083
SPEECH & DRAMA	1,288	122	313	527	1,624
DRAMA	9,221	922	707	268	9,704
FFA	2,432	10,233	10,525	657	2,797
FCCLA	3,238	3,468	5,015	-	1,691
INDUSTRIAL ARTS	4,458	3,841	6,836	-	1,463
FOODS CLUB	365	1,685	1,508	-	542
KEY CLUB	130	1,340	1,535	348	283
LETTER CLUB	420	1	-	(300)	121
MONT TEEN INSTITUTE	268	-	-	-	268
NAT'L HONOR SOCIETY	2,046	181	1,154	410	1,483
CONTINGENCY DONATION	2,355	1,368	1,358	-	2,365
REVOLVING I	29	5,357	-	(5,350)	36
REVOLVING II	7,716	15,241	14,154	(1,955)	6,848
HS STUDENT COUNCIL	2,306	3,585	3,385	115	2,621
FCCLA - Imagination Library	2,177	932	1,509	-	1,600
AGED	539	391	280	-	650
CLASS OF 2019	-	115	-	-	115
CLASS OF 2014	4,154	1,898	5,559	(249)	244
CLASS OF 2013	1,425	2	1,426	-	1
CLASS OF 2015	1,701	2,041	1,148	401	2,995
CLASS OF 2016	503	288	24	-	767
CLASS OF 2017	1,476	177	41	247	1,859
CLASS OF 2018	-	150	-	-	150
JR HI ST COUNCIL	2,036	2	1,184	564	1,418
FOOTBALL ALL STAR	84	-	-	-	84
JH PUBLISHING	535	1	-	-	536
AUDITORIUM	2,211	3	387	-	1,827
CONCESSIONS	976	22,509	13,742	(8,901)	842
JH FRIENDS OF RACHEL	181	-	-	-	181
CLOSE UP	360	13,704	15,677	1,735	122
SCIENCE CLUB	394	1	-	-	395
MULTI PURPOSE BLDG	183	114	-	-	297
CLASS PIC RENOVATION	263	-	-	-	263
<b>Total</b>	<b>\$ 85,549</b>	<b>\$ 172,973</b>	<b>\$ 170,798</b>	<b>\$ -</b>	<b>\$ 87,724</b>

CHOTEAU SCHOOL DISTRICT NO. 1

SCHEDULE OF REVENUES, EXPENSES AND BALANCES EXPENDABLE TRUST - STUDENT ACTIVITY FUNDS

(continued)

Fiscal Year-Ended June 30, 2014

Activity Account Name	Beginning Balance <u>7/1/2013</u>	Revenues	Expenses	Transfers	Ending Balance <u>6/30/2014</u>
<u>Elementary</u>					
BACK PACK BUDDIES	587	750	747	-	590
BOOK FAIR	4,763	5,638	4,925	-	5,476
BOX TOPS	4,021	603	527	-	4,097
ELEMENTARY TRACK	317	-	-	-	317
JR HIGH ATHLETICS	127	2,105	2,220	-	12
KINDER SNACKS	30	-	-	-	30
MUSIC	124	-	-	-	124
PIKE	4,406	4,394	4,991	-	3,809
REVOLVING I	74	1,035	1,015	-	94
STUDENT ACCOUNT-GEN	9,462	23,034	16,554	-	15,942
STUDENT COUNCIL	3,369	5,021	4,455	-	3,935
STUDENT MCT	1,999	2,077	2,180	-	1,896
FIRST GRADE	193	60	158	-	95
SOCIAL SKILLS	120	45	135	-	30
<b>Total</b>	<b>\$ 29,592</b>	<b>\$ 44,762</b>	<b>\$ 37,907</b>	<b>\$ -</b>	<b>\$ 36,447</b>

CHOTEAU SCHOOL DISTRICT NO. 1

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

FALL ENROLLMENT - OCTOBER, 2013

Elementary			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	20	20	0
Grade 1 - 6	141	141	0
Grade 7 - 8	<u>48</u>	<u>48</u>	<u>0</u>
Total	<u>209</u>	<u>209</u>	<u>0</u>
High School			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>138</u>	<u>138</u>	<u>0</u>
Part-time Students			
Less than 181 hours	0	0	0
Less than 359 hours	0	0	0
Less than 539 hours	0	0	0
Less than 719 hours	<u>0</u>	<u>0</u>	<u>0</u>
Total Part-time	<u>0</u>	<u>0</u>	<u>0</u>
19 year olds	<u>0</u>	<u>0</u>	<u>0</u>

WINTER ENROLLMENT - DECEMBER, 2013

Elementary			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	21	21	0
Grade 1 - 6	143	143	0
Grade 7 - 8	<u>48</u>	<u>48</u>	<u>0</u>
Total	<u>212</u>	<u>212</u>	<u>0</u>
High School			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>140</u>	<u>140</u>	<u>0</u>
Part-time Students			
Less than 181 hours	0	0	0
Less than 359 hours	0	0	0
Less than 539 hours	0	0	0
Less than 719 hours	<u>0</u>	<u>0</u>	<u>0</u>
Total Part-time	<u>0</u>	<u>0</u>	<u>0</u>
19 year olds	<u>0</u>	<u>0</u>	<u>0</u>

SPRING ENROLLMENT - FEBRUARY, 2014

Elementary			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	21	21	0
Grade 1 - 6	144	144	0
Grade 7 - 8	<u>47</u>	<u>47</u>	<u>0</u>
Total	<u>212</u>	<u>212</u>	<u>0</u>
High School			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>140</u>	<u>140</u>	<u>0</u>
Part-time Students			
Less than 181 hours	0	0	0
Less than 359 hours	0	0	0
Less than 539 hours	1	1	0
Less than 719 hours	<u>0</u>	<u>0</u>	<u>0</u>
Total Part-time	<u>0</u>	<u>0</u>	<u>0</u>
19 year olds	<u>0</u>	<u>0</u>	<u>0</u>

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

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Choteau School District No. 1  
Teton County  
Choteau, Montana 59422

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Choteau School District No. 1 as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Choteau School District No. 1's basic financial statements and have issued our report thereon dated June 5, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Choteau School District No. 1'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 over financial reporting 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Choteau School District No. 1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2014-001.

**Purpose of this Report**

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

*Strom & Associates, P.C.*

STROM & ASSOCIATES, PC  
Billings, Montana  
June 5, 2015

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

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SCHEDULE OF FINDINGS AND RESPONSES

There were no findings or recommendations in the prior audit report and the following is the status updated for the fiscal year ended June 30, 2014.

2014-001 BUDGETS:

Criteria: Per Montana Code 20-9-133 The School District is limited to making expenditures or incurring liabilities to the total amount of each fund's budget.

Condition: The School Districts High School General fund was over budget.

Effect: The effect was that the School District was not in compliance with Montana Code 20-9-133.

Context: Expenditures for the High School General Fund were overspent by \$5,870 due to a transfer being posted moving cash to the Compensated Absence fund.

Cause: When the Trustees Financial Summary was prepared there was no corrective validation alert created in the Trustees Financial system to alert the clerk to an overspent budget and the Clerk miscalculated the budget expenditures.

Recommendation: We recommend that the clerk do a final validation of comparing expenditures to the budget before submitting the final Trustees Financial Summary.