

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





CONRAD PUBLIC SCHOOLS

SCHOOL DISTRICT NO. 10

FINANCIAL REPORT

June 30, 2014



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SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
June 30, 2014

ORGANIZATION

BOARD OF TRUSTEES

Joe Russell Co-Chairperson
Carole Jones Co-Chairperson
Craig Broesder Trustee
Terri Peters Trustee
Becky Rammell Trustee

OFFICIALS

Craig Barringer District Superintendent
Lynn Utterback County Superintendent
Mary Ann Ries County Attorney
Afton Lamoreaux District Clerk

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
School District Number 10
Pondera County
Conrad, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District Number 10, Pondera County, Conrad, Montana (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion on Government-wide Financial Statements

Management has not implemented the provisions of GASB No. 45 regarding the measurement and disclosure of the annual cost of other post-employment benefits offered to employees as part of total compensation. Accounting principles generally accepted in the United States of America require a systematic, accrual-basis measurement and recognition of such cost over a period that approximates employees' years of service, and the provision of information about the actuarial accrued liabilities associated with such costs and whether and to what extent progress has been made in funding those costs. The amount by which this departure would affect the liabilities, net assets, and expenses of the statement of net position and statement of activities is not reasonably determinable.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Government-wide Financial Statements" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the government-wide financial statements of School District Number 10, Pondera County, Conrad, Montana, as of June 30, 2014, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of School District Number 10, Pondera County, Conrad, Montana, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 42 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplemental schedules on pages 46 through 48 are presented for the purposes of additional analysis as required by the Montana Office of Public Instruction and are not a required part of the basic financial statements. The other supplemental schedules listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Great Falls, Montana
January 16, 2015

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
MANAGEMENT DISCUSSION AND ANALYSIS (MD & A)
YEAR ENDED JUNE 30, 2014 (UNAUDITED)

The Superintendent and Business Manager/Clerk of School District Number 10, Pondera County, Conrad, Montana (the District), have provided this management discussion and analysis (MD&A) to give the reader of these statements an overview of the financial position and activities of the school district for the fiscal year ended June 30, 2014. Please read it along with the District's basic financial statements which begin on page 14.

USING THIS FINANCIAL REPORT

The general format of this report is required by Statement No. 34 of the Governmental Accounting Standards Boards (GASB). Components and purposes of the report are explained below. This MD&A is a comparison of fiscal year 2014 (2013-2014) and fiscal year 2013 (2012-2013).

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2014 are as follows:

- Budget history:

	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>
ELEMENTARY:										
Student Enrollment	399	414	411	392	400	383	389	378	384	380
General Fund	\$2,174,561	\$2,241,233	\$2,234,361	\$2,457,600	\$2,462,353	\$2,500,135	\$2,535,718	\$2,548,580	\$2,549,284	\$2,586,718
Transportation	133,000	133,000	140,000	143,000	150,000	160,000	165,000	170,000	170,000	175,000
Bus Depreciation	192,267	194,750	194,750	222,269	136,807	205,808	222,540	292,715	349,171	274,695
Tuition	7,783	8,003	8,138	8,534	8,894	9,200	9,300	9,380	9,423	43,518
Retirement	300,000	320,000	332,000	337,000	347,000	357,000	357,000	362,000	367,000	502,426
Technology	13,581	25,657	14,754	17,182	22,340	25,600	28,682	27,652	30,258	32,417
Flex	24,362	48,005	69,283	93,734	121,970	149,400	177,478	399,094	542,681	543,086
Building Reserve	354,386	388,000	384,521	295,582	307,403	232,440	232,455	233,398	215,753	104,478
Debt Service	11,000	13,000	13,000	12,000	162,970	169,390	166,290	165,615	166,315	163,680
Per Pupil Spending	\$ 5,450	\$ 5,414	\$ 5,436	\$ 6,269	\$ 6,156	\$ 6,528	\$ 6,519	\$ 6,742	\$ 6,639	\$ 6,807
HIGH SCHOOL:										
Student Enrollment	233	217	204	213	189	200	210	188	181	172
General Fund	\$1,587,378	\$1,617,395	\$1,664,486	\$1,685,089	\$1,696,662	\$1,698,408	\$1,714,178	\$1,728,325	\$1,728,330	\$1,743,125
Transportation	74,000	80,000	90,000	93,000	110,000	120,000	125,000	130,000	130,000	140,000
Bus Depreciation	303,998	320,457	330,637	373,537	206,962	243,700	248,524	308,000	362,988	220,540
Tuition	7,776	7,995	8,145	8,524	8,823	9,200	9,300	9,400	9,423	22,328
Retirement	200,000	220,000	225,000	230,000	240,000	250,000	255,000	260,000	260,000	349,904
Adult Education	14,000	14,000	14,000	14,000	14,000	9,000	14,000	16,000	25,000	25,000
Technology	9,752	18,633	29,475	32,436	36,196	39,100	41,753	41,005	9,467	36,973
Flex	26,868	48,701	70,520	92,886	118,887	144,400	169,926	342,854	456,169	404,885
Building Reserve	305,673	337,810	365,665	383,110	384,699	341,700	263,674	252,352	168,955	53,572
Debt Service	13,000	18,000	18,000	14,000	326,913	326,525	326,950	321,650	318,000	321,025
Per Pupil Spending	\$ 6,813	\$ 7,453	\$ 8,159	\$ 7,911	\$ 8,977	\$ 8,492	\$ 8,163	\$ 9,193	\$ 9,549	\$ 10,134

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
MANAGEMENT DISCUSSION AND ANALYSIS (MD & A) (CONTINUED)
YEAR ENDED JUNE 30, 2014 (UNAUDITED)

FINANCIAL HIGHLIGHTS (CONTINUED)

- The district general fund budgets have not changed dramatically over the last three years. Both have declining enrollment from fiscal year 2013 which is the driving force behind the budget levels. The State allows small school districts to use a three-year average for enrollment which has provided small increases to both general fund budgets, or at least has them remaining the same. The other budgets in the District are either permissive budgets (transportation and retirement) or set based on cash balances. Setting levies are allowed for several of these funds (technology, flexibility, and building reserve) but is not required on a yearly basis.
- Beginning in FY2012, a percentage of the total oil and gas revenues received were used to support the general fund budgets. The first year was 25% and the second year was 35%, with a maximum of 55% by the 2015 budget year and thereafter, pending legislative changes. The 2013 legislative session did change these percentages; beginning with the FY2014 budget, the legislature changed the general fund budget formula requiring 25% of the previous year's oil and gas revenue be distributed to the general fund budgets, 50% of the 25% to fund the base budget and 50% of the 25% to fund the over-base budget. The balance of the oil and gas revenue could be split between the other budgeted funds, but it was recommended distributing to the flexibility funds, which the District complied with.

REPORTING THE SCHOOL DISTRICT AS A WHOLE

District-wide Financial Statements

The financial statements include two District-wide statements that focus on operations of the District as a whole. These statements measure inputs and outputs using an economic resources measurement focus, and use the accrual basis of accounting. Activities that are fiduciary in nature are not included in these statements. The District-wide statements report the activities of the District under the following category:

Governmental Activities - reflect the school functions, including instruction, student services, administration, etc. Property taxes and state and federal revenues usually support most of these functions of the District. Revenues and expenses of the District generated through interfund activity have been eliminated or reclassified to avoid a "doubling up" effect for reporting operations of the District.

Statement of Net Position

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

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
MANAGEMENT DISCUSSION AND ANALYSIS (MD & A) (CONTINUED)
YEAR ENDED JUNE 30, 2014 (UNAUDITED)

REPORTING THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

District-wide Financial Statements (Continued)

Statement of Activities

This statement shows the amounts of program-specific and general revenues used to support the District's various functions.

Fund Financial Statements

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

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

The fund financial statements report balances and activities of the most significant, or "major" funds, separately and combine the activities of less significant funds under a single category. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the District's operations, and the existence of legal budget requirements. The District's major funds for fund financial statement reporting purposes are the general fund, the elementary district's flexibility fund, the high school district's flexibility fund, and the elementary district's miscellaneous programs fund.

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

Reporting the District's Trust and Fiduciary Responsibilities

The District is the trustee, or fiduciary, for an endowment fund for student scholarships, and the student extracurricular fund. The basic financial statements include the activities of these funds in a separate Statement of Fiduciary Net Position and Changes in Fiduciary Net Position because the District cannot use these assets to fund its operations. The District is responsible for ensuring these assets are used for their intended purposes.

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
MANAGEMENT DISCUSSION AND ANALYSIS (MD & A) (CONTINUED)
YEAR ENDED JUNE 30, 2014 (UNAUDITED)

REPORTING THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

Budget-to-Actual Comparisons

The budgetary comparison schedule shows how actual expenditures compare to the original and final budgeted expenditures for the major funds. The District did not experience any significant variances between the original and final expenditure budget and the final budget and actual expenditures.

FINANCIAL ANALYSIS

Recall that the Statement of Net Position provides the perspective of the District as a whole. The following table provides a summary of the District's net position for 2014 compared to 2013:

	<u>2014</u>	<u>2013</u>	<u>Change</u>
ASSETS			
Current assets, including cash and receivables	\$ 3,264,904	\$ 3,421,014	\$ (156,110)
Capital assets, including land, buildings, improvements, machinery, and equipment, net	<u>8,577,346</u>	<u>9,046,193</u>	<u>(468,847)</u>
Total Assets	<u>11,842,250</u>	<u>12,467,207</u>	<u>(624,957)</u>
LIABILITIES			
Current liabilities, including payable and unearned revenues	418,378	383,655	34,723
Long-term liabilities, including compensated absences payable	<u>5,165,614</u>	<u>5,452,547</u>	<u>(286,933)</u>
Total Liabilities	<u>5,583,992</u>	<u>5,836,202</u>	<u>(252,210)</u>
NET POSITION			
Net investment in capital assets	3,583,224	3,785,003	(201,779)
Restricted	2,094,591	2,167,266	(72,675)
Unrestricted	<u>580,443</u>	<u>678,736</u>	<u>(98,293)</u>
Total Net Position	<u>\$ 6,258,258</u>	<u>\$ 6,631,005</u>	<u>\$ (372,747)</u>

Current assets declined by approximately \$156,110 or 4.56% from the previous year. This can partially be attributed to elementary and high school general fund budgets that have remained somewhat static over the last few years due to declining enrollments. Expenditure levels in the general funds were over 99% of the total amount budgeted, reducing the amount of cash in treasury. Taxes receivable and due from other governments also increased slightly from the prior year.

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
MANAGEMENT DISCUSSION AND ANALYSIS (MD & A) (CONTINUED)
YEAR ENDED JUNE 30, 2014 (UNAUDITED)

FINANCIAL ANALYSIS (CONTINUED)

Net capital assets decreased \$468,847 during the current fiscal year. The District purchased \$35,400 in new equipment and improvements, which increased net capital assets. However, the depreciation on the District's capital assets totaled \$484,468, creating a decrease to net capital assets of \$449,068. The District also disposed of building improvements with a net book value remaining of \$19,779.

Current liabilities reflect costs that were incurred in the current year but will be paid in the following year. There are year-end invoices that are billed at the end of the current fiscal year that are not paid until the first board meeting in the new fiscal year. There are also payroll withholdings such as health insurance premiums, workers compensation premiums, and unemployment premiums that are deducted from year-end payrolls that are not due until the following month of the next fiscal year. These amounts will vary from year to year. Current liabilities also include unearned revenues, which represent amounts owed to the District at year end on federal grant programs but will not be recognized as revenue until received and spent. Current liabilities also include the current portion of the District's bonds payable as well as the current portion of the retirement incentive payable. Current liabilities increased \$34,723 in fiscal year 2014 when compared to fiscal year 2013.

Compensated absences are the sick and vacation amounts owed at the end of the fiscal year to classified and administrative staff. Also reflected in this amount are liabilities owed to certified staff through their negotiated contract. As the District staff ages, these dollars should increase, however, compensated absences payable decreased \$23,790 when compared to fiscal year 2013 due to the number of retirees.

Bonds payable are the outstanding bonds owed by the District for the new building project. The bonds are scheduled to be paid off in 20 years. There was \$250,000 in principal payments made on the outstanding bonds during the current fiscal year.

Liabilities of the District were mainly impacted by the retirement incentive offered to teachers. Six teachers accepted the incentive and retired as of June 30, 2013. Two more teachers accepted the incentive and retired of as June 30, 2014. The retirement incentive offered will pay up to \$7,500 annually for five years towards their medical insurance premiums. That totals to a \$37,500 liability per teacher and is reflected in the \$262,500 retirement incentive payable portion of the Statement of Net Position. This incentive was offered for two years and will continue to impact the districts' liabilities. District's offer these one-time incentives to lower personnel costs when budgets are declining or remaining static as the current budget levels cannot sustain ever-increasing salaries and benefits. The plan is to hire less experienced teachers and that may allow the District to maintain current program levels.

The capital lease obligation for the multi-functional printing machines purchased in fiscal year 2012 continues. The agreement is for six years and the District will own the machines at the end of the agreement.

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
MANAGEMENT DISCUSSION AND ANALYSIS (MD & A) (CONTINUED)
YEAR ENDED JUNE 30, 2014 (UNAUDITED)

FINANCIAL ANALYSIS (CONTINUED)

The following table shows the changes in net position for fiscal year 2014 compared to 2013:

	<u>2014</u>	<u>2013</u>	<u>Change</u>
REVENUES			
Program revenues:			
Charges for services	\$ 118,229	\$ 102,630	\$ 15,599
Operating grants/contributions	941,538	923,030	18,508
General revenues:			
District levy	1,846,421	1,903,937	(57,516)
Interest	13,074	17,895	(4,821)
Miscellaneous	33,908	673	33,235
Direct state aid	1,916,119	1,891,393	24,726
State guaranteed tax base subsidy	779,963	744,864	35,099
Other state revenue	538,797	562,018	(23,221)
County retirement distribution	661,445	467,763	193,682
Special item – gain (loss) on asset sale	(19,779)	(8,630)	(11,149)
Transfer to other districts	<u>25,278</u>	<u>28,310</u>	<u>(3,032)</u>
Total revenues	<u>6,854,993</u>	<u>6,633,883</u>	<u>221,110</u>
PROGRAM EXPENSES			
Regular programs:			
Instructional services	3,095,451	3,070,291	25,160
Supportive services	469,996	436,567	33,429
Educational media services	272,497	274,918	(2,421)
General administrative services	200,375	169,165	31,210
School administrative services	318,406	333,212	(14,806)
Business services	178,125	164,957	13,168
Operation and maintenance services	682,855	668,242	14,613
Special programs:			
Instructional services	693,876	661,748	32,128
Supportive services	743	-	743
Operation and maintenance services	-	-	-
Vocational programs:			
Instructional services	245,672	220,107	25,565
Other programs:			
Extracurricular activities	250,140	251,694	(1,554)
School food services	233,004	226,366	6,638
Student transportation services	330,848	283,533	47,315
Interest expense	230,977	241,898	(10,921)
Transfer to other districts	<u>26,916</u>	<u>26,948</u>	<u>(32)</u>
Total expenses	<u>7,229,881</u>	<u>7,029,646</u>	<u>200,235</u>
Change in net position	<u>\$ (374,888)</u>	<u>\$ (395,763)</u>	<u>\$ 20,875</u>

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
MANAGEMENT DISCUSSION AND ANALYSIS (MD & A) (CONTINUED)
YEAR ENDED JUNE 30, 2014 (UNAUDITED)

FINANCIAL ANALYSIS (CONTINUED)

Overall, the District's expenditures exceeded income by \$374,888, which is a decrease of \$20,875 from fiscal year 2013. There were six revenue categories on the statement of activities which showed an increase over the previous fiscal year, including the increase in the county retirement distribution of \$193,682. The District received two REAP grants through the federal government, one to the elementary district for \$14,783 and one to the high school district for \$11,004. These grants were used to pay for aides and professional development of the instructional staff. The increase in the county retirement distribution is a result of the 2013 legislative session and the excess reserve assessment. School Districts that had 35% reserve levels in their FY2013 retirement budgets were required to pay to the Montana Teachers Retirement System the greater of 20% of the Adopted Retirement Fund Budget or the FY2013 TFS Retirement Fund Balance less 20%. This additional money had to be added to the Retirement Fund Budgets along with any additional increase to cover actual costs.

The District levy decreased by \$57,516 due to a decline in carry over dollars available as discussed previously. There will always be district tax levies required to support the budgeted funds and the amount will be determined by the budget formulas used for establishing the budgets.

Interest income decreased \$4,821, another 26.94% after the prior fiscal year decrease of \$15,243. This reduction was due to very low interest rates as a result of the national economic downturn, as well as decreases in cash available investment. Federal dollars are not allowed to be invested.

The guaranteed tax base subsidy can increase or decrease depending on the level of expenditures in the general fund. As the District's budgets stay somewhat static as a result of enrollment, the budgets are being expended within 1% of the total budget. Less money is being carried over, which increases the GTB subsidy, but also may increase district tax levels needed to fill the base and over-base budgets unless there are significant protested and delinquent taxes not collected which are used to fund the over-base portion of the budget. The over-base part of the budget is funded through local (district) taxes.

Loss on sale of assets of \$19,779 was due to disposals of building improvements. These items were disposed of with no sales proceeds received, therefore leading to a loss in the amount of the remaining book value at disposal.

The expense categories on the statement of activities reflect an increase of \$200,235 over the previous fiscal year. The use of oil and gas tax revenues has helped ease the burden to the local taxpayer in the debt service and general funds. The increases in operating grants and contributions, direct state aid, and the county retirement distribution also helped fund the increase in instructional services, which was the largest increase on the statement of activities.

Supportive services also increased due to increases in benefits related to salaries as noted above, as well as medical insurance.

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
MANAGEMENT DISCUSSION AND ANALYSIS (MD & A) (CONTINUED)
YEAR ENDED JUNE 30, 2014 (UNAUDITED)

FINANCIAL ANALYSIS (CONTINUED)

General administrative services increased, with a corresponding decrease in school administrative services, due to a realignment of where those expenditures were classified for budget purposes during the fiscal year 2014.

Student transportation services increased \$47,315, due to an increase in depreciation expense on the buses purchased in the prior fiscal year.

THE DISTRICT'S MAJOR FUNDS

Four major funds have been identified according to GASB No. 34 rules. They are the general fund, the elementary district's flexibility fund, the high school district's flexibility fund, and the elementary district's miscellaneous programs fund. The elementary district's flexibility fund was the recipient of oil and gas revenues discussed earlier.

CAPITAL ASSETS

As of June 30, 2014 capital assets less accumulated depreciation totaled \$8,577,346.

The following schedule presents capital asset balances net of depreciation for the fiscal year ended June 30, 2014:

Land and land improvements	\$ 650,126
Buildings	12,566,266
Machinery and equipment	<u>1,978,323</u>
Total capital assets	15,194,715
Less accumulated depreciation	<u>(6,617,369)</u>
Capital assets, net of depreciation	<u>\$ 8,577,346</u>

Buildings saw a net decrease of \$32,603 and machinery and equipment saw a net increase of \$35,400, while current depreciation totaled \$484,468. See notes to financial statements on page 34 for a breakdown of depreciation expense.

The District purchased a mower which cost \$35,400 in fiscal year 2014. Any new large infrastructure projects will require asking the taxpayers to pass building reserve levies. The Elementary District passed a Building Reserve Levy, but the High School District Building Reserve Levy request failed. One or two new route buses will have to be purchased in the next fiscal year.

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
MANAGEMENT DISCUSSION AND ANALYSIS (MD & A) (CONTINUED)
YEAR ENDED JUNE 30, 2014 (UNAUDITED)

DEBT ADMINISTRATION

Long-term debt balances are as follows:

Capital lease obligation	\$ 25,979
Retirement incentive payable	195,000
Compensated absences payable	254,635
Bonds payable (long-term portion)	<u>4,690,000</u>
Total long-term debt	<u>\$ 5,165,614</u>

For an analysis of the activity in long-term debt for fiscal year 2014, see the long-term debt note to financial statements beginning on page 34.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

For three years in a row, expenditures have exceeded income, although the margin was slightly smaller this year than the previous fiscal year. If the district continues seeing declining enrollments, static budgets and ever increasing costs, serious cuts may have to be made. To date, legislative changes through increases in the entitlements and oil and gas production receipts have provided additional revenue and much needed support to continue our current programs. The district has ever increasing infrastructure issues that hopefully can be covered by taxpayers supporting new building reserve fund levies.

Fiscal year 2014 is the lowest enrollment the District has faced in many years, although we do see a trend of stabilization of our local population. A major issue we also face with our budget is the large increase in health insurance. We have seen a 17% increase in our insurance costs over the past three years, and every indication is that our insurance premiums will continue to increase at a high rate. It will be a challenge to provide meaningful health care for our employees and stay within our budget.

Students with special needs are continuing to increase in the District, and we have had to add additional aide positions to address the unique needs some of the children bring to our District. As the District does not receive any additional funding for these positions, our General Fund has to absorb the costs. The Tuition Fund was originally established to pay tuition costs for district students who are transferred to educational facilities outside the district that can meet their educational requirements. At the last Legislative Session under Senate Bill 191, the Tuition Fund was expanded to include paying for additional special education aides or teachers for students with IEPs. This has relieved the pressure on the general fund budgets for meeting the needs of these children and continuing maintaining all regular education programs.

CONTACT FOR ADDITIONAL INFORMATION

If there are further questions regarding the audit report, please direct any questions to Mr. Donal Mathis, Superintendent, or to Afton Lamoreaux, District Clerk and Business Manager at 215 S. Maryland, Conrad, Montana 59425 or call 406-278-5521.

FINANCIAL STATEMENTS

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities
ASSETS	
Current assets:	
Cash in treasury	\$ 3,116,877
Taxes receivable	102,658
Due from other governments	<u>45,369</u>
Total current assets	<u>3,264,904</u>
Noncurrent assets:	
Capital Assets:	
Land and improvements	650,126
Buildings and improvements	12,566,266
Machinery and equipment	1,978,323
Less accumulated depreciation	<u>(6,617,369)</u>
Total capital assets, net of depreciation	<u>8,577,346</u>
TOTAL ASSETS	<u>\$ 11,842,250</u>
LIABILITIES	
Current liabilities:	
Other current liabilities	\$ 58,983
Interfund balance	1,812
Unearned grant revenue	11,940
Current portion of capital lease obligation	18,143
Current portion of retirement incentive payable	67,500
Current portion of bonds payable	<u>260,000</u>
Total current liabilities	<u>418,378</u>
Noncurrent liabilities:	
Capital lease obligation	25,979
Retirement incentive payable	195,000
Compensated absences payable	254,635
Bonds payable	<u>4,690,000</u>
Total noncurrent liabilities	<u>5,165,614</u>
TOTAL LIABILITIES	<u>5,583,992</u>
NET POSITION	
Net investment in capital assets	3,583,224
Restricted for:	
Debt service	113,286
Program	1,981,305
Unrestricted	<u>580,443</u>
TOTAL NET POSITION	<u>6,258,258</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 11,842,250</u>

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

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Expenses	Program Revenues			Net (Expense)	
	Charges for Services	Operating	Capital	Revenue and Changes	
		Grants and Contributions	Grants and Contributions	in Net Position	
	Governmental Activities				
GOVERNMENTAL ACTIVITIES:					
Regular Programs:					
Instructional services	\$ 3,095,451	\$ 6,260	\$ 108,783	\$ -	\$ (2,980,408)
Supportive services	469,996	-	-	-	(469,996)
Educational media services	272,497	-	-	-	(272,497)
General administrative services	200,375	-	-	-	(200,375)
School administrative services	318,406	-	-	-	(318,406)
Business services	178,125	-	-	-	(178,125)
Operation and maintenance services	682,855	-	-	-	(682,855)
Special Programs:					
Instructional services	693,876	17,915	604,955	-	(71,006)
Supportive services	743	-	-	-	(743)
Vocational Programs:					
Instructional services	245,672	-	-	-	(245,672)
Extracurricular activities	250,140	-	-	-	(250,140)
School food services	233,004	94,054	111,022	-	(27,928)
Student transportation services	330,848	-	116,778	-	(214,070)
Interest expense	230,977	-	-	-	(230,977)
Resources transferred to other school districts	26,916	-	-	-	(26,916)
Total Governmental Activities	<u>\$ 7,229,881</u>	<u>\$ 118,229</u>	<u>\$ 941,538</u>	<u>\$ -</u>	<u>(6,170,114)</u>

GENERAL REVENUES:

District levy	1,846,421
Direct state aid	1,916,119
State guaranteed tax base subsidy	779,963
Other state payments	538,797
County retirement distribution	661,445
Interest	13,074
Miscellaneous	33,908
Resources transferred from other school districts	25,278
Special item - loss on disposal of assets	(19,779)

Total general revenues 5,795,226

Change in net position (374,888)

Net position at July 1, as previously reported 6,631,005

Prior period adjustment 2,141

Net position at July 1, as restated 6,633,146

Net position at June 30 \$ 6,258,258

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

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General Fund	Flexibility Fund Elementary	Flexibility Fund High School	Miscellaneous Programs Fund Elementary	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash in treasury	\$ 584,282	\$ 439,875	\$ 338,228	\$ 277,372	\$ 1,477,120	\$ 3,116,877
Taxes receivable	68,825	-	-	-	33,833	102,658
Interfund balance	-	-	-	-	-	-
Due from other governments	-	-	-	43,900	1,469	45,369
	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,900</u>	<u>1,469</u>	<u>45,369</u>
TOTAL ASSETS	<u>\$ 653,107</u>	<u>\$ 439,875</u>	<u>\$ 338,228</u>	<u>\$ 321,272</u>	<u>\$ 1,512,422</u>	<u>\$ 3,264,904</u>
LIABILITIES						
Interfund balance	\$ -	\$ -	\$ -	\$ -	\$ 1,812	\$ 1,812
Due to other governments	-	-	-	-	-	-
Other current liabilities	10,957	11,653	15,017	11,442	9,914	58,983
Unearned grant revenue	-	-	-	11,940	-	11,940
	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,940</u>	<u>-</u>	<u>11,940</u>
TOTAL LIABILITIES	<u>10,957</u>	<u>11,653</u>	<u>15,017</u>	<u>23,382</u>	<u>11,726</u>	<u>72,735</u>
DEFERRED INFLOWS OF RESOURCES						
Unearned revenue for taxes receivable	68,825	-	-	-	33,833	102,658
	<u>68,825</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,833</u>	<u>102,658</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>68,825</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,833</u>	<u>102,658</u>
FUND BALANCE						
Fund balance:						
Restricted	40,249	428,222	323,211	-	1,302,909	2,094,591
Committed	499,342	-	-	-	-	499,342
Assigned	33,734	-	-	297,890	163,954	495,578
Unassigned	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FUND BALANCE	<u>573,325</u>	<u>428,222</u>	<u>323,211</u>	<u>297,890</u>	<u>1,466,863</u>	<u>3,089,511</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 653,107</u>	<u>\$ 439,875</u>	<u>\$ 338,228</u>	<u>\$ 321,272</u>	<u>\$ 1,512,422</u>	<u>\$ 3,264,904</u>

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

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2014

Total fund balances - governmental funds	\$ 3,089,511
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not reported as assets in governmental funds. The cost of the assets is \$15,194,715 and the accumulated depreciation is \$6,617,369.	8,577,346
Property taxes receivable expected to be collected in the following year, but are not available soon enough to pay for the current period's expenditures, and therefore are reflected as unearned revenue in governmental funds.	102,658
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of capital lease obligation of \$44,122, retirement incentive payable of \$262,500, compensated absences payable of \$254,635, and bonds payable of \$4,950,000.	<u>(5,511,257)</u>
Total net position - governmental activities	<u>\$ 6,258,258</u>

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General Fund	Flexibility Fund Elementary	Flexibility Fund High School	Miscellaneous Programs Fund Elementary	Other Governmental Funds	Total Governmental Funds
REVENUES						
District levy	\$ 1,175,597	\$ -	\$ -	\$ -	\$ 664,988	\$ 1,840,585
Interest	5,092	1,326	1,091	-	5,565	13,074
Miscellaneous	-	-	-	17,680	16,228	33,908
Direct state aid	1,916,119	-	-	-	-	1,916,119
State guaranteed tax base subsidy	679,150	-	-	-	100,813	779,963
State special education allowable costs	105,662	-	-	-	-	105,662
Other state payments	382,377	112,108	33,276	-	11,036	538,797
Federal/state aid	-	-	-	572,514	143,463	715,977
County reimbursement	-	-	-	-	719,834	719,834
State reimbursement	-	-	-	-	61,510	61,510
Tuition and fees	-	-	-	17,915	6,260	24,175
Lunch sales	-	-	-	-	94,054	94,054
Resources transferred from other school districts	-	-	-	-	25,278	25,278
Total	<u>4,263,997</u>	<u>113,434</u>	<u>34,367</u>	<u>608,109</u>	<u>1,849,029</u>	<u>6,868,936</u>
EXPENDITURES						
Current:						
Regular Programs:						
Instructional services	1,924,007	82,672	49,631	-	628,600	2,684,910
Supportive services	137,410	-	-	332,586	-	469,996
Educational media services	219,016	19,966	24,589	-	8,926	272,497
General administrative services	170,915	13,849	3,796	-	9,816	198,376
School administrative services	342,196	-	-	-	-	342,196
Business services	154,799	5,653	5,367	-	12,306	178,125
Operation and maintenance services	617,116	9,318	-	-	28,640	655,074
Special Programs:						
Instructional services	242,705	-	-	334,062	117,109	693,876
Supportive services	743	-	-	-	-	743
Vocational Programs:						
Instructional services	199,878	-	-	-	45,794	245,672
Extracurricular activities	232,062	-	-	-	15,506	247,568
School food services	27,136	-	-	-	205,533	232,669
Student transportation services	-	-	-	-	245,408	245,408
Resources transferred to other school districts	9,678	-	-	(22,201)	39,439	26,916
Capital outlay	-	-	-	6,372	29,028	35,400
Debt service	20,340	-	-	-	484,405	504,745
Total	<u>4,298,001</u>	<u>131,458</u>	<u>83,383</u>	<u>650,819</u>	<u>1,870,510</u>	<u>7,034,171</u>
Excess (Deficiency) of revenues over expenditures	<u>(34,004)</u>	<u>(18,024)</u>	<u>(49,016)</u>	<u>(42,710)</u>	<u>(21,481)</u>	<u>(165,235)</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of assets	-	-	-	-	-	-
Proceeds from capital lease	-	-	-	-	-	-
Operating transfer in (out)	-	-	-	-	-	-
	-	-	-	-	-	-
NET CHANGE IN FUND BALANCE	<u>(34,004)</u>	<u>(18,024)</u>	<u>(49,016)</u>	<u>(42,710)</u>	<u>(21,481)</u>	<u>(165,235)</u>
Fund balance at July 1, as previously reported	605,705	446,246	371,710	340,600	1,488,344	3,252,605
Prior period adjustment	1,624	-	517	-	-	2,141
Fund balance at July 1, as restated	<u>607,329</u>	<u>446,246</u>	<u>372,227</u>	<u>340,600</u>	<u>1,488,344</u>	<u>3,254,746</u>
Fund balance at June 30	<u>\$ 573,325</u>	<u>\$ 428,222</u>	<u>\$ 323,211</u>	<u>\$ 297,890</u>	<u>\$ 1,466,863</u>	<u>\$ 3,089,511</u>

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

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

Total net change in fund balance - governmental funds \$ (165,235)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$484,468) exceeds capital outlay (\$35,400) in the period. (449,068)

Sale of capital assets in governmental funds represents gross proceeds received from the sale, while the statement of activities reflects the loss on the sale (net cost less gross proceeds). (19,779)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues and are unearned in the governmental funds. Unearned tax revenues increased by this amount this year. 5,836

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 250,000

Repayment of capital lease debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 17,068

Issuance of retirement incentive payable is a long-term liability not due and payable in the current period and therefore, is not reported as a liability in the funds, but increases long-term liabilities in the statement of net position. Repayment of retirement incentive payable is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which issuance (\$82,500) exceeds repayment (\$45,000) in the period. (37,500)

In the statement of activities, certain operating expenses such as compensated absences are measured by the amounts *earned* during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used or *paid*. This is the amount by which vacation and sick leave used exceeded the amount earned. 23,790

Total change in net position - governmental activities \$ (374,888)

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2014

	Endowment Fund	Student Extracurricular Fund	Trust Memorial Fund	Payroll Clearing Fund	Retirement Cobra/Insurance Fund
ASSETS					
Cash in bank	\$ -	\$ 202,210	\$ -	\$ -	\$ -
Cash in treasury	3,609	-	1,511	155,301	18,413
Taxes receivable	-	-	-	-	-
Interfund balance	-	-	-	-	1,812
Due from other governments	66	-	-	-	-
TOTAL ASSETS	<u>\$ 3,675</u>	<u>\$ 202,210</u>	<u>\$ 1,511</u>	<u>\$ 155,301</u>	<u>\$ 20,225</u>
LIABILITIES					
Interfund balance	\$ -	\$ -	\$ -	\$ -	\$ -
Other current liabilities	-	-	-	155,301	20,225
Deferred revenue	-	-	-	-	-
TOTAL LIABILITIES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 155,301</u>	<u>\$ 20,225</u>
NET POSITION					
Net position held in trust for school property refurbishing	<u>\$ 3,675</u>				
Net position held in trust for student activities		<u>\$ 202,210</u>			
Net position held in trust for student scholarships			<u>\$ 1,511</u>		

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

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2014

	Endowment Fund	Student Extracurricular Fund	Trust Memorial Fund
	<u> </u>	<u> </u>	<u> </u>
ADDITIONS			
Contributions/donations from private sources	\$ 971	\$ -	\$ 3,600
Interest	10	-	5
Student extracurricular activity receipts	<u>-</u>	<u>293,413</u>	<u>-</u>
Total	<u>981</u>	<u>293,413</u>	<u>3,605</u>
DEDUCTIONS			
Student scholarships	-	-	3,600
Student extracurricular activity expenses	-	292,282	-
School property refurbishing	<u>125</u>	<u>-</u>	<u>-</u>
Total	<u>125</u>	<u>292,282</u>	<u>3,600</u>
Change in net position	856	1,131	5
Net position at July 1	<u>2,819</u>	<u>201,079</u>	<u>1,506</u>
Net position at June 30	<u><u>\$ 3,675</u></u>	<u><u>\$ 202,210</u></u>	<u><u>\$ 1,511</u></u>

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

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the District are presented below:

Reporting Entity

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

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

Fund Accounting

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

Governmental Fund Types

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

Special Revenue Funds

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

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

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued)
Governmental Fund Types (Continued)

Special Revenue Funds (Continued)

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

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

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

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

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

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

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

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

Impact Aid Fund (Elementary) - accounts for moneys received under P.L. 874 program and corresponding expenditures of those funds.

Lease Rental Agreement Fund (Elementary and High School) - accounts for the rental and lease payments received from District-owned property and the expenditure of that money for the maintenance of that property.

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

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued):

Governmental Fund Types (Continued)

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

Capital Projects Funds

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

Building Reserve Fund (Elementary and High School) - accounts for revenues and expenditures for voter approved improvements, remodeling, or construction of District facilities.

Fiduciary Fund Types

Private Purpose Trust Funds

Endowment Fund (Elementary) - accounts for gifts, legacies, and devises received by the School District.

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

Trust Memorial/Scholarship Fund (Elementary and High School) - accounts for endowments received which are to be used for student scholarships.

Agency Funds

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

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Fund Types (Continued)

Agency Funds (Continued)

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

Retirement/Cobra Insurance Fund (High School) - accounts for the receipt and disbursement or premium payments received from former district employees who have retired and elected to continue to participate in the district's health insurance program.

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

Basis of Presentation

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

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

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the District as a whole, with the exception of the fiduciary fund types. Any interfund activity has been eliminated to minimize any possible double-counting of such internal activities. The statement of net position presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Government-wide Financial Statements (Continued)

Revenues that are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from general revenues of the District. The District's policy is to apply restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

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

Measurement Focus/Basis of Accounting

The government-wide financial statements of the District are reported using the economic resources measurement focus under the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenues in the year for which they are levied. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Revenues are recorded when susceptible to accrual, that is, when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Certain revenues of the District require specific revenue recognition terms.

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus/Basis of Accounting (Continued)

The District considers property taxes as available if they are collected within 30 days after the date the taxes become delinquent. Uncollected property taxes become delinquent each May 31. Therefore, property tax levies collected through June 30 are reported as revenue in the fiscal year ended June 30. Amounts not collected by June 30 are reported as unearned revenue. In applying the susceptible to accrual concept to grant revenues, two types of revenues must be considered. In one type, moneys must be expended on the specific purpose or project before any amounts will be paid to the District. Therefore, revenues are recognized based upon the expenditures recorded. In the other type, moneys are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These moneys are recognized as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenues of the District are recognized as revenue when both the measurable and available criteria are met.

Expenditures are recognized when the liability is incurred, except for unmatured interest on general long-term debt. A total of \$1,153 of matured bond interest and principal is reflected as a liability of the Elementary District's Debt Service Fund at June 30, 2014.

New Accounting Pronouncement

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

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

Accounting Standards Effective in a Future Period

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

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting

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

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

Cash and Investments

Except for the cash of the Extracurricular Funds, all cash and investments are held by the county treasurer. Cash and investments of the Extracurricular Funds are held in Stockman Bank in Conrad and D.A. Davidson & Co. in Great Falls.

Inventories

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

Capital Assets

All purchased capital assets are valued at historical cost where historical cost records are available and at estimated historical cost where no historical records exist. Purchases of capital assets with a cost of \$5,000 or greater are included as additions to capital assets. Donated fixed assets are recorded at estimated fair market value as of the date received. Capital assets are depreciated using the straight-line method over the following useful lives:

Land and improvements	20 years
Buildings and improvements	20-95 years
Machinery and equipment	7-35 years

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Liability for Compensated Absences

Compensated absences for vacation and sick leave are recorded as expenditures in the governmental funds when taken. Vacation leave, within certain limitations, may be payable to the employee on termination. Sick leave is accumulated for administrative and classified (non-teaching) employees at the rate of 12 working days for each year of service. Part-time employees are entitled to prorated benefits upon fulfillment of the qualifying period of time. Certified (teaching) employees accumulate sick leave at the rate of \$50 per day up to a maximum number of days, depending on longevity with the District. Upon termination, administrative and classified employees are eligible for compensation at one-fourth of the accumulated sick leave amount, while certified employees are entitled to the entire accumulated sick leave amount.

Fund Balance

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

Nonspendable

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

Restricted

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

Committed

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

Assigned

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

Unassigned

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

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance (Continued)

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

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

Estimates

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

NOTE 2. CASH AND INVESTMENTS

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

Cash and investments, except for those of the Extracurricular Funds, are held by the county treasurer in the name of the District. The treasurer invests these moneys, along with the moneys of other governmental entities within the county, in an investment pool, consisting of investments in S.T.I.P. and U.S. Government agencies. The District receives a pro-rata share of investment earnings at each distribution date. Under generally accepted accounting principles, the District is required to comply with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools." This pronouncement requires governmental entities to record certain investments in external investment pools at fair market value, rather than historical cost. Investment in S.T.I.P. is classified as a "2a-7-like pool", which allows the investments to be reported at amortized cost, thus no adjustment to fair market value is necessary. Cost of the investments in U.S. Government agencies approximates market value. The county-wide pool's investment in S.T.I.P. is subject to various risks.

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Interest Rate Risk

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

Credit Risk

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

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

Credit Quality Ratings of S.T.I.P. in total as of June 30, 2014:

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. At June 30, 2014, the District’s bank balance of \$219,868 was fully covered by FDIC insurance.

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

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

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

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

At June 30, 2014, cash and investments of the Extracurricular Funds has a bank balance of \$219,868 and a book balance of \$202,210, consisting of \$24,103 of the Elementary District and \$96,107 of the High School District held in checking accounts at Stockman Bank in Conrad, \$80,000 of the High School District held in bank certificates of deposit, and \$2,000 of the High School District held in an investment account at D.A. Davidson & Co.

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 3. PROPERTY TAXES

The District is permitted by state statute to levy taxes for various purposes. Property taxes are levied in August of each fiscal year, based on the assessed value as of the prior January 1. Taxes are normally billed in October and are payable 50% by November 30 and 50% by May 31. Property tax lien dates are December 1 and June 1. The taxes levied by the District for the year ended June 30, 2014, were properly established and were within the legal limits as approved by the voters. Property taxes are accounted for and collected by the county treasurer; the District records property taxes as receivable when billed by the county treasurer. Amounts billed but not collected by June 30, yet still expected to be received in the future, are reported as revenue in the government-wide financial statements and as unearned revenue in the governmental fund financial statements. Uncollected property taxes are attached as an enforceable lien on the underlying property. After a period of three years, Pondera County, the collecting agent, may begin foreclosure proceedings and sell the property at auction. The District receives its share of the sale proceeds from Pondera County. No allowance for uncollectible property taxes is reflected in the basic financial statements as the District considers all property taxes receivable at June 30, 2014 to be fully collectible.

NOTE 4. DUE FROM OTHER GOVERNMENTS

Due from other governments of \$45,369 consists of \$44,601 from the State of Montana for federal grant monies owed and \$768 from the State of Montana for school food reimbursement.

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 5. CAPITAL ASSETS

A summary of activity in capital assets is as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets not being depreciated				
Land	\$ 113,000	\$ -	\$ -	\$ 113,000
Capital assets being depreciated				
Improvements	537,126	-	-	537,126
Buildings	12,598,869	-	(32,603)	12,566,266
Equipment	1,942,923	35,400	-	1,978,323
Total capital assets being depreciated	<u>15,078,918</u>	<u>35,400</u>	<u>(32,603)</u>	<u>15,081,715</u>
Less accumulated depreciation:				
Improvements	(213,511)	(25,856)	-	(239,367)
Buildings	(5,213,201)	(323,888)	12,824	(5,524,265)
Equipment	(719,013)	(134,724)	-	(853,737)
	<u>(6,145,725)</u>	<u>(484,468)</u>	<u>12,824</u>	<u>(6,617,369)</u>
Capital assets being depreciated, net	<u>8,933,193</u>	<u>(449,068)</u>	<u>(19,779)</u>	<u>8,464,346</u>
Capital assets, net	<u>\$ 9,046,193</u>	<u>\$ (449,068)</u>	<u>\$ (19,779)</u>	<u>\$ 8,577,346</u>

Depreciation expense was charged to functions as follows:

Instructional services	\$ 373,041
General administrative services	1,999
Operation and maintenance services	21,081
Student transportation services	85,440
School food services	335
Extracurricular activities	2,572
Total depreciation expense	<u>\$ 484,468</u>

NOTE 6. LONG-TERM DEBT

Capital Lease Obligation

In August 2011, the District entered into a capital lease with U.S. Bank and Davis Business Machines to finance the purchase of 6 new copiers. The lease term is for five years and calls for monthly payments of \$1,695 beginning August 15, 2011. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. The cost of the 6 copiers and the related debt incurred were \$91,129.

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 6. LONG-TERM DEBT (CONTINUED)

Capital Lease Obligation (Continued)

The annual requirements to amortize the capital lease obligation as of June 30, 2014, including interest payments of \$3,338, are as follows:

Year Ending June 30	Principal	Interest	Total
2015	\$ 18,143	\$ 2,197	\$ 20,340
2016	19,285	1,055	20,340
2017	<u>6,694</u>	<u>86</u>	<u>6,780</u>
Total	<u>\$ 44,122</u>	<u>\$ 3,338</u>	<u>\$ 47,460</u>

Retirement Incentive Payable

In fiscal year 2013, the District entered into a retirement incentive program agreement with 6 teachers calling for payments of \$37,500 per teacher payable over the next five years at \$7,500 per year per teacher, beginning July 1, 2013. In fiscal year 2014, the District entered into a retirement incentive program agreement with 2 additional teachers calling for payments of \$37,500 per teacher payable over the next five years at \$7,500 per year per teacher, beginning July 1, 2014. Annual requirements to amortize the retirement incentive payable as of June 30, 2014 are as follows:

Year Ending June 30	Total
2015	\$ 67,500
2016	60,000
2017	60,000
2018	60,000
2019	<u>15,000</u>
Total	<u>\$ 262,500</u>

Compensated Absences Payable

Compensated absences payable, representing vacation and sick leave benefits earned by employees and payable upon termination, are \$254,635 and are recorded as a liability in the government-wide financial statements. As benefits earned during the next fiscal year are expected to be used by employees before any accrued benefits, benefits payable at June 30, 2014 are considered a long-term liability. Payment of benefits is expected to be made out of the compensated absence funds of the Elementary and High School Districts.

Bonds Payable

On July 17, 2008, the District issued \$6,300,000 in general obligation bonds, \$2,200,000 in the Elementary District and \$4,100,000 in the High School District, to be used for new gymnasium construction.

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 6. LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)

Bonds payable as of June 30, 2014, are as follows:

<u>Date of issue</u>	<u>Term</u>	<u>Annual Interest Rate</u>	<u>Serial Payment</u>	<u>Authorized and Issued</u>	<u>Retired</u>	<u>Outstanding June 30, 2014</u>	<u>Current Portion</u>
<u>Elementary</u>							
6/17/2008	20 Yrs.	2.75%	Varies	\$ 2,200,000	\$ (470,000)	\$ 1,730,000	\$ 90,000
<u>High School</u>							
6/17/2008	20 Yrs.	4.50%	Varies	4,100,000	(880,000)	<u>3,220,000</u>	<u>170,000</u>
Total bonds payable						<u>\$ 4,950,000</u>	<u>\$ 260,000</u>

The annual requirements to amortize all outstanding bonds as of June 30, 2014, including interest payments of \$1,824,810, are as follows:

<u>Annual Requirements to Amortize Long-term Debt</u>			
<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 260,000	\$ 217,260	\$ 477,260
2016	275,000	206,640	481,640
2017	285,000	195,310	480,310
2018	300,000	183,485	483,485
2019	315,000	170,930	485,930
2019-2023	1,780,000	642,325	2,422,325
2024-2028	<u>1,735,000</u>	<u>208,860</u>	<u>1,943,860</u>
Total	<u>\$ 4,950,000</u>	<u>\$ 1,824,810</u>	<u>\$ 6,774,810</u>

Special Improvement District Assessment

The District is charged a special improvement district assessment annually by the City of Conrad. The District's assessment is for curb and gutter improvements made on District owned property. Payments are made from the Debt Service Funds of both the Elementary and High School Districts.

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 6. LONG-TERM DEBT (CONTINUED)

Long-term Debt Transactions

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

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014
Capital lease obligation	\$ 61,190	\$ -	\$ (17,068)	\$ 44,122
Retirement incentive payable	225,000	82,500	(45,000)	262,500
Compensated absences payable	278,425	-	(23,790) *	254,635
Bonds payable	5,200,000	-	(250,000)	4,950,000
Total	<u>\$ 5,764,615</u>	<u>\$ 82,500</u>	<u>\$ (335,858)</u>	<u>\$ 5,511,257</u>

*This is the net decrease to compensated absences payable.

NOTE 7. FUND BALANCE

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

	General Fund	Flexibility Fund Elementary	Flexibility Fund High School	Miscellaneous Programs Fund Elementary	Nonmajor Governmental Funds
RESTRICTED					
Student transportation services	\$ -	\$ -	\$ -	\$ -	\$ 110,832
Bus conversion, remodel, or replacement	-	-	-	-	491,649
School food service	-	-	-	-	4,575
Student tuition	-	-	-	-	12,354
Retirement costs	-	-	-	-	295,028
Vacation/sick leave costs	40,249	-	-	-	-
Adult education services	-	-	-	-	19,780
Traffic education services	-	-	-	-	25,052
Facility rental	-	-	-	-	16,423
Technology costs	-	-	-	-	74,088
Debt service	-	-	-	-	113,286
Building costs	-	-	-	-	130,250
Education services to federally connected children	-	-	-	-	9,592
Other purposes	-	428,222	323,211	-	-
COMMITTED					
Budgetary reserves - instruction	499,342	-	-	-	-
ASSIGNED					
District operations - instruction	33,734	-	-	297,890	163,954
UNASSIGNED					
Budgetary reappropriation	-	-	-	-	-
Total fund balances	<u>\$ 573,325</u>	<u>\$ 428,222</u>	<u>\$ 323,211</u>	<u>\$ 297,890</u>	<u>\$ 1,466,863</u>

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 8. RETIREMENT PLANS

The District participates in the following retirement plans:

Plan Description

Teachers' Retirement System (TRS)

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

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

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

Public Employees' Retirement System (PERS)

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

PERS offers retirement, disability and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarial reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the highest average salary for employees with less than 25 years of service, or 1/50 times the number of years of service times the highest average salary for those employees with at least 25 years of service.

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 8. RETIREMENT PLANS (CONTINUED)

Plan Description (Continued)

Public Employees' Retirement System (PERS) (Continued)

Members' rights become vested after five years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the state legislature.

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

Funding Policy

	PERS	TRS
Authority to establish and amend contribution rates to the plan:	State legislature	State legislature
Required plan member contributions:	7.9% of monthly compensation	8.15% of monthly compensation
Required employer contributions:	7.8% of monthly compensation	8.47% of monthly compensation
Required state contributions:	.37% of monthly compensation	2.49% of monthly compensation
Required employer contributions received and % of required amount:		
June 30, 2014	\$ 45,712 100%	\$ 224,960 100%
June 30, 2013	\$ 38,021 100%	\$ 194,206 100%
June 30, 2012	\$ 35,430 100%	\$ 189,246 100%

On-behalf payments made by the State of Montana totaled \$2,168 and \$66,133 for PERS and TRS, respectively, for the year ended June 30, 2014.

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 9. INTERLOCAL AGREEMENTS

Special Education Cooperative

School District Number 10, Pondera County, Conrad, Montana, is a member of the Big Sky Special Needs Cooperative. This special education cooperative provides special education services to students enrolled at its member school districts. The District rents office space to the Big Sky Special Needs Cooperative. The rental agreement is negotiated yearly and is for space located at a school within the District. Rent charged to the cooperative for the year ended June 30, 2014, was \$8,000. The District's required contribution to the cooperative for the year ended June 30, 2014 was \$26,916. These funds were sent directly to the cooperative from the State of Montana, or were passed through the District and paid out to the cooperative.

NOTE 10. RISK MANAGEMENT

The District faces a considerable number of risks of loss, including damage to and loss of property and contents, employee torts, professional liability (i.e. errors and omissions), environmental damage, workers' compensation (i.e. employee injuries), and medical insurance costs of employees. A variety of methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss except for relatively small deductible amounts, are purchased for property and content damage and professional liabilities. Coverage limits and the deductibles in the commercial policies have stayed relatively constant for the last several years. The premiums for the policies are paid out of the District's general fund. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years. Given the lack of coverage available, the District has no coverage for potential losses from environmental damages. The District participates in a workers' compensation risk retention program along with other Montana school groups, and obtains medical coverage through "MUST," the Montana Unified School Trust group.

NOTE 11. ENCUMBRANCES

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

Total encumbrances as of June 30, 2014 for the general fund were \$33,734, for the elementary district's miscellaneous programs fund were \$1,250, and for the non-major funds in the aggregate were \$1,118, all assigned.

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 12. PRIOR PERIOD ADJUSTMENT

Prior period adjustments increasing beginning net position on the statement of activities by \$2,141 consists of reimbursements for prior year expenditures.

REQUIRED SUPPLEMENTAL INFORMATION

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
	Original Budget	Final Budget		
REVENUES				
District levy	\$ 1,198,904	\$ 1,198,904	\$ 1,175,597	\$ (23,307)
Interest	2,470	2,470	4,974	2,504
Miscellaneous	-	-	-	-
Direct state aid	1,916,119	1,916,119	1,916,119	-
State guaranteed tax base subsidy	679,150	679,150	679,150	-
State special education allowable costs	105,662	105,662	105,662	-
Other state payments	382,377	382,377	382,377	-
Federal/state aid	-	-	-	-
County reimbursement	-	-	-	-
State reimbursement	-	-	-	-
Tuition and fees	-	-	-	-
Motor vehicle fees	-	-	-	-
Lunch sales	-	-	-	-
Resources transferred from other school districts	-	-	-	-
Total	<u>4,284,682</u>	<u>4,284,682</u>	<u>4,263,879</u>	<u>(20,803)</u>
EXPENDITURES				
Current:				
Regular Programs:				
Instructional services	1,974,339	1,974,339	1,937,500	36,839
Supportive services	150,168	150,168	143,235	6,933
Educational media services	193,017	193,017	219,541	(26,524)
General administrative services	161,263	161,263	172,105	(10,842)
School administrative services	348,878	348,878	342,196	6,682
Business services	178,161	178,161	163,131	15,030
Operation and maintenance services	691,363	691,363	617,390	73,973
Central services	450	450	-	450
Special Programs:				
Instructional services	186,434	186,434	242,705	(56,271)
Supportive services	-	-	743	(743)
Operation and maintenance services	-	-	-	-
Vocational Programs:				
Instructional services	206,916	206,916	199,878	7,038
Extracurricular activities	202,076	202,076	232,026	(29,950)
School food services	27,100	27,100	27,136	(36)
Student transportation services	-	-	-	-
Resources transferred to other school districts	9,678	9,678	9,678	-
Capital outlay	-	-	-	-
Debt service	-	-	20,340	(20,340)
Total	<u>4,329,843</u>	<u>4,329,843</u>	<u>4,327,604</u>	<u>2,239</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(45,161)</u>	<u>(45,161)</u>	<u>(63,725)</u>	<u>(18,564)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfer in (out)	-	-	-	-
Proceeds from sale of assets	-	-	-	-
Proceeds from capital lease	-	-	-	-
Cash reappropriated	45,161	45,161	-	(45,161)
	<u>45,161</u>	<u>45,161</u>	<u>-</u>	<u>(45,161)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>(63,725)</u>	<u>\$ (63,725)</u>
Fund Balance at July 1			561,443	
Prior period adjustment			<u>1,624</u>	
Fund Balance at July 1, as restated			<u>563,067</u>	
Fund Balance at June 30			<u>\$ 499,342</u>	

See accompanying Notes to Required Supplemental Information

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
BUDGETARY COMPARISON SCHEDULE
ELEMENTARY FLEXIBILITY FUND
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
	Original Budget	Final Budget		
REVENUES				
District levy	\$ -	\$ -	\$ -	\$ -
Interest	1,500	1,500	1,326	(174)
Miscellaneous	-	-	-	-
Direct state aid	-	-	-	-
State guaranteed tax base subsidy	-	-	-	-
State special education allowable costs	-	-	-	-
Other state payments	109,261	109,261	112,108	2,847
Federal/state aid	-	-	-	-
County reimbursement	-	-	-	-
State reimbursement	-	-	-	-
Tuition and fees	-	-	-	-
Motor vehicle fees	-	-	-	-
Lunch sales	-	-	-	-
Resources transferred from other school districts	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>110,761</u>	<u>110,761</u>	<u>113,434</u>	<u>2,673</u>
EXPENDITURES				
Current:				
Regular Programs:				
Instructional services	-	-	82,672	(82,672)
Supportive services	-	-	-	-
Educational media services	65,500	65,500	6,045	59,455
General administrative services	-	-	13,849	(13,849)
School administrative services	-	-	-	-
Business services	-	-	5,653	(5,653)
Operation and maintenance services	-	-	9,318	(9,318)
Central services	-	-	-	-
Special Programs:				
Instructional services	-	-	-	-
Supportive services	-	-	-	-
Operation and maintenance services	-	-	-	-
Vocational Programs:				
Instructional services	-	-	-	-
Extracurricular activities	-	-	-	-
School food services	-	-	-	-
Student transportation services	-	-	-	-
Resources transferred to other school districts	-	-	-	-
Capital outlay	477,586	477,586	-	477,586
Debt service	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>543,086</u>	<u>543,086</u>	<u>117,537</u>	<u>425,549</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(432,325)</u>	<u>(432,325)</u>	<u>(4,103)</u>	<u>428,222</u>
OTHER FINANCING SOURCES (USES)				
Operating transfer in (out)	-	-	-	-
Proceeds from sale of assets	-	-	-	-
Proceeds from capital lease	-	-	-	-
Cash reappropriated	432,325	432,325	-	(432,325)
	<u>432,325</u>	<u>432,325</u>	<u>-</u>	<u>(432,325)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>(4,103)</u>	<u>\$ (4,103)</u>
Fund Balance at July 1			432,325	
Prior period adjustment			<u>-</u>	
Fund Balance at July 1, as restated			432,325	
Fund Balance at June 30			<u>\$ 428,222</u>	

See accompanying Notes to Required Supplemental Information

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
BUDGETARY COMPARISON SCHEDULE
HIGH SCHOOL FLEXIBILITY FUND
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
	Original Budget	Final Budget		
REVENUES				
District levy	\$ -	\$ -	\$ -	\$ -
Interest	1,000	1,000	1,091	91
Miscellaneous	-	-	-	-
Direct state aid	-	-	-	-
State guaranteed tax base subsidy	-	-	-	-
State special education allowable costs	-	-	-	-
Other state payments	32,174	32,174	33,276	1,102
Federal/state aid	-	-	-	-
County reimbursement	-	-	-	-
State reimbursement	-	-	-	-
Tuition and fees	-	-	-	-
Motor vehicle fees	-	-	-	-
Lunch sales	-	-	-	-
Resources transferred from other school districts	-	-	-	-
Total	<u>33,174</u>	<u>33,174</u>	<u>34,367</u>	<u>1,193</u>
EXPENDITURES				
Current:				
Regular Programs:				
Instructional services	-	-	-	-
Supportive services	-	-	49,631	(49,631)
Educational media services	15,800	15,800	24,589	(8,789)
General administrative services	900	900	3,796	(2,896)
School administrative services	-	-	-	-
Business services	-	-	5,367	(5,367)
Operation and maintenance services	105,000	105,000	-	105,000
Central services	-	-	-	-
Special Programs:				
Instructional services	-	-	-	-
Supportive services	-	-	-	-
Operation and maintenance services	-	-	-	-
Vocational Programs:				
Instructional services	-	-	-	-
Extracurricular activities	-	-	-	-
School food services	-	-	-	-
Student transportation services	-	-	-	-
Resources transferred to other school districts	-	-	-	-
Capital outlay	283,185	283,185	-	283,185
Debt service	-	-	-	-
Total	<u>404,885</u>	<u>404,885</u>	<u>83,383</u>	<u>321,502</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(371,711)</u>	<u>(371,711)</u>	<u>(49,016)</u>	<u>322,695</u>
OTHER FINANCING SOURCES (USES)				
Operating transfer in (out)	-	-	-	-
Proceeds from sale of assets	-	-	-	-
Proceeds from capital lease	-	-	-	-
Cash reappropriated	<u>371,711</u>	<u>371,711</u>	<u>-</u>	<u>(371,711)</u>
	<u>371,711</u>	<u>371,711</u>	<u>-</u>	<u>(371,711)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>(49,016)</u>	<u>\$ (49,016)</u>
Fund Balance at July 1			371,710	
Prior period adjustment			<u>517</u>	
Fund Balance at July 1, as restated			<u>372,227</u>	
Fund Balance at June 30			<u>\$ 323,211</u>	

See accompanying Notes to Required Supplemental Information

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2014

NOTE 1. BUDGETARY BASIS OF ACCOUNTING

The major difference between the budgetary basis of accounting and generally accepted accounting principles used in preparing the basic financial statements are the recording of encumbrances under the budgetary basis. Encumbrances allowed under state law are commitments related to unperformed contracts for the purchase of personal property or to complete construction projects. Under the budgetary basis of accounting such encumbrances are allowed to be recorded as expenditures in the year the commitments arise. Encumbrances outstanding at year-end are reported within the fund balance classifications related to the purposes for which resources have already been provided. All unexpended appropriations in funds for which appropriations are adopted lapse at year end, other than those encumbered as set forth in Section 20-9-209, MCA. Encumbered amounts will be added to the following year's budget for each fund encumbering expenditures in order to maintain budget authority. Encumbrances reported at the end of the current fiscal year must be liquidated by the end of the following fiscal year. The District utilized an encumbrance system for budgetary reporting for the year ended June 30, 2014. Encumbrances of \$33,734 of the general fund and \$0 of the elementary flexibility fund and high school flexibility fund are reflected as expenditures on the respective Budgetary Comparison Schedules for the year ended June 30, 2014.

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

Adjustments necessary to convert the results of operations as of June 30, 2014 on the modified accrual basis for the general fund, elementary flexibility fund and high school flexibility fund to the budgetary basis are as follows:

	General Fund	Elementary Flexibility Fund	High School Flexibility Fund
Deficiency of revenue over expenditures (GAAP)	\$ (34,004)	\$ (18,024)	\$ (49,016)
Due to implementation of GASB No. 54:			
Compensated absence funds' net activity for 6/30/14	(118)	-	-
Due to expenditure:			
Encumbrances at 6/30/13	4,131	13,921	-
Encumbrances at 6/30/14	<u>(33,734)</u>	<u>-</u>	<u>-</u>
Deficiency of revenue over expenditures (budget)	<u>\$ (63,725)</u>	<u>\$ (4,103)</u>	<u>\$ (49,016)</u>

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

	General Fund	Elementary Flexibility Fund	High School Flexibility Fund
Fund balance, 6/30/14 (GAAP)	\$ 573,325	\$ 428,222	\$ 323,211
Due to implementation of GASB No. 54:			
Compensated absence funds' fund balance, 6/30/14	(40,249)	-	-
Due to expenditure:			
Encumbrances at 6/30/14	<u>(33,734)</u>	<u>-</u>	<u>-</u>
Fund balance, 6/30/14 (budget)	<u>\$ 499,342</u>	<u>\$ 428,222</u>	<u>\$ 323,211</u>

OTHER SUPPLEMENTAL SCHEDULES

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
SCHEDULE OF REVENUES AND EXPENDITURES – ALL FUND ACCOUNTS
EXTRACURRICULAR FUND
ELEMENTARY DISTRICT
For the Year Ended June 30, 2014

FUND ACCOUNT	<u>Beginning Balance</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Transfers In (Out)</u>	<u>Ending Balance</u>
Athletics	\$ 4,925	\$ 4,489	\$ 6,745	\$ (15)	\$ 2,654
Activity	5,314	3,090	6,246	40	2,198
Art	152	-	-	-	152
Concessions	8,112	5,516	2,860	-	10,768
Drama	79	-	-	-	79
Gifted and talented	258	43	-	15	316
Home Ec. account	44	197	102	-	139
Library fund	483	-	116	-	367
Magazines	-	11,785	7,433	-	4,352
MBI	-	416	-	-	416
Music	1,321	263	797	-	787
NJHS	160	168	296	-	32
Science club	364	2,766	4,213	-	(1,083)
Shop	793	1,306	1,153	-	946
Student council club	1,026	144	795	(40)	335
Yearbook	1,722	1,288	1,365	-	1,645
	<u>\$ 24,753</u>	<u>\$ 31,471</u>	<u>\$ 32,121</u>	<u>\$ -</u>	<u>\$ 24,103</u>

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
SCHEDULE OF REVENUES AND EXPENDITURES – ALL FUND ACCOUNTS
EXTRACURRICULAR FUND
HIGH SCHOOL DISTRICT
For the Year Ended June 30, 2014

FUND ACCOUNT	Beginning Balance	Revenues	Expenditures	Transfers In (Out)	Ending Balance
Activity	\$ 16,123	\$ 9,727	\$ 14,704	\$ (1,428)	\$ 9,718
Action Committee	-	390	270	-	120
Annual Staff	1,082	3,796	-	(166)	4,712
AP English	1,036	2,885	2,709	-	1,212
Art Club	446	10	-	-	456
Boys Basketball	35,883	9,710	12,280	-	33,313
BPA	2,875	910	4,308	2,000	1,477
BPA Breakfast Cart	400	1,404	1,389	114	529
BPA Calendar	-	5,151	2,809	(2,000)	342
BPA Travel	213	-	-	-	213
Cheerleaders	1,605	1,470	1,481	-	1,594
Class of 2009	80	-	80	-	-
Class of 2011	949	-	949	-	-
Class of 2012	292	-	-	-	292
Class of 2013	957	-	957	-	-
Class of 2014	1,525	75	121	(246)	1,233
Class of 2015	3,043	627	1,432	-	2,238
Class of 2016	1,442	1,547	487	-	2,502
Class of 2017	-	480	67	2,128	2,541
Close Up	2,159	16,026	23,407	9,040	3,818
Concessions	31,754	63,300	46,320	(15,687)	33,047
Contributions	12,895	8,863	4,344	-	17,414
Contributions - tournament	9,186	54,126	51,311	2,798	14,799
Drama	5,425	462	563	-	5,324
FCCLA	1	1,384	1,384	-	1
FFA	13,965	25,262	32,646	2,367	8,948
FFA Insecto	523	260	195	-	588
FFA Investment	2,000	-	-	-	2,000
FFA Land Lab	8,989	1,420	-	-	10,409
FFA Twine	458	-	-	-	458
Football	7,645	6,993	9,409	-	5,229
Girls Basketball	-	6,111	3,886	-	2,225
Golf	-	5,395	5,395	-	-
HE Projects	593	-	-	-	593
Interest	2,819	(136)	-	-	2,683
Music	138	871	1,644	-	(635)
Northern B. Div.	302	900	1,202	-	-
Project Pals	109	-	56	(45)	8
Sculpture	2,844	-	-	-	2,844
Shop Card	1,419	346	-	-	1,765
Softball	-	6,991	6,991	-	-
Spanish Club	241	-	-	-	241
Speech	-	3,872	3,872	-	-
Student Council	484	1,253	2,465	1,125	397
Tennis	-	3,696	3,696	-	-
Track	-	3,409	3,409	-	-
VICA	216	55	160	-	111
VoAg	(389)	2,130	1,741	-	-
Volleyball	3,188	2,591	3,995	-	1,784
Weight Room	382	-	-	-	382
Wrestling	-	8,012	8,012	-	-
Yell Squad	1,029	168	15	-	1,182
	<u>\$ 176,326</u>	<u>\$ 261,942</u>	<u>\$ 260,161</u>	<u>\$ -</u>	<u>\$ 178,107</u>

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
SCHEDULE OF ENROLLMENT
Fiscal Year Ended June 30, 2014

	Elementary <u>District</u>	High School <u>District</u>
<u>Fall Enrollment 10/13</u>		
Reported Enrollment Totals per "2013-2014 School Fall Reports"	<u>380</u>	<u>172</u>
Reported Enrollment Totals per 2013-2014 School Attendance Enrollment Counts	<u>380</u>	<u>172</u>
<u>Winter Enrollment 12/13</u>		
Reported Enrollment Totals per "2013-2014 School Fall Reports"	<u>373</u>	<u>173</u>
Reported Enrollment Totals per 2013-2014 School Attendance Enrollment Counts	<u>373</u>	<u>173</u>
<u>Spring Enrollment 2/14</u>		
Reported Enrollment Totals per "2013-2014 School Spring Reports"	<u>362</u>	<u>166</u>
Reported Enrollment Totals per 2013-2014 School Attendance Enrollment Counts	<u>362</u>	<u>166</u>

INTERNAL CONTROL/COMPLIANCE SECTION

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

Board of Trustees
School District Number 10
Pondera County
Conrad, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District Number 10, Pondera County, Conrad, Montana (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 16, 2015.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations as Finding #2014-01 through #2014-04, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

School District Number 10, Pondera County, Conrad, Montana's Response to Findings

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

Purpose of this Report

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



Great Falls, Montana
January 16, 2015

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2014

Findings Relating to Financial Statements

Finding #2014-01

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

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

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

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

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

Management Response: The District does not believe that the benefits of instituting this control would justify the costs and chooses not to implement at this time. The District will investigate other options in order to address the spirit of the recommendation.

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
Year Ended June 30, 2014

Findings Relating to Basic Financial Statements (Continued)

Finding #2014-02

Criteria: GASB Statement No. 45 requires the governmental employer to compute and disclose the cost of postemployment benefits in the periods when the related services are received by the employer, provide information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded by the employer, and provide information useful in assessing potential demands on the employer's future cash flows.

Condition: The District has not yet implemented Governmental Accounting Standards Board (GASB) Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions."

Cause: The District does not believe the cost of implementing GASB No. 45 exceeds the benefit of reporting the potential liability.

Effect: The District's liabilities reflected on the statement of net position and the expenses reflected on the statement of activities are likely misstated, although the total effect of the potential misstatement cannot be determined at this time.

Recommendation: The District should seek the services of a qualified actuary to obtain the information needed to properly report OPEB costs on the District's financial statements, in accordance with GASB No. 45.

Management Response: The cost to implement the recommendation to this finding would be prohibitive at this time, compared to the benefits to be received.

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
Year Ended June 30, 2014

Findings Relating to Basic Financial Statements (Continued)

Finding #2014-03

Criteria: The District has a policy for employee usage of District credit cards which requires both a purchase order and an invoice to support the credit card expenditure.

Condition: In our testing of a month of credit card transactions, we noted instances where this policy was not being consistently followed by certain employees. Nine credit card charges did not have both a purchase order and an invoice to support the expenditure.

Cause: Employees do not always turn in supporting invoices to support the credit card expenditure.

Effect: The District could pay for charges that are not for goods or services received by the District.

Recommendation: The District needs to enforce its policy over the use of District credit cards, specifically the documentation required to be maintained and submitted by employees to support the appropriateness of charges incurred. The District should implement procedures to hold employees accountable for failure to remit proper supporting documentation.

Management Response: The District continues having trouble receiving documentation and authorization for credit card purchases. This has been an on-going concern, and we are continuing to address the issue with staff by reminding them when using the credit card they are required to turn in receipts. Denying use of the credit cards when traveling is really difficult as most motels and restaurants do not like purchase orders, their clerks do not know how to handle, and restaurants do not want to send a bill. The schools continue ordering on-line and there is some improvement writing accompanying purchase orders authorized by the Principal, but the District certainly has not resolved the issue and will continue emphasizing the importance of receipts and working to improve the process.

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
Year Ended June 30, 2014

Findings Relating to Basic Financial Statements (Continued)

Finding #2014-04

Criteria: The District's responsibility is to ensure accuracy of all employee timesheets, as well as indicate proper supervisory approval.

Condition: In our walkthrough of a payroll transaction, we noted there was no supervisory approval on the timesheet selected, which was for an hourly employee, and is also the employee who processes the District's payroll.

Cause: District personnel did not properly complete review and approval of the employee's timesheet as required.

Effect: Employees could be paid for hours not actually worked.

Recommendation: District personnel should review all timesheets of employees, especially hourly employees, in order to verify the accuracy of the information reported on the timesheets.

Management Response: It is the responsibility of the Principals and Supervisors to approve the classified staff timesheets of employees under their supervision. This has been addressed at administration meetings and all Principal's and Supervisors are aware of the importance. The Business Manager will continue monitoring the situation, reviewing all timesheets prior to processing, and contact the supervisor in charge regarding any unsigned timesheets so they can be approved for processing.

SCHOOL DISTRICT NUMBER 10
PONDERA COUNTY
CONRAD, MONTANA
STATUS OF PRIOR AUDIT FINDINGS
June 30, 2014

Previously noted deficiencies of School District Number 10, Pondera County, Conrad, Montana, and their current status are as follows:

<u>Finding</u>	<u>Current Status of Recommendation</u>
#2013-01 The District does not have an individual on staff trained to prepare its financial statements in accordance with generally accepted accounting principles.	Not implemented. See current year's finding on page 51.
#2013-02 The District has not implemented the provisions of GASB No. 45.	Not implemented. See current year's finding on page 52.
#2013-03 The District was not following their policy related to employee usage of District credit cards.	Not implemented. See current year's finding on page 53.



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