

**SCHOOL DISTRICT NUMBER 23
YELLOWSTONE COUNTY
BILLINGS, MONTANA**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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SCHOOL DISTRICT NUMBER 23

ORGANIZATION

June 30, 2014

BOARD OF TRUSTEES

Gary Hogan	Chairman
Bryan Wilson	Vice-Chairman
Bradley McCall	Trustee
Mike Weber	Trustee
Kelly Smith	Trustee

OFFICIALS

Lucas Larson	Superintendent
Laurie Hicketier	Clerk

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

ERNEST J. OLNESS, CPA

BRENT D. OLNESS, CPA
CURT D. WYSS, CPA

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
School District Number 23
Billings, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District Number 23, Billings, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

INDEPENDENT AUDITOR'S REPORT (Continued)

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2015, on our consideration of the government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the government's internal control over financial reporting and compliance.

Olinss & Associates, PC

Billings, Montana
May 11, 2015

SCHOOL DISTRICT NUMBER 23
MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis of School District Number 23's financial performance provides an overview of the government's financial activities for the year ended June 30, 2014. Please read the information here in conjunction with our financial statements and footnotes which begin on page 7.

FINANCIAL HIGHLIGHTS

- Net position increased \$413,769 as a result of this year's operations
- Total fund balance decreased \$3,023,413 over the prior year.
- There was a general fund budget amendment for \$57,122 due to an increase in enrollment.

USING THIS AUDIT REPORT

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Governmental funds—Basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations.

Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds use the accrual basis of accounting. We exclude these activities from the other financial statements because we cannot use these assets to finance our operations. We are responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SCHOOL DISTRICT NUMBER 23
MANAGEMENT'S DISCUSSION & ANALYSIS

THE GOVERNMENT AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In our case, assets exceeded liabilities by \$1,793,268 as of June 30, 2014.

NET POSITION	2014	2013	Change
Current and other assets	\$ 7,918,770	\$ 10,211,183	\$ (2,292,413)
Capital assets	4,113,012	1,103,776	3,009,236
Total assets	<u>12,031,782</u>	<u>11,314,959</u>	<u>716,823</u>
Other liabilities	722,120	-	722,120
Long-term liabilities	9,516,394	9,935,460	(419,066)
Total liabilities	<u>10,238,514</u>	<u>9,935,460</u>	<u>303,054</u>
Net position:			
Net investment in capital assets	1,474,258	1,103,776	370,482
Restricted	226,483	257,938	(31,455)
Unrestricted	92,527	17,785	74,742
	<u>\$ 1,793,268</u>	<u>\$ 1,379,499</u>	<u>\$ 413,769</u>
CHANGE IN NET POSITION:	2014	2013	Change
Revenues:			
Program revenues:			
Charges for services	\$ 38,689	\$ 32,924	\$ 5,765
Operating grants and contributions	211,923	178,691	33,232
General revenues:			
Taxes	1,274,971	656,229	618,742
State sources	763,746	674,567	89,179
County sources	167,694	135,985	31,709
Miscellaneous	971	7,734	(6,763)
Interest	44,520	1,019	43,501
Other	-	1,200	(1,200)
Total revenues	<u>2,502,514</u>	<u>1,688,349</u>	<u>814,165</u>
Expenses:			
Instruction	1,085,388	889,114	196,274
Support services-students	3,471	-	3,471
Support services-instructional staff	69,133	87,534	(18,401)
Support services-general administration	167,749	137,833	29,916
Support services-administration	49,713	220	49,493
Support services-business	50,341	48,334	2,007
Operation and maintenance	176,173	179,950	(3,777)
Student transportation	40,935	40,500	435
Food services	164,192	147,295	16,897
Extracurricular	7,989	7,250	739
Interest	273,661	33,250	240,411
Total expenses	<u>2,088,745</u>	<u>1,571,280</u>	<u>517,465</u>
Change in net position	413,769	117,069	296,700
Net position, beginning	<u>1,379,499</u>	<u>1,262,430</u>	<u>117,069</u>
Net position, ending	<u>\$ 1,793,268</u>	<u>\$ 1,379,499</u>	<u>\$ 413,769</u>

Revenues increased \$814,000 over the prior year. The increase occurred because of an increase in taxes for debt service and state aid. The increase in state aid was due to an increase in enrollment.

SCHOOL DISTRICT NUMBER 23
MANAGEMENT'S DISCUSSION & ANALYSIS

Expenses increased \$517,000 over the prior year. This was mainly attributable to additional employees, employee raises, and additional technology and operations and maintenance spending.

FUND FINANCIAL STATEMENTS

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

Fund balance for the general fund increased \$3,265. The increase occurred because we did not spend all of general fund budget.

Fund balance for the debt service fund decreased \$36,921. The decrease in fund balance occurred because available current year expenditures exceeded current year revenues.

The building fund fund balance decreased \$2,958,091. \$9,465,000 in general obligation bonds were issued in May 2013 for a school building addition. Completion is expected in the Fall of 2015.

There was a general fund budget amendment for \$57,122 for an increase in enrollment.

CAPITAL ASSET AND DEBT ADMINISTRATION

During the year, we incurred costs related to the building addition. A copier, gym curtain and security doors were also purchased during the year.

As of June 30, 2014, outstanding debt consisted of general obligation bonds and compensated absences.

THE GOVERNMENT'S FUTURE

The Elysian School District continues expansion, residentially and commercially. Over the last few years, both new subdivisions in our district have provided our school enrollment increases and will continue to do so. Recently the City of Billings incorporated more land within the district into the city limits. This was at the request of realtors looking to expand the building of subdivisions in the district. As part of the incorporation, Elysian Schools will be included in the city limits which includes access to water and sewer once the project has been completed this summer. This project will significantly impact the future growth rate of the district. For the school year 2014-2015 most of our students will be in-district students; some grades are at capacity with just in-district students. Enrollment continues to be the basis of revenue distribution to schools from the State of Montana, so we are fortunate to be gaining in the area of enrollment. For FY 2015, our district had an increased budget authority, enough so that we will not seek voter approval for a mill levy. A budget amendment was passed in October 2013 and October 2014 allowing the district to expand the General Fund budget without a vote. The additional enrollment in the 2014-15 school year grew but is leveling off so it will not significantly impact the General Fund's budget authority for the 2015-16 school year. Once the new McCall subdivision starts building, the school district will start to increase in enrollment as it did with the previous McCall subdivision allowing future budgets to grow without a voted levy. There is capacity in the general fund budget to grow with a voted levy if needed.

Elysian School is stable financially. Challenges will continue to be on the horizon as a result of growth and development. The District passed a \$10,000,000 bond issue in the 2013-14 school year for a building expansion to accommodate the future growth of the District for the next 5-10 years. The District also purchased adjacent land that is part of the bond issue to expand the size of the campus. The building will be completed in the summer of 2015 and has the capacity to sustain significant growth for the next 5 years.

Commercial property development within our district boundaries continues as does new housing. This kind of development continues to strengthen our taxable valuation. A major piece of land close to the school was approved as commercial land by the county commissioners in the fall of 2014. This is a significant parcel of land and development of this property will just add to the taxable valuation of the district.

The students at Elysian continue to perform well in all aspects of the education system. Our district has no deviations from full accreditation requirements, all staff is highly qualified as defined in the Federal No Child Left Behind Act (NCLB), and diligence continues to meet the mandates of the NCLB. The district continues to meet AYP (Annual Yearly Progress).

We continue to enjoy great support from our community, staff, administration, out-of-district families and welcome our new in-district families. Elysian School remains committed to financial excellence. Our system of financial planning, budgeting, and internal financial controls remain sound and are well regarded.

SCHOOL DISTRICT NUMBER 23
STATEMENT OF NET POSITION
June 30, 2014

ASSETS	
Cash and cash equivalents	\$ 7,866,594
Receivables:	
Taxes	38,696
Governments	13,480
Capital assets:	
Land and construction in progress	3,083,240
Capital assets, net of accumulation depreciation	<u>1,029,772</u>
 Total assets	 <u>12,031,782</u>
 LIABILITIES	
Accounts payable and accrued expenses	722,120
Long-term liabilities:	
Due within one year	
Bonds	305,000
Compensated absences	1,944
Due in more than one year:	
Bonds	9,191,959
Compensated absences	<u>17,491</u>
 Total liabilities	 <u>10,238,514</u>
 NET POSITION	
Net investment in capital assets	1,474,258
Restricted for:	
Instruction	121,724
Support services:	
Instructional staff	2,099
General administration	3,778
School administration	1,679
Business services	840
Operation and maintenance	59,779
Student transportation	20,676
Food services	15,908
Unrestricted	<u>92,527</u>
 Total net position	 <u><u>\$ 1,793,268</u></u>

SCHOOL DISTRICT NUMBER 23
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Instruction	\$ 1,085,388	\$ -	\$ 137,320	\$ (948,068)
Support services:				
Students	3,471	-	-	(3,471)
Instructional staff	69,133	-	-	(69,133)
General administration	167,749	-	-	(167,749)
School administration	49,713	-	-	(49,713)
Business services	50,341	-	-	(50,341)
Operation and maintenance	176,173	-	-	(176,173)
Student transportation	40,935	-	13,986	(26,949)
Food services	164,192	38,689	60,617	(64,886)
Extracurricular	7,989	-	-	(7,989)
Interest	273,661	-	-	(273,661)
Total	\$ 2,088,745	\$ 38,689	\$ 211,923	(1,838,133)
General revenues:				
Property taxes				1,274,971
Intergovernmental:				
State aid				623,697
State other				140,049
County				167,694
Interest				44,520
Miscellaneous				971
Total general revenues				<u>2,251,902</u>
Change in net position				413,769
Net position - beginning				<u>1,379,499</u>
Net position - ending				<u>\$ 1,793,268</u>

SCHOOL DISTRICT NUMBER 23
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General	Debt Service	Building	Total Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 49,943	\$ -	\$ 7,580,325	\$ 236,326	\$ 7,866,594
Receivables:					
Taxes	19,847	14,448	-	4,401	38,696
Governments	-	-	-	13,480	13,480
Due from other funds	36,921	-	-	-	36,921
Total assets	\$ 106,711	\$ 14,448	\$ 7,580,325	\$ 254,207	\$ 7,955,691
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ 722,120	\$ -	\$ 722,120
Due to other funds	-	36,921	-	-	36,921
Total liabilities	-	36,921	722,120	-	759,041
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-property taxes	19,847	14,448	-	4,401	38,696
Total deferred inflows of resources	19,847	14,448	-	4,401	38,696
FUND BALANCES					
Restricted:					
Instruction	-	-	-	120,683	120,683
Support services:					
Instructional staff	-	-	-	2,099	2,099
General administration	-	-	-	3,778	3,778
School administration	-	-	-	1,679	1,679
Business services	-	-	-	840	840
Operation and maintenance	-	-	-	58,274	58,274
Student transportation	-	-	-	18,821	18,821
Food services	-	-	-	15,908	15,908
Capital projects	-	-	6,858,205	-	6,858,205
Committed:					
Instruction	-	-	-	27,724	27,724
Unassigned	86,864	(36,921)	-	-	49,943
Total fund balances	86,864	(36,921)	6,858,205	249,806	7,157,954
Total liabilities, deferred inflows of resources and fund balances	\$ 106,711	\$ 14,448	\$ 7,580,325	\$ 254,207	\$ 7,955,691

SCHOOL DISTRICT NUMBER 23
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2014

Total fund balances, governmental funds	\$ 7,157,954
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	4,113,012
Other long-term assets are not available to pay current period expenditures and, therefore, are reported as deferred inflows of resources in the funds.	38,696
Some liabilities, including compensated absences, bonds payable and bonds discounts and premiums, are not due and payable in the current period and, therefore, are not included in the funds.	<u>(9,516,394)</u>
Net position of governmental activities	<u><u>\$ 1,793,268</u></u>

SCHOOL DISTRICT NUMBER 23
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General	Debt Service	Building	Total Nonmajor Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 546,598	\$ 653,212	\$ -	\$ 66,281	\$ 1,266,091
Intergovernmental:					
County	-	-	-	174,687	174,687
State aid	623,697	-	-	-	623,697
State other	176,555	-	-	20,402	196,957
Federal	-	-	-	148,022	148,022
Charges for services	-	-	-	36,025	36,025
Interest	500	1,000	42,620	400	44,520
Miscellaneous	971	-	-	2,664	3,635
Total revenues	1,348,321	654,212	42,620	448,481	2,493,634
EXPENDITURES					
Current:					
Instruction	823,918	-	-	232,628	1,056,546
Support services:					
Students	-	-	-	3,471	3,471
Instructional staff	63,076	-	-	4,365	67,441
General administration	140,902	-	-	28,529	169,431
School administration	43,141	-	-	6,245	49,386
Business services	40,037	-	-	9,953	49,990
Operation and maintenance	149,175	-	10,507	15,258	174,940
Student transportation	-	-	-	40,935	40,935
Food services	43,808	-	-	120,936	164,744
Extracurricular	6,983	-	-	1,006	7,989
Capital outlay	40,546	-	2,990,204	10,291	3,041,041
Debt service:					
Principal	-	395,000	-	-	395,000
Interest and other charges	-	296,133	-	-	296,133
Total expenditures	1,351,586	691,133	3,000,711	473,617	5,517,047
Net change in fund balances	(3,265)	(36,921)	(2,958,091)	(25,136)	(3,023,413)
Fund balances - beginning	90,129	-	9,816,296	274,942	10,181,367
Fund balances - ending	\$ 86,864	\$ (36,921)	\$ 6,858,205	\$ 249,806	\$ 7,157,954

SCHOOL DISTRICT NUMBER 23
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds \$ (3,023,413)

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

Governmental funds report capital outlay expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

This is the amount by which capital outlay (\$3,041,041) exceeded depreciation (\$31,805) in the current period. 3,009,236

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. 8,880

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are included with bonds payable and amortized in the statement of activities. The following details the differences in the treatment of long-term debt and related items:

Amortization of premium on general obligation bonds issued	26,731
Amortization of discount on general obligation bonds issued	(4,259)
Principal paid on long-term debt	395,000

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	1,594
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Change in net position of governmental activities	\$ 413,769
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SCHOOL DISTRICT NUMBER 23
STATEMENT OF NET POSITION
FIDUCIARY FUND
June 30, 2014

	<u>Private Purpose Trust Fund- Extracurricular</u>
ASSETS	
Cash and cash equivalents	<u>\$ 28,435</u>
Total assets	<u>28,435</u>
NET POSITION	
Held in trust	<u><u>\$ 28,435</u></u>

SCHOOL DISTRICT NUMBER 23
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND
For the Year Ended June 30, 2014

	<u>Private Purpose Trust Fund- Extracurricular</u>
ADDITIONS	
Student extracurricular activities	<u>\$ 31,525</u>
Total additions	<u>31,525</u>
DEDUCTIONS	
Student extracurricular activities	<u>32,711</u>
Total deductions	<u>32,711</u>
Change in net position	(1,186)
Net position - beginning	<u>29,621</u>
Net position - ending	<u><u>\$ 28,435</u></u>

SCHOOL DISTRICT NUMBER 23
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The government's significant accounting policies are described below.

Reporting Entity

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

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

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

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

SCHOOL DISTRICT NUMBER 23
NOTES TO BASIC FINANCIAL STATEMENTS

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

The government reports the following major governmental funds:

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

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

The building fund is authorized by Section 20-9-508, MCA. It is used primarily to account for the proceeds of bonds sold for the purposes provided in Section 20-9-403, MCA.

Additionally, the government reports the following fund type:

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

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

Cash and Investments

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

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

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans).

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

Inventories

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

Capital Assets

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

SCHOOL DISTRICT NUMBER 23
NOTES TO BASIC FINANCIAL STATEMENTS

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

<u>Assets</u>	<u>Years</u>
Building and improvements	25-80
Machinery and equipment	5-20

Collections Not Capitalized

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

Compensated Absences

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

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

Sick leave is accumulated for classified employees at the rate of 12 days per year with no limit on the carry over amount. Flex leave for certified personnel (teachers) is awarded at 15 days per year up to a cumulative maximum of 100 days. Upon retirement or resignation, classified employees are eligible for sick leave compensation at one fourth of the accumulated amount. Certified employees with 10 or more years of service are eligible for flex leave compensation at one fourth of the accumulated amount paid at the current daily guest teacher wage. Certified employees who chose not to accumulate days are paid at year end.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond issuance costs are recognized as an expense in the period incurred. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Inflows of Resources

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

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

Net Position

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

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

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

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

SCHOOL DISTRICT NUMBER 23
NOTES TO BASIC FINANCIAL STATEMENTS

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

Fund Balance

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

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

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

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

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

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

The governing body has by resolution authorized the clerk to assign fund balance. There was no assigned fund balance in the general fund.

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

Use of Estimates

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Equity

The debt service fund had a deficit fund balance of \$36,921 as of June 30, 2014. The deficit occurred because expenditures exceeded revenues in the current year. The deficit is expected to be eliminated by collecting delinquent taxes and increasing the property tax levy.

NOTE 3. DETAILED NOTES ON ALL FUNDS

Equity in Pooled Cash and Investments

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

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

SCHOOL DISTRICT NUMBER 23
NOTES TO BASIC FINANCIAL STATEMENTS

Capital Assets

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

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets, not being depreciated				
Land	\$ 9,049	\$ 713,139	\$ -	\$ 722,188
Construction-in-progress	65,103	2,295,949	-	2,361,052
Total capital assets, not being depreciated	<u>74,152</u>	<u>3,009,088</u>	<u>-</u>	<u>3,083,240</u>
Capital assets, being depreciated				
Buildings/improvements	1,418,805	8,052	-	1,426,857
Machinery and equipment	145,049	23,901	-	168,950
Total capital assets, being depreciated	<u>1,563,854</u>	<u>31,953</u>	<u>-</u>	<u>1,595,807</u>
Less accumulated depreciation for:				
Buildings/improvements	(431,543)	(23,590)	-	(455,133)
Machinery and equipment	(102,687)	(8,215)	-	(110,902)
Total accumulated depreciation	<u>(534,230)</u>	<u>(31,805)</u>	<u>-</u>	<u>(566,035)</u>
Total capital assets, being depreciated, net	<u>1,029,624</u>	<u>148</u>	<u>-</u>	<u>1,029,772</u>
Capital assets, net	<u>\$ 1,103,776</u>	<u>\$ 3,009,236</u>	<u>\$ -</u>	<u>\$ 4,113,012</u>

Depreciation expense was charged as follows:

Instruction	\$ 25,737
Support services-instructional staff	1,692
Support services-administration	327
Support services-business	371
Operation and maintenance	2,287
Food services	1,391
	<u>\$ 31,805</u>

Interfund Receivables and Payables

Interfund balances as of June 30, 2014, consisted of the debt service fund owing the general fund \$36,921. The interfund loan was made to cover the cash deficit. The interfund loan is expected to be repaid in fiscal year 2015.

Long-Term Debt

The government issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 20-year serial bonds. General obligation bonds currently outstanding are as follows:

	Original Amount	Term	Interest Rate	Balance June 30, 2014
2013 General obligation debt	\$ 9,465,000	20 yr	2 to 4%	<u>\$ 9,070,000</u>

SCHOOL DISTRICT NUMBER 23
NOTES TO BASIC FINANCIAL STATEMENTS

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

Year ending June 30,	Principal	Interest	Total
2015	\$ 305,000	\$ 264,400	\$ 569,400
2016	190,000	258,300	448,300
2017	195,000	254,500	449,500
2018	320,000	250,600	570,600
2019	445,000	244,200	689,200
2020-2024	2,375,000	1,083,500	3,458,500
2025-2029	2,705,000	741,240	3,446,240
2030-2034	2,535,000	223,600	2,758,600
	<u>\$ 9,070,000</u>	<u>\$ 3,320,340</u>	<u>\$ 12,390,340</u>

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

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Bonds payable:					
General obligation debt	\$ 9,465,000	\$ -	\$ (395,000)	\$ 9,070,000	\$ 305,000
Premium	534,616	-	(26,731)	507,885	-
Discount	(85,185)	-	4,259	(80,926)	-
	<u>9,914,431</u>	<u>-</u>	<u>(417,472)</u>	<u>9,496,959</u>	<u>305,000</u>
Compensated absences	21,029	-	(1,594)	19,435	1,944
Total long-term liabilities	<u>\$ 9,935,460</u>	<u>\$ -</u>	<u>\$ (419,066)</u>	<u>\$ 9,516,394</u>	<u>\$ 306,944</u>

Compensated absences are generally liquidated in the fund in which the employee is paid from.

NOTE 4. OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; professional liability (i.e., errors and omissions); workers compensation (i.e., employee injuries); medical insurance costs; and environmental damages. A variety of methods is used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for theft, damage or destruction of assets, professional liabilities and employee medical costs. The government participates in the Montana Schools Group's Workers' Compensation Risk Retention Program, a state-wide public risk pool currently operating as a common risk management and insurance program for the member school districts. The government pays quarterly premiums for its employee injury insurance coverage. The agreement for formation of the pool provides that it will be self-sustaining through member premiums. There are no deductibles or maximum coverage limits in the plan. Given lack of coverage available, the government has no coverage for potential losses from environmental damages. Coverage limits and the deductibles on the commercial policies have remained relatively constant for the last several years. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Interlocal Cooperative

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

Commitments and Contingencies

At year-end, the government had commitments outstanding, in the form of contracts, of approximately \$6.9 million, primarily for the school expansion project.

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

SCHOOL DISTRICT NUMBER 23
NOTES TO BASIC FINANCIAL STATEMENTS

amounts, if any to be immaterial.

Retirement Plans

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

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

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

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

TRS:

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

PERS:

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

The State of Montana contributes .37% and 2.49% per year to the PERS and TRS plans, respectively, on behalf of the employer. The State of Montana on-behalf TRS (\$21,305) contribution has been recorded in the financial statements.

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

	2014	2013	2012
TRS	\$ 142,204	\$ 105,974	\$ 92,504
PERS	22,787	17,277	20,772
	\$ 164,991	\$ 123,251	\$ 113,276

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

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

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT NUMBER 23
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
REVENUES					
Property taxes	\$ 563,050	\$ 563,050	\$ 546,598	\$ -	\$ 546,598
Intergovernmental:					
State aid	566,575	623,697	623,697	-	623,697
State other	155,250	155,250	155,250	21,305	176,555
Interest	500	500	500	-	500
Miscellaneous	618	618	971	-	971
Total revenues	<u>1,285,993</u>	<u>1,343,115</u>	<u>1,327,016</u>	<u>21,305</u>	<u>1,348,321</u>
EXPENDITURES					
Total expenditures	<u>1,285,993</u>	<u>1,343,115</u>	<u>1,330,281</u>	<u>21,305</u>	<u>1,351,586</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	(3,265)	-	(3,265)
Fund balances - beginning			90,129	-	90,129
Fund balances - ending			<u>\$ 86,864</u>	<u>\$ -</u>	<u>\$ 86,864</u>

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

State law requires budgets be prepared for certain funds - generally those supported by property tax revenues. Budgets are prepared on the modified accrual basis. State law requires only that a fund's total expenditures not exceed total budgeted expenditures. Budgets may be amended as defined by State law. There was a budget amendment of \$57,122 for increased enrollment during the year. The budget amendment was funded with additional state aid.

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

State law permits the inclusion of obligations (encumbrances) for construction in progress and the purchase of personal property as expenditures for budget purposes. The budget to GAAP difference above consists the TRS on-behalf contribution.

OTHER SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT NUMBER 23
 EXTRACURRICULAR FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 For the Year Ended June 30, 2014

Activity	Balance July 1, 2013	Revenues	Expenditures	Balance June 30, 2014
General Activity	\$ 19,173	\$ 21,464	\$ 22,426	\$ 18,211
Fundraising	7,546	-	671	6,875
Pop Fund	170	-	-	170
Library Fund	58	4,863	4,519	402
Student Council	925	-	-	925
3rd Grade	52	1,812	1,864	-
Yearbook Fund	1,030	2,124	1,940	1,214
Outreach	210	-	84	126
8th Grade Graduation	22	983	985	20
Afterschool Club	291	-	-	291
Music	144	279	222	201
Total	\$ 29,621	\$ 31,525	\$ 32,711	\$ 28,435

SCHOOL DISTRICT NUMBER 23
 SCHEDULE OF SCHOOL DISTRICT ENROLLMENT
 For the Year Ended June 30, 2014

	<u>Reported Enrollment</u>	<u>Enrollment per Records</u>	<u>Difference</u>
FALL ENROLLMENT - October 2013			
<u>Elementary District</u>			
Kindergarten	26	26	-
Grades one through six	173	173	-
Grades seven and eight	39	39	-
	<u>238</u>	<u>238</u>	<u>-</u>
WINTER ENROLLMENT - December 2013			
<u>Elementary District</u>			
Kindergarten	26	26	-
Grades one through six	171	171	-
Grades seven and eight	38	39	(1)
	<u>235</u>	<u>236</u>	<u>(1)</u>
SPRING ENROLLMENT - February 2014			
<u>Elementary District</u>			
Kindergarten	27	27	-
Grades one through six	172	172	-
Grades seven and eight	41	41	-
	<u>240</u>	<u>240</u>	<u>-</u>

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

To the Board of Trustees
School District Number 23
Billings, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District Number 23, Billings, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated May 11, 2015.

Internal Control over Financial Reporting

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

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

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

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings to be a significant deficiency. (Finding 2014-003)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the government's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 2014-003.

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

The Government's Response to Findings

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

Purpose of this Report

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

O'neill & Associates, PC

Billings, Montana
May 11, 2015

SCHOOL DISTRICT NUMBER 2
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2014

2014-001. FINANCIAL STATEMENT PREPARATION

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

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

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

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

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

2014-002. SEGREGATION OF DUTIES

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

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

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

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

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

2014-003. ENROLLMENT UNDER REPORTED

Criteria: Average Number Belonging (ANB) is the key figure in calculating the financial support that a school district will receive under the school BASE Funding Program. ANB for each district is obtained from the enrollment counts reported to OPI.

Condition: The district underreported enrollment by one seventh grader on the winter enrollment count submitted to OPI.

Cause: Unknown

Effect: Increase in the financial support that the district will receive under the school BASE Funding Program.

Recommendation: Before each enrollment report is submitted to OPI, the reports should be agreed to the detail supporting enrollment data and reviewed by someone independent of their preparation.

SCHOOL DISTRICT NUMBER 23
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

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