

Board of Trustees
 Heart Butte School District No. 1
 Pondera County
 Heart Butte, Montana 59448

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Board of Trustees
Heart Butte School District No. 1
Pondera County
Heart Butte, Montana 59448

ORGANIZATION
Fiscal Year Ended June 30, 2014

BOARD OF TRUSTEES

Grinnell Day Chief	Chairman
Tammy Running Crane	Vice Chairman
Glenna Hall	Trustee
Burton Butterfly	Trustee
Harold Spotted Eagle	Trustee

OFFICIALS

Russ McKenna	Superintendent
Tiffany Sinclair	Business Manager/District Clerk
Jeanne Moon	County Superintendent
Maryann Ries	County Attorney

Heart Butte K-12 Schools

Management's Discussion and Analysis

This section of the Heart Butte School District Financial Statements presents the management's discussion and analysis of the financial performance during the fiscal year ending June 30, 2014. This narrative overview and analysis of the financial activities of the Heart Butte District includes a comparison of prior year financial statements as per compliance with Governmental Accounting Standards Board Statement #34. Readers of the management's discussion and analysis are encouraged to consider the information presented in this section as well as other areas of the financial statements.

Financial Highlights

- ✚ The Heart Butte District assets exceeded liabilities in FY (fiscal year) 2014 by \$3,529,798.
- ✚ The overall revenues from all sources for the Heart Butte School District for the FY 2014 were \$3,022,099 which represented a 19.6% decrease from the previous year.
- ✚ Federal sources of revenue decreased 46.5% or \$810,951 in FY 2014.
- ✚ State sources of revenue decreased 5.55% or \$72,195 in FY 2014.
- ✚ Revenue from operating grants and contributions was up 35.1% or \$130,863 for FY 2014.
- ✚ County revenue was up \$42,778 in FY 2014.
- ✚ Approximately 30.8% of the total Heart Butte School District revenue was collected from federal sources in FY 2014 compared to 46.4% in FY 2013. The District received 40.6% of the total revenue in FY 2014 from state sources compared to 34.6% in FY 2013.
- ✚ The District expenses decreased 2.12% for FY 2014 and were \$3,042,898.
- ✚ The Heart Butte School District expenses exceeded revenues for FY 2014 by \$20,799.
- ✚ The Heart Butte School District Net Position decreased by 30.1% at the close of FY 2014 mainly due to a correction in the value of the capital assets in the district.
- ✚ The district has capital assets of \$1,417,319 after depreciation is subtracted in FY 2014.
- ✚ Expenses for instruction decreased 3.58% in FY 2014 and account for 40.6% (41.2% in FY 2013) of the district expenses.
- ✚ The district had total governmental fund balances of \$2,234,146 at the end of FY 2014 which was a 6.4% increase from FY 2013.
- ✚ The overall financial position of the Heart Butte District is very good at the end of FY 2014.

Overview of the Heart Butte School District Financial Statements

The management's discussion and analysis report is intended to serve as an introduction to the basic financial statements of the Heart Butte K-12 Schools. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. It also, contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Heart Butte School District finances in a manner similar to a private-sector business. This broad overview will be accomplished using a *statement of net position* and a *statement of activities*. Each statement will distinguish between governmental and business type activities and between the total governmental and business type activities of the school district.

The *statement of net position* presents information on all of the assets and liabilities of the Heart Butte School District, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Heart Butte School District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Heart Butte School District principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Most services normally associated with school government fall into the governmental activity category including instruction, support services, general, school and business administrative services, operation and maintenance, student transportation, community services, and other expenditures. The Heart Butte District does not operate any business-type activities.

Fund-based Financial Statements

Fund-based financial statements, consisting of a series of statements, provide information about government's major and non-major governmental funds. These governmental fund financial statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The governmental fund statements consist of the balance sheet and statement of revenues, expenditures, and change in fund balance.

A *fund* is a group of related accounts used to maintain control over resources segregated for specific activities or objectives. The Heart Butte District, like other state and local governments, use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Heart Butte District can be divided into three categories: governmental, proprietary, and fiduciary funds.

Governmental funds

Governmental funds are used to account for essentially the same function reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term *inflows and outflows of spendable resources*, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the near-term financing decisions of the Board of Trustees of the Heart Butte Schools. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Heart Butte School District is recognized by state law as one entity which consists of the Elementary School (grades K-8) and High School (grades 9-12). Major governmental funds are reported separately and all other funds are combined for this report. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Miscellaneous Fund because they were the major funds for FY 2014. The other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Heart Butte District adopts an annual appropriated budget for its general funds, select special revenue, debt service, and building reserve funds as required by state law. A budgetary comparison is provided for all budgeted funds later in this report.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds may include pension and employee benefit trust funds where resources are held in trust for employee benefit plans. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the programs of the Heart Butte School District. Student activity accounts and scholarship trusts are the most common fiduciary funds in school district. The Heart Butte School District has fiduciary funds in their Student Activity Account Fund and Private Purpose Trust Fund.

Notes to the Financial Statements

The notes to the financial statements provide additional information that can be very helpful to a full understanding of the data provided in the government-wide and fund financial statements and can be found later in this report.

Other information

In addition to the basic financial statements and the accompanying notes, this report also presents certain *required supplementary information* concerning the official student enrollment and federal grant audit reports.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the financial position of the government. In the case of the Heart Butte School District, assets exceeded liabilities by \$3,529,798 at the close of FY 2014. Net position for the district at the end of FY 2014 showed a 30.16% decrease from the close of FY 2013. The reasons for the decrease were a reduction of \$2,026,739 in the value of capital assets for the district. The decrease was a correction in the current value and the accumulation of depreciation which had not been reported since 2003. Current and other assets increased by 5.4% in FY 2014. District liabilities decreased by 79% mostly due to an 80.8% decrease in long-term liabilities which was the result of a recalculation of the OPEB liability and the pay off of the bus lease. The total net position of the district decreased by 30.16% or \$1,524,203 during FY 2014 after an asset decrease of 35.9% and a liability decrease of 79%. The chart on the following page presents information on the district net position for fiscal years 2013 and 2014. The right hand column shows the percentage change in each category.

Overall Financial Position of the District for FY 2014

The overall financial position of the Heart Butte School District at the end of FY 2014 was very good even with a decrease in total net position. During FY 2014 the district total net position decreased by 30.16% or \$1,524,203. The district had an asset decrease of \$2,059,467 (down 35.9%) and a liability decrease of \$535,261 (down 79%). The reasons for the decrease were a reduction of \$2,026,739 in the value of capital assets for the district. The decrease was a correction in the current value and the accumulation of depreciation which had not been reported since 2003. The decrease in liabilities was mostly due to an 80.8% decrease in long-term liabilities which was the result of a recalculation of the OPEB liability and the pay off of the bus lease. In addition, the governmental funds of the school district reported a combined ending fund balance of \$2,234,146 at the end of FY 2014 which represents a 6.4% increase from FY 2013. The general fund is the main operating fund of the Heart Butte School District. At the end of FY 2013, the General Fund had a balance of \$2,087,142 and at the close of FY 2014 the balance was \$2,106,253 which was nearly a 1% increase. At the end of FY 2014 the district continued to have a strong financial condition even with the decrease in capital assets which was partially offset by the decrease in liabilities.

Net position of the Heart Butte School District

	Governmental Activities			
	FY 2013	FY 2014	Change	Percent Change
Current and Other Assets	\$2,139,206	\$2,254,597	\$115,391	5.39%
Capital Assets	\$3,592,177	\$1,417,319	(\$2,174,858)	-60.54%
Total Assets	\$5,731,383	\$3,671,916	(\$2,059,467)	-35.93%
Liabilities				
Current Liabilities	\$73,625	\$26,469	(\$47,156)	-64.05%
Long-term Liabilities Outstanding	\$603,756	\$115,651	(\$488,105)	-80.84%
Total Liabilities	\$677,381	\$142,120	(\$535,261)	-79.02%
Net Position				
Investment in Capital Assets	\$3,565,918	\$1,415,937	(\$2,149,981)	-60.29%
Restricted	\$0	\$81,492	\$81,492	100.0%
Unrestricted	\$1,488,083	\$2,038,467	\$550,384	37.0%
Total Net Position	\$5,054,001	\$3,529,798	(\$1,524,203)	-30.16%

A large portion of the net position of the Heart Butte District at the close of FY 2014 (40.1% – was 70.6% in FY 2013) reflects the District’s *investment in capital assets* such as buildings, machinery, and equipment. The capital assets of the Heart Butte District have no related debt. The Heart Butte School District uses these capital assets to provide educational and related services to students; and as a result, these assets are not available for future spending.

Restricted net position increased by \$81,492 in fiscal year 2014 primarily due to further implementation of GASBS 54. Restricted net position is restricted by enabling legislation.

Another portion of the net position of the Heart Butte School District (59.9% in FY 2013 – was 29.4% in FY 2013) represent *unrestricted net position* which may be used to meet the ongoing obligations of the school district to citizens and creditors. The unrestricted funds increased by 37% from FY 2013 to FY 2014. The Heart Butte School District was able to report a positive balance of net position for both the government as a whole, as well as for governmental activities. The net position of the Heart Butte School District decreased \$1,524,203 or 30.1% during FY 2014. This decrease in net position was mostly a correction in the current value and the accumulation of depreciation which had not been included for capital assets.

Governmental activities

Net position derived from governmental activities for the Heart Butte School District decreased by 30.1% or \$1,524,203 during the 2014 fiscal year.

District Wide - Statement of Activities

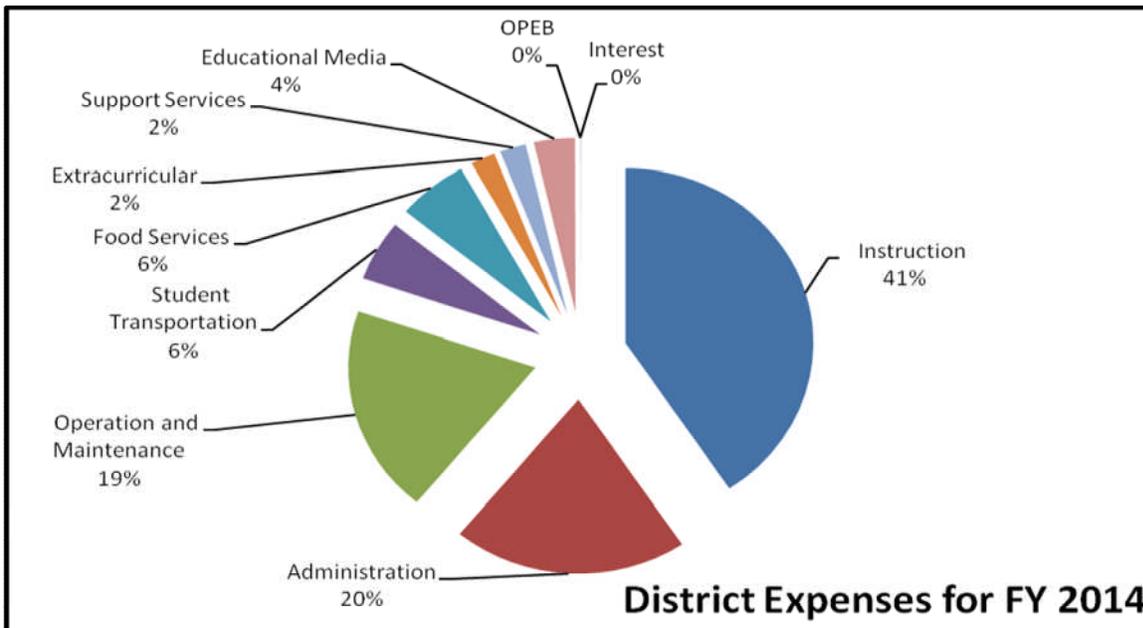
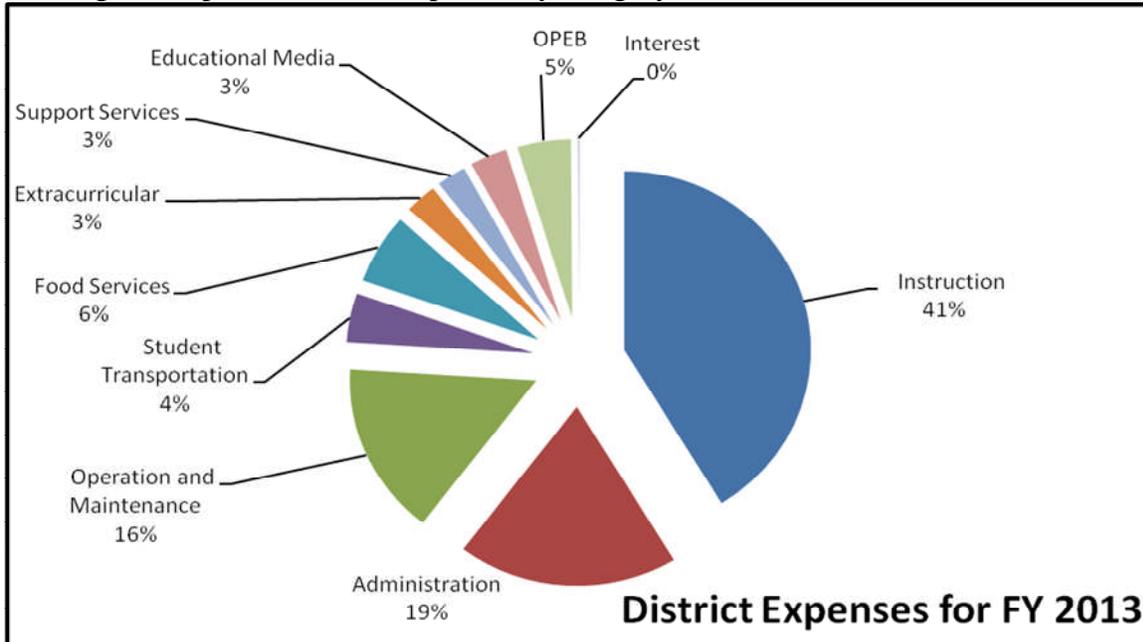
	Governmental Activities		Change	% Change
	FY 2013	FY 2014		
Program Revenues:				
Charges for Services	\$53,498	\$38,945	(\$14,553)	-27.20%
Operating Grants & Contributions	\$372,330	\$503,193	\$130,863	35.15%
General Revenues				
Property taxes	\$4,131	\$8,606	\$4,475	108.33%
Interest	\$7,177	\$6,818	(\$359)	-5.00%
State	\$1,301,234	\$1,229,039	(\$72,195)	-5.55%
County	\$237,222	\$280,000	\$42,778	18.03%
Federal	\$1,742,897	\$931,946	(\$810,951)	-46.53%
All other	\$39,964	\$23,551	(\$16,413)	-41.07%
Total Revenues	\$3,758,453	\$3,022,099	(\$736,354)	-19.59%
Expenses:				
Instruction	\$1,283,879	\$1,237,933	(\$45,946)	-3.58%
Administration	\$594,071	\$616,273	\$22,202	3.74%
Operation and Maintenance	\$484,571	\$587,587	\$103,016	21.26%
Student Transportation	\$136,114	\$171,821	\$35,707	26.23%
Food Services	\$196,484	\$187,024	(\$9,460)	-4.81%
Extracurricular	\$86,570	\$64,520	(\$22,050)	-25.47%
Support Services	\$79,561	\$68,982	(\$10,579)	-13.30%
Educational Media	\$100,040	\$107,327	\$7,287	7.28%
OPEB	\$144,460	\$0	(\$144,460)	-100.00%
Interest	\$2,927	\$1,431	(\$1,496)	-51.11%
Total expenses	\$3,108,677	\$3,042,898	(\$65,779)	-2.12%
Increase (Decrease) in Net Position	\$649,776	(\$20,799)	(\$670,575)	-103.20%
Prior Period Adjustments	\$383,276	(\$1,503,404)	(\$1,886,680)	-492.25%
Beginning Net Position	\$4,020,948	\$5,054,001	\$1,033,053	25.69%
Ending Net Position	\$5,054,001	\$3,529,798	(\$1,524,203)	-30.16%

Changes in district wide governmental activities from FY 2013 to FY 2014 include:

- ✚ Total Revenues for the district were down 19.6% or \$736,354.
- ✚ Total expenses for the district were down 2.12% or \$65,779.
- ✚ Revenue from property taxes increased by 108% or \$4,475.
- ✚ State revenue was down 5.55% or \$72,195 and county revenue was up 18% or \$42,778.
- ✚ Federal revenue was down 46.5% or \$810,951.
- ✚ Revenue from charges for services was down 27.2% or \$14,553 in FY 2014.
- ✚ Interest earnings decreased by 5% or \$259.
- ✚ The district instruction expenses were down 3.58% or \$45,946.
- ✚ Administration and business expenses were up 3.74% or \$22,202.
- ✚ Student Transportation expenses increased by 26.2% or \$35,707.
- ✚ Operation and maintenance costs were up \$103,016 or 21.26%.
- ✚ Food services expenditures were down \$9,460 or 4.8%.
- ✚ Revenue from operating grants and contributions were up 35.1% or \$130,863.
- ✚ Support service expenses were down \$10,579 or 13.3%.
- ✚ Educational media expenses were up \$7,287 or 7.28%.
- ✚ Extracurricular expenses were down 25.5% or \$22,050.
- ✚ Other Post-Employment Benefits (OPEB) were down 100% or \$144,460.
- ✚ The district showed a negative balance of \$20,799 when expenses were subtracted from revenues.
- ✚ Net position for the district decreased 30.1% in FY 2014 and were \$3,529,798.

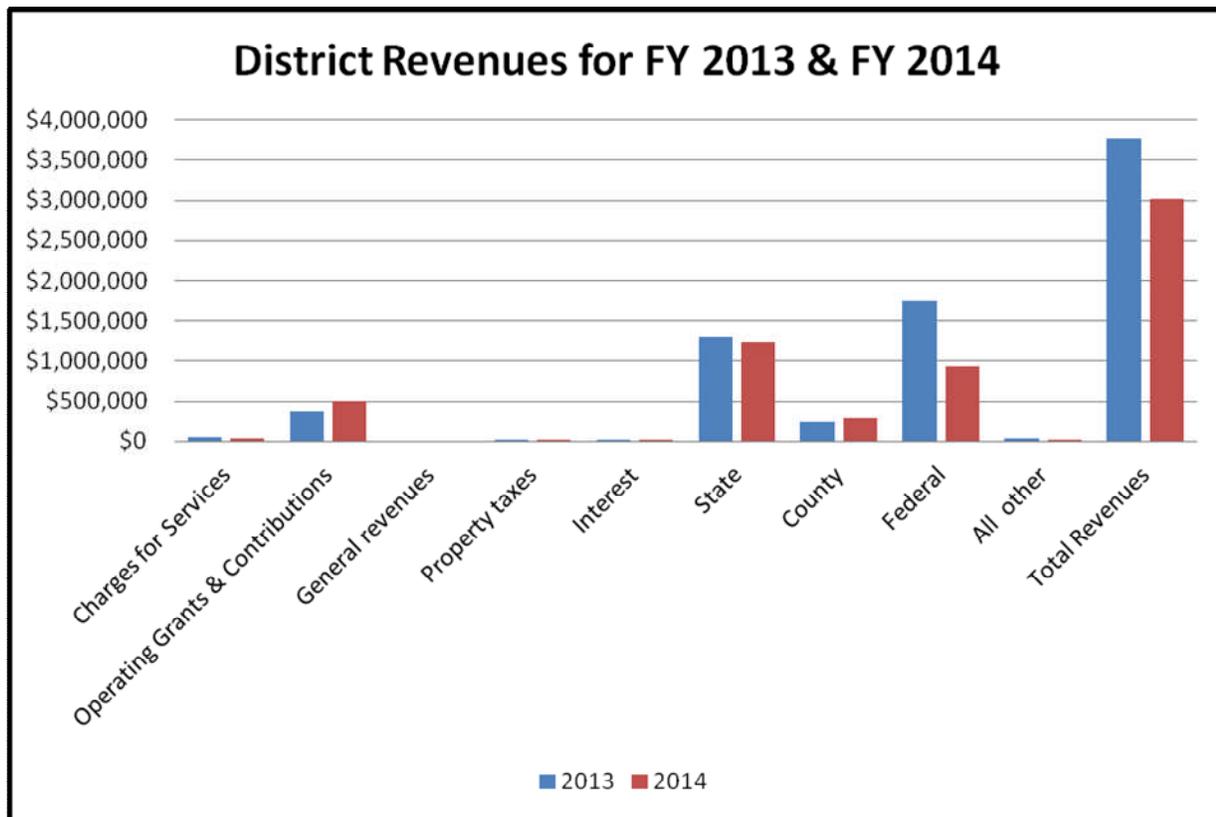
District Expenses

The following charts present district expenses by category for FY 2013 and FY 2014.



The pie graphs for district expenses show the allocation of resources for specific purposes in the Heart Butte Schools during FY 2013 and FY 2014. The graphs illustrates the major expenditure areas, with instruction costs accounting for 41% of the district expenses both years, operation & maintenance accounting for 16% and 19%, administration was 19% and 20%, student transportation 4% and 6%, OPEB was 5% and 0%, and food services 6% of the district expenses both years. The major changes in FY 2013 were operation and maintenance increasing 3%, OPEB expenses decreasing 5%, and student transportation increasing 2%.

Revenue by Source – Governmental Activities



The bar graph presented above shows that state sources of revenue were the largest source for the Heart Butte District in FY 2014 followed by revenue from federal sources and operating grants. The major change from FY 2013 to FY 2014 was state revenue replacing federal revenue as the largest source of funds for the district. Revenue from federal sources decreased FY 2014 along with state revenue, charges for services and total revenue. Revenue increased for operating grants and county in FY 2014. Generally, since state law requires levied fund budgets to be “balanced,” the changes in expenditures matched the changes in the revenues of these funds.

Financial Analysis of the Government’s Funds

Fund accounting is mandated by Montana State law and is used by the Heart Butte School District to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the *governmental funds* of the Heart Butte School District is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the financial requirements of the school district. In particular, *unassigned fund balance* may serve as a useful measure of the net resources available for spending at the end of the year.

At the end of FY 2013, the governmental funds of the school district reported a combined ending fund balance of \$2,098,018 and at the end of FY 2014 the fund balance was \$2,234,146 which represents a 6.4% increase. Approximately 94.2% (96.8% in FY 2013) of this total amount constitutes *unassigned fund balance*, which is available for spending at the discretion of the Board of Trustees.

The general fund is the main operating fund of the Heart Butte School District. At the end of FY 2013, the General Fund had a balance of \$2,087,142 and at the close of FY 2014 the balance was \$2,106,253 which was a .9% increase. The General Fund unassigned balance was \$2,106,253 for FY 2014. The total fund balances in the district increased \$136,129 from the end of FY 2013 to the end of the FY 2014 which was a 6.4% increase.

Governmental Fund Financial Statements

Fund-based financial statements, consisting of a series of statements, provide information about the government's major and non-major funds. Governmental fund financial statements were prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The governmental funds balance sheet for the FY 2014 is comprised of major funds and all other funds. The General Fund and Miscellaneous Fund were the major funds in FY 2014. The Other Funds category includes the remainder of the governmental district funds. The governmental balance sheet for FY 2014 demonstrates that the Heart Butte School District is in good financial condition. The district has considerable amounts of cash and investments in the general fund and the other major funds which make up 96.1% (98.1% in FY 2013) of the total fund balances. The district has a minimal amount of liability attached to these same funds. The Heart Butte District fund balances would seem to be strong enough to resolve any reasonable financial situation that might occur.

Statement of Revenues, Expenditures, and Changes in Fund Balances

The statement of revenues, expenditures, and changes in fund balances presents revenue and expenditures in each of the major fund categories. The major fund categories in FY 2014 were the General Fund and Miscellaneous Fund. The other funds category includes all the remaining governmental funds that the district is utilizing. State Aid is the major revenue source for the district general fund category at 56.2% followed by the federal revenue at 42.6%. The major expenditure in the general fund is instruction. Instruction expenditures make up 39.6% (40.5% in FY 2013) of the general fund total cost for FY 2014. Administration followed by operation and maintenance rank 2 & 3 for general fund expenditures in FY 2014. The total fund balances increased 6.4% from FY 2013 to FY 2014.

General Fund Budgetary Highlights

The general fund budgetary highlights for the district for FY 2014 included slightly less revenue and lower expenditures than was expected in the original & final budgets. The district received \$120,429 less in total revenue in the general fund than was expected in the original & final budgets. Nearly all of the decrease in revenue was from state sources in FY 2014. Actual expenditures were \$120,645 less than was expected in the original & final. The difference in actual revenue and expenditures in the general fund was nearly equal (a positive \$216). The result the nearly equal lower revenue and expenditures was a positive increase in the General Fund for the district at the end of FY 2014.

Capital Asset and Debt Administration

Capital assets

The investment by the Heart Butte School District in capital assets for governmental activities as of June 30, 2013, was \$1,417,319 after depreciation was subtracted. This investment in capital assets included building improvements, buildings, furniture, and equipment. The capital assets for the Heart Butte District do not have related debt. The Heart Butte School District does not have any

construction in progress at this time. The table below shows the value and details of the district capital assets for FY 2014.

Capital Assets of the Heart Butte School District

Capital Assets	Governmental Activities
	Balance - June 30, 2014
Land	\$0
Land Improvements	\$12,903
Buildings & Improvements	\$6,045,363
Machinery & Equipment	\$720,808
Totals at Historical Cost	\$6,779,074
Less Accumulated Depreciation	
Total Accumulated Depreciation	(\$5,361,755)
Capital Assets net of Depreciation	\$1,417,319

Long-term debt

At the end of FY 2014, the Heart Butte School District had no bonded debt outstanding. The district did have long-term liabilities of \$33,986 for compensated absences of employees and Other Post-Employment Benefits of \$87,071.

Economic Factors and Fiscal Year Budgets for 2013 & 2014

- ✚ The population of Pondera County increased by .9% or about 58 residents from 2010 to 2013. This compares to the Montana average of a 2.6% increase.
- ✚ Residents of Pondera County under the age of 18 made up 24.7% of the population in 2013 compared to Montana’s 22.1% in 2013.
- ✚ Student enrollment numbers are converted to “Average Number (of students) Belonging” and are used to fund the district. Enrollment numbers increased by 12 students for the Heart Butte District from the fall enrollment of 2012-13 to 2013-14. The increase was 2 students in elementary school, an increase of 6 students in grades 7-8, and an increase of 4 students in grades 9-12. The overall enrollment increase was 6.8% from 2013 to 2014.
- ✚ The unemployment rate for Pondera County was 5.5% in June of 2014 and 6.5% in June of 2013. This compares to the Montana rate of 4.5% in June of 2014 and 5.7% in June of 2013.
- ✚ The poverty rate for Pondera County was 18.1% for 2008-2012, when Montana was at 14.8%.
- ✚ State funding for most Montana schools increased for the 2013-2014 school year.

All of these and other factors were considered in preparing the FY 2013 & FY 2014 budgets for the Heart Butte School District.

Requests for Information

The information and data included in this management’s discussion and analysis report is designed to provide a general overview of the finances of Heart Butte School District for all those with an interest in the government’s finances. Questions concerning any of the information contained in this report should be addressed to the Heart Butte administration and business office located in Heart Butte, Montana.

Tripp & **A**ssociates
1645 Ave. D, Suite E
Billings, Montana 59102

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Heart Butte School District No. 1
Pondera County
Heart Butte, Montana 59448

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Heart Butte School District No. 1 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the 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 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.

Basis for Qualified Opinion on Beginning Balances

In the prior year, we were unable to verify capital assets or reconcile cash or revenues and issued a disclaimer of opinion. Therefore, the current year beginning balances, which are based on the prior year ending balances, were not verifiable. Accounting principles generally accepted in the United States of America require that beginning balances are verified, which may affect the assets, net position and revenues of the current year governmental activities, each major fund and the aggregate remaining fund information of Heart Butte School District No. 1. The amount by which this departure would affect the assets, net position and revenue and expenses of the governmental activities, the major funds and the aggregate remaining fund information of Heart Butte School District No. 1 is not reasonably determinable.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Beginning Balances" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of Heart Butte School District No. 1, as of June 30, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 3 through 13; Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual on page 35; and Schedule of Funding Progress for Other Post-Employment Benefits other than Pensions on page 37 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 assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Heart Butte School District No. 1's basic financial statement. The Schedule of Combining Funds, Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, "Audits of State, Local Governments, and Non-Profit organizations;" Schedule of Reported Enrollment and Schedule of Revenues, Expenditures and Fund Balances – Extracurricular Funds are presented for purposes of additional analysis and are not a required part to the basic financial statements.

The Schedule of Combining Funds; Schedule of Reported Enrollment; Schedule of Revenues, Expenditures and Fund Balances – Extracurricular Funds; and the Schedule of Expenditures of Federal Awards 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 Schedule of Combining Funds; Schedule of Reported Enrollment; Schedule of Revenues, Expenditures and Fund Balances – Extracurricular Funds; and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2015, on our consideration of Heart Butte School District No. 1's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing Heart Butte School District No. 1's internal control over financial reporting and compliance.

Tripp & Associates

Billings, Montana
March 13, 2015

Heart Butte School District No.1
Pondera County
Heart Butte, Montana

STATEMENT OF NET POSITION
as of June 30, 2014

	<u>Governmental Activities</u> 2014
ASSETS:	
Current Assets:	
Cash & Investments	\$ 2,205,626
Taxes Receivable	753
Due From Other Governments	<u>48,218</u>
Total Current Assets	2,254,597
Non-Current Assets:	
Other Capital Assets (Net)	<u>1,417,319</u>
Total Non-Current Assets	<u>1,417,319</u>
Total Assets	3,671,916
LIABILITIES:	
Current Liabilities:	
Advances of Federal Grants	19,698
Compensated Absences	5,389
Current Leases Payable	<u>1,382</u>
Total Current Liabilities	26,469
Non-Current Liabilities:	
Compensated Absences	28,580
OPEB Liability	<u>87,071</u>
Total Non-Current Liabilities	<u>115,651</u>
Total Liabilities	142,119
NET POSITION:	
Investment in Capital Assets:	1,415,937
Restricted:	81,492
Unrestricted:	<u>2,032,368</u>
Total Net Position	<u>\$ 3,529,797</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Heart Butte School District No.1
Pondera County
Heart Butte, Montana

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Functions/Programs	-----Program Revenues-----			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants	
GOVERNMENTAL OPERATIONS:				
Instruction	\$ 1,237,933	\$ -	\$ 288,826	\$ (949,107)
Support	68,982	-	-	(68,982)
Media	107,327	-	-	(107,327)
Administration	616,273	-	64,110	(552,162)
O & M	587,587	33,997	-	(553,590)
Transportation	171,821	-	16,851	(154,970)
Extracurricular	64,520	-	-	(64,520)
School Food	187,024	4,948	133,406	(48,670)
Interest	<u>1,431</u>	<u>-</u>	<u>-</u>	<u>(1,431)</u>
Total Governmental Activities	3,042,898	38,945	503,193	(2,500,760)
 GENERAL REVENUES:				
District Levy				8,606
State Equalization				1,079,187
Other State Revenue				149,852
County				280,000
Federal				931,946
Investment Earnings				6,818
Other				<u>23,551</u>
Total General Revenues				2,479,960
CHANGE IN NET POSITION				(20,800)
 NET POSITION:				
Beginning of the Year				5,054,001
Prior Period Adjustments				<u>(1,503,403)</u>
End of the Year				<u>\$ 3,529,797</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Heart Butte School District No.1
Pondera County
Heart Butte, Montana

BALANCE SHEET
GOVERNMENTAL FUNDS
as of June 30, 2014

	-----MAJOR-----		Other	Total
	General Fund	Miscellaneous Fund	Government Funds	
ASSETS:				
Cash and Investments	\$ 2,106,253	\$ 11,674	\$ 87,699	\$ 2,205,626
Taxes Receivable	652	-	102	753
Due From Other Governments	-	48,218	-	48,218
Total Assets	<u>2,106,905</u>	<u>59,892</u>	<u>87,801</u>	<u>2,254,597</u>
LIABILITIES:				
Advances of Federal Grants	-	19,698	-	19,698
Total Liabilities	-	19,698	-	19,698
DEFERRED INFLOWS OF RESOURCES:				
Unavailable Revenue - Property Taxes	652	-	102	753
FUND BALANCES:				
Restricted:				
Instruction	-	-	1,232	1,232
Media Support Services	-	-	3,238	3,238
Retirement	-	-	33,638	33,638
Transportation	-	-	11,575	11,575
Food Service Operations	-	-	6,099	6,099
Capital Asset Acquisition	-	-	6,012	6,012
Other Purposes	-	19,698	-	19,698
Committed - Operations & Maintenance	-	20,496	25,905	46,401
Unassigned	<u>2,106,253</u>	-	-	<u>2,106,253</u>
Total Fund Balances	<u>2,106,253</u>	<u>40,194</u>	<u>87,699</u>	<u>2,234,146</u>
Total Liabilities, Deferred Inflows & Fund Bal.	<u>\$ 2,106,905</u>	<u>\$ 59,892</u>	<u>\$ 87,801</u>	<u>\$ 2,254,597</u>

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

Total fund balances - Governmental Funds	\$ 2,234,146
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. Cost of Assets	6,779,074
Less Accumulated Depreciation	<u>(5,361,755)</u> 1,417,319
Less liabilities not reported in the governmental funds	
Compensated Absences	(33,969)
Other Post-Employment Benefits	(87,071)
Lease Payable	<u>(1,382)</u> (122,422)
Deferred Inflows of Resources - Property Tax Collections Receivable	<u>753</u>
Net Position - Governmental Activities	<u>\$ 3,529,797</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Heart Butte School District No.1
Pondera County
Heart Butte, Montana

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

	-----MAJOR-----		Other	Total
	General	Miscellaneous	Government	Governmental
	Fund	Fund	Funds	Funds
REVENUES:				
District Levies	\$ 4,494	\$ -	\$ 3,360	\$ 7,854
Interest	5,992	-	826	6,818
Other	15,772	6,818	961	23,551
County	-	-	288,425	288,425
State	1,230,128	1,619	39,782	1,271,529
Federal	931,946	318,871	133,406	1,384,223
Charges for Services	-	-	<u>38,945</u>	<u>38,945</u>
Total Revenues	2,188,332	327,308	505,705	3,021,345
EXPENDITURES:				
Instructional Services	856,842	220,046	145,988	1,222,876
Instructional Support Services	54,368	5,166	9,449	68,982
Educational Media Services	97,247	-	10,080	107,327
General Administrative Services	505,424	64,110	52,060	621,595
Operation & Maintenance Services	412,469	4,147	50,479	467,094
Transportation Services	135,646	-	22,935	158,581
Extracurricular	58,297	-	4,481	62,777
School Food Services	<u>41,666</u>	<u>-</u>	<u>140,578</u>	<u>182,244</u>
Total Current Expenditures	2,161,958	293,469	436,048	2,891,475
Debt Service (Principal, Interest, Fees)	<u>26,308</u>	<u>-</u>	<u>-</u>	<u>26,308</u>
Total Expenditures	2,188,267	293,469	436,048	2,917,783
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	66	33,839	69,657	103,562
FUND BALANCES:				
Beginning of the Year	2,087,142	(7,166)	18,042	2,098,018
Prior Period Adjustments	<u>19,045</u>	<u>13,521</u>	<u>-</u>	<u>32,567</u>
End of the Year	<u>\$ 2,106,253</u>	<u>\$ 40,194</u>	<u>\$ 87,699</u>	<u>\$ 2,234,146</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Heart Butte School District No.1
Pondera County
Heart Butte, Montana

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

Total Net Change in Fund Balances - Governmental Funds		\$	103,562
Amounts reported for governmental activities in the statement of activities are different because:			
Revenues reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds:			
Increase (Decrease) in Taxes Receivable			753
Expenses in the statement of activities that do not require the use of current financial resources are not included in the governmental funds:			
Depreciation Expense	(148,119)		
(Increase) Decrease in Compensated Absence Liability	<u>(1,873)</u>	(149,992)	
Expenditures reported in the governmental funds not included in the Statement of Activities			
Principal Payments on Capital Leases		<u>24,877</u>	
Change in net position reported on the Statement of Activities - governmental activities		\$	<u>(20,800)</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Heart Butte School District No.1
Pondera County
Heart Butte, Montana

STATEMENT OF FIDUCIARY NET POSITION &
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
As of June 30, 2014

	<u>Private Purpose Trust Funds</u>
ASSETS:	
Cash, Cash Equivalents and Investments	\$ 38,268
Total Assets	38,268
LIABILITIES:	
Total Liabilities	-
NET POSITION:	
Held in Trust for Scholarships	1,479
Held in Trust for Student Activities	<u>36,790</u>
Total Net Position	<u>\$ 38,268</u>
<hr/>	
CHANGES IN FIDUCIARY NET POSITION	
ADDITIONS:	
Contributions to Scholarships	4
Revenue from Student Activities	<u>39,992</u>
Total Additions	39,996
DEDUCTIONS:	
Expenses of Student Activities	<u>60,279</u>
Total Deductions	60,279
CHANGE IN NET POSITION:	(20,283)
Net Position, Beginning of the Year	<u>58,551</u>
Net Position, Ending of the Year	<u>\$ 38,268</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Board of Trustees
Heart Butte School District No. 1
Pondera County
Heart Butte, Montana 59448

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A) REPORTING ENTITY

The District is a political subdivision of the Montana Department of Education governed by a Board of Trustees (the Board) elected by the public. The Board has the authority to make decisions, appoint administrators and managers, and significantly influence operations. The statements reflect all funds and accounts directly under the control of the District.

The District consists of a K-12 district which provides education for kindergarten through twelfth grade.

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

B) MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The measurement focus establishes the basis of accounting. The basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of advances from federal grants, the presentation of expenses versus expenditures, the recording of capital assets, the recognition of depreciation and the recording of long-term liabilities. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the Government-wide financial statements and the governmental fund financial statements.

Government-Wide Financial Statements

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements report financial information for the District as a whole except for the fiduciary funds. The trust funds are reported as private purpose trust funds in the fiduciary fund financial statements.

The government-wide financial statements and fiduciary fund statements report using the economic resources measurement focus and the accrual basis of accounting generally including the elimination of internal service activity between or within funds. Revenues are recognized when earned and expenses are recognized when the related liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met. Net Position is used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased Net Position. Depreciation is charged as an expense against current operations and accumulated depreciation is reported on the Statement of Net Position.

The Statement of Activities reports the expenses of a given function offset by program revenues directly connected with the functional program. Expenses which are not directly related to a function, indirect expenses, are not charges to a function. Program revenues include (1) charges for services such as school lunch fees and facility rental fees and (2) operating grants that are restricted to a particular functional program. Property taxes, state equalization payments, and other revenue sources not properly included with program revenue are reported as general revenues.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Fund Financial Statements

Fund financial statements provide information on the districts major governmental funds and a combined column for all other non-major funds, and student activity fiduciary funds. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the district-wide statements.

Governmental Funds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when 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 current liabilities. The District considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenues from federal, state and other grants designated for payment of specific district expenditures are recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as advances from federal grants until earned. Expenditures are recognized when the liability is incurred, except for claims, compensated absences and interest on long-term debt which are recorded when normally expected to be liquidated with expendable available financial resources. Capital asset purchases are recorded as functional expenditures and depreciation is not recognized.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenues from property taxes are recognized in the period for which the taxes are levied. Revenues from grants, entitlements and donations are recognized when all eligibility requirements imposed by the provider have been satisfied. Eligibility requirements include timing requirements, which specify whether resources are required to be used for the year when use is first permitted, matching requirements and expenditure requirements in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

GASB Statement No. 34 requires that the General Fund be reported as a major fund. All other governmental funds that exceed 10% of total governmental fund assets, liabilities, revenues, or expenditures are reported as major funds. The General and Miscellaneous funds are reported as major governmental funds.

General Fund – The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

GASB Statement No. 54 requires that funds with similar restrictions to the General fund are combined with the General fund for reporting purposes. The Impact Aid and Flexibility funds are reported as combined with the General fund. The Supplementary Information section of this report includes schedules of combined funds with details of each combined fund.

Combined Funds

* The Impact Aid Fund is used to account for funds received from the federal government for the education of federally impacted children.

* The Flexibility fund is used to account for State and local revenues that are not directed to other funds.

Miscellaneous Fund – This special revenue fund is used to account for miscellaneous federal and state grants received by the District and various other local funds.

Fiduciary Funds

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

Agency Funds – The Agency Funds generally are used to account for assets that the District holds on behalf of others as their agent in the payroll and claims clearing funds. Cash is held for warrants which were written but have not been paid by the County Treasurer. Agency funds do not report a measurement focus as they do not report operations.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

C) CASH AND INVESTMENTS

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

The District does not have a formal investment policy that places any further restrictions on the nature of types of investments that may be purchased other than the State statute. Investments are recorded at fair market value.

The District considers cash on hand, demand accounts, savings, money markets, repurchase agreements, CD's, STIP, and short-term investments with original maturities of three months or less when purchased, to be cash equivalents. The Extracurricular fund's cash is held separately by the District, not at the county, and is covered by FDIC.

D) ESTIMATES

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

E) PROPERTY TAXES

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

F) INVENTORIES

Inventory at year end was not material so all inventory was included as expenditures at the time of purchase.

G) CAPITAL ASSETS

The District considers capital assets to be those resulting from expenditures which have an initial, individual cost of more than \$5,000 and have an estimated useful life in excess of one year. These assets are reported in the government-wide Statement of Net Position, but are not reported in the Balance Sheet – Governmental Funds. Capital assets are recorded at cost, or estimated historical cost if actual historical cost is not available, and updated for additions and retirements during the year. Donated capital assets are recorded at their estimated fair value as of the date received. The District capitalizes the value of infrastructures acquired after July 1, 2003. The District uses the straight-line depreciation method. Improvements are capitalized but the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during construction is not capitalized. The useful lives of these assets have been estimated as follows:

Improvements other than buildings	30 years
Buildings	30 – 40 years
Machinery and Equipment	5 – 15 years

NOTES TO THE FINANCIAL STATEMENTS (Continued)

H) COMPENSATED ABSENCES

District employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. District employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave at the current rate of pay. The District reports compensated absences on the Termination Payment Method. District employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of unused sick leave. However, upon termination, only 25% of accumulated sick leave is paid. Therefore, only 25% of the accumulated sick leave is included in the accrual.

The liability incurred because of unused vacation and sick leave accumulated by employees is reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the statement of activities. The amount expected to be paid within one year is \$5,389 and it is generally paid out of the general fund. The accrued liability for sick and vacation leave at June 30, 2014 was \$33,969.

I) INTERFUND TRANSACTIONS

Interfund transactions between governmental funds are reflected as transfers. Loans are reported as receivables and payables as appropriate, and are referred to as either “due to/from other funds” and are subject to elimination upon consolidation of funds. Advances between funds, as reported in the fund financial statements, are offset by Nonspendable fund balance in the General fund and as committed or assigned fund balance in other governmental funds as appropriate.

J) ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to establish a budget carryover for a portion of an applicable appropriation, is utilized for budgetary control purposes. Encumbrances are not the equivalent of expenditures, and accordingly, amounts assigned for encumbrances at the governmental fund level indicate that portion of the fund balance segregated for expenditure upon vendor performance.

NOTE 2: CASH AND INVESTMENTS

Cash resources of the District are held and managed by the Pondera County Treasurer. They are combined with cash resources of other governmental entities within Pondera County to form a pool of cash and investments. The County does not issue separate financial statements on the investment pool. The external investment pool is audited as part of Pondera County's financial statements. The County investment pool is not registered with or monitored by the Securities and Exchange Commission (SEC) or subject to other regulatory oversight. Deposits of pooled cash consist primarily of repurchase agreements, money markets, savings and CDs and are carried at fair value. The investments consist primarily of US Government Securities and STIP and are carried at fair value. At June 30, 2014 the carrying amount of District cash and investments held at the County was \$2,265,343. This includes \$58,238 in agency funds and \$1,479 in trust funds.

Custodial Credit Risk – Deposits: Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's may not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposits held by the County are exposed to custodial credit risk in that they are uninsured, unregistered and are not in the District's name. The State of Montana (the State) statutes require that school district funds be deposited in banks located in the State and that all deposit balances in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits be collateralized in accordance with State statutes. The District's deposit policy for custodial credit risk requires compliance with the laws of the State. As of June 30, 2014 the District's deposits were either insured or collateralized.

Custodial Credit Risk – Investments: Custodial credit risk for investments is the risk that, in the event of a financial institution failure, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require all investments (other than federal

NOTES TO THE FINANCIAL STATEMENTS (Continued)

or state government instruments) to be collateralized in accordance with State statutes. The County has a collateral pledge agreement covering the investments. As of June 30, 2014, none of the District's investments was exposed to custodial credit risk.

The District does not own specific identifiable investment securities in the pool. Therefore, the District's portion of the pool is not subject to categorization. Information regarding investment risk, collateral, security, and fair values for Pondera County investment pool deposits and investments is available from the Pondera County Treasurer's office, 20 Fourth Ave SW, Browning, MT 59425. Fair values approximate carrying values for investments as of June 30, 2014.

NOTE 3: NET POSITION/FUND BALANCES

A) NET POSITION

The government-wide fund financial statements utilize a Net Position presentation. Net Position is categorized as Investment in Capital Assets, Restricted and Unrestricted.

Investment in Capital Assets – This category reports the portion of Net Position containing capital assets, including infrastructure, as one component of Net Position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category. The District has no debt offsetting the capital assets.

Restricted Net Position – This category reports the portion of Net Position that is subject to constraints either by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category reports the portion of Net Position that is not restricted for any project or other purpose. Outstanding liabilities attributable to these assets reduce the balance of this category.

When both restricted and unrestricted resources are available for use, it is the District's policy to use the restricted funds first.

B) FUND BALANCE POLICY

Fund Statement – Fund Balances

In the fund financial statements, governmental funds report fund balance as Nonspendable, Restricted, Committed, Assigned or Unassigned based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent.

Nonspendable – Amounts that cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact i.e., inventory or endowment corpus.

Restricted – Amounts that can be spent only for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation.

Committed – Amounts that can be used only for specific purposes determined through a motion approved by the Board to establish, modify and rescind; and do not lapse at year end.

Assigned – Amounts intended for specific purposes by the District Clerk and/or Superintendent who have been delegated authority by the Board to assign such amounts. This fund balance classification also reflects any funds assigned for capital projects.

Unassigned – All amounts not included in other spendable classifications.

When expenditures are incurred for which committed, assigned or unassigned amounts could be used, it is the District's policy to first spend committed, then assigned and unassigned resources last.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

C) FUND BALANCE CLASSIFICATIONS

Restricted Fund Balance

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Transportation	\$ 11,575	Transportation
Bus Depreciation	6,012	Capital Purchases
Retirement	33,638	Retirement
Miscellaneous	19,698	Construction (Impact Aid)
School Food	6,099	School Food Services
Driver's Education	1,232	Instruction
Technology	<u>3,238</u>	Media
Total Restricted	\$ 81,492	

Committed Fund Balance

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Miscellaneous	\$ 20,496	O&M
Lease Rental	19,998	O&M
Building	<u>5,907</u>	O&M
Total Committed	\$ 46,401	

Unassigned Fund Balance

<u>Fund</u>	<u>Amount</u>
General	\$ 135,014
Gen – Impact Aid	1,945,122
Gen – Flexibility	<u>26,117</u>
Total Unassigned	\$2,106,253

Total District Fund Balance \$2,334,146

D) MATERIAL CHANGES IN FUND BALANCE CLASSIFICATIONS

In fiscal year 2014, the District reviewed its GASB 54 interpretations and determined that the previously reported fund balance classifications were in need of revision. The fund balances reported above reflect current District classifications. The major changes involved changing most fund balances from “Assigned” to either “Restricted” due to enabling legislation, or “Committed.”

NOTE 4: TAXES / RECEIVABLES

A) MILL LEVIES

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts. The assessed value of the roll as of January 1, 2013, upon which the levy for the 2014 fiscal year was based, was \$62,352 for the district. The tax rates assessed for the year ended June 30, 2014 to finance District operations were for the districts as follows:

<u>Fund</u>	<u>Mills</u>
General	73.02
Bus Depreciation	<u>56.13</u>
Total	<u>129.15</u>

B) TAXES RECEIVABLE

<u>Fund</u>	<u>Total</u>
General	\$ 652
Transportation	14
Bus Depreciation	<u>88</u>
Total	<u>\$ 754</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

C) DUE FROM OTHER GOVERNMENTS

<u>Fund</u>	<u>Amount</u>	<u>Due From / Reason</u>
Miscellaneous	\$21,393	Federal Gov. – Title I Part A
Miscellaneous	18,409	Federal Gov. – Indian Education
Miscellaneous	8,298	Federal Gov. – Gear Up
Miscellaneous	<u>118</u>	Other
District Total	<u>\$48,218</u>	

NOTE 5: CORRECTION OF AN ERROR

Previously, the District was unable to itemize or determine capital asset costs, accumulated depreciation, or calculate current year depreciation. In fiscal year 2011, the District hired a consultant to locate and estimate the value of the District’s capital assets. In fiscal year 2014, the District used the consultant’s report plus information in District records to create a list of capital assets, report historical costs or estimate costs, and estimate accumulated and current year depreciation.

The District made significant changes to the capital assets costs and accumulated depreciation. An Adjustments column was added to the Capital Assets summary in Note 6 to provide details of the changes in the costs of capital assets and include depreciation not previously reported. The net adjustment to capital assets is (\$2,026,739) which is reported on the Statement of Activities as a prior period adjustment.

Previously reported capital assets (net of depreciation)	\$3,592,177
Capital assets correction	<u>(2,026,739)</u>
Restated beginning balance (net of depreciation)	1,565,438
Current year depreciation expense	<u>(148,119)</u>
Current capital assets (net of depreciation)	<u>\$1,417,319</u>

NOTE 6: CAPITAL ASSETS

The value and changes to the District’s capital assets as of June 30, 2014 are as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Adjustments</u>	<u>Additions</u>	<u>Removals</u>	<u>Balance</u> <u>June 30, 2014</u>
COST DEPRECIABLE:					
Land Improvements	\$ 0	\$ 12,903	\$ 0	\$ 0	\$ 12,903
Buildings and Improvements	5,537,007	508,356	0	0	6,045,363
Machinery and Equipment	<u>1,413,699</u>	<u>(692,891)</u>	<u>0</u>	<u>0</u>	<u>720,808</u>
Total Depreciable COST	<u>\$6,950,706</u>	<u>\$ (171,632)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$6,779,074</u>
ACCUMULATED DEPRECIATION:					
Land Improvements	\$ 0	\$ (9,892)	\$ (430)	\$ 0	\$ (10,322)
Buildings and Improvements	(3,248,764)	(1,316,268)	(121,884)	0	(4,686,916)
Machinery and Equipment	<u>(109,765)</u>	<u>(528,947)</u>	<u>(25,805)</u>	<u>0</u>	<u>(664,517)</u>
Total Depreciation	<u>\$(3,358,529)</u>	<u>\$(1,855,107)</u>	<u>\$(148,119)</u>	<u>\$ 0</u>	<u>\$(5,361,755)</u>
Net Capital Assets	<u>\$ 3,592,177</u>	<u>\$(2,026,739)</u>	<u>\$(148,119)</u>	<u>\$ 0</u>	<u>\$ 1,417,319</u>

Depreciation was charged to the district’s programs as follows:

Instructional	\$ 7,771
School Administration	1,716
Operation & Maintenance	119,606
Transportation	12,853
School Food	1,743
Extracurricular	<u>4,430</u>
Total Current Year Depreciation	<u>\$148,119</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 7: RISK MANAGEMENT

The District is exposed to various types of risk of loss, including: a) damage to and loss of property and contents; b) employee torts; c) professional liability, i.e. errors and omissions; d) environmental damage; e) workers' compensation, i.e. employee injuries and f) medical insurance costs of employees. Several methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and contents damage, employee torts, professional liabilities, and employee medical insurance. The district has joined with other districts throughout the state into an interlocal common risk pool to insure workers compensation for all participating districts in a self- insurance pool. The Workers Compensation Risk Retention Program (WCRRP) is managed by a board of directors elected annually. Members are responsible for fully funding the WCRRP through the payment of annual premiums accessed. There is no other liability to the district other than timely payments of premiums. The district can withdraw from the WCRRP with 60 days' notice. Information regarding the WCRRP may be obtained by contacting WCRRP at 1 S. Montana Ave., Helena, MT, 59601.

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

NOTE 8: CURRENT LIABILITIES

A) DEFERRED INFLOWS OF RESOURCES

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
General	\$ 652	Taxes Receivable
Transportation	13	Taxes Receivable
Bus Depreciation	<u>88</u>	Taxes Receivable
District Total	<u>\$ 753</u>	

B) ADVANCES FROM FEDERAL GRANTS

In fiscal year 2013, the District received a federal Impact Aid - Construction grant that was not spent by year end.

<u>Fund</u>	<u>Amount</u>	<u>Source/Grant Name</u>
Miscellaneous	<u>\$19,698</u>	Federal Gov. – Impact Aid Construction

NOTE 9: EMPLOYEE RETIREMENT PLANS

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

Teachers' Retirement System (TRS)

The TRS is a statewide defined benefit retirement plan established in 1937 and governed by Title 19, chapter 20 of the Montana Code Annotated providing retirement services to teachers or professional staff of any public elementary or secondary school, colleges of technology or unit of the university system. The TRS is a mandatory multiple-employer, cost-sharing plan administered by the Teachers' Retirement Board. Member rights become vested after five years of service.

Benefits

TRS offers retirement, disability and death benefits to plan members and their beneficiaries. Benefit eligibility, benefit amounts, and contributions required by state law are based on the date the employee became a TRS member. Tier I – Employees who became members before July 1, 2013. Tier II – Employees who became members after July 1, 2013.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Tier I – Retirement benefit eligibility is age 60 with at least five years of service; or 25 years of service regardless of age. Actuarial reduced benefits may be taken after age 50 with at least five years of service. Service retirement is based on the highest 3 consecutive highest salaries.

Tier II – Retirement benefit eligibility is age 60 with at least five years of service; age 55 with 30 years of service. A professional retirement option applies to Tier II members age 60 with 30 years of service. Actuarial reduced benefits may be taken after age 55 with at least five years of service. Service retirement is based on the highest 5 consecutive salaries.

Retirement benefits are calculated as shown below:

The Service Retirement is based on *Years of Service x Average Final Compensation x 1.6667%*

The Professional Retirement is based on *Years of Service x Average Final Compensation x 1.85%*

The Guaranteed Annual Benefit Adjustment (GABA) provides an annual benefit increase set in the fall of each year by the TRS board of .5% to 1.5%. A benefit recipient, who has been receiving a benefit for at least 36 months prior to January 1 each year, will receive a GABA with payment of the January benefit.

Contributions

Beginning July 1, 2013 a required supplemental contribution, which varies from 0% to 1% based on the funded ratio of the TRS pension became effective for Tier I members. A supplemental contribution may be required from Tier II members after January 1, 2023. For fiscal year 2014, Tier I member normal contributions are 7.15% and supplemental contributions are 1% for total Tier I member contributions of 8.15%. Tier II normal contributions are 8.15% which does not contain a supplemental contribution element. Employer contributions are based on total payroll reported to TRS. These are not matching contributions allocated to individual members, but contributions to the trust fund. The TRS employer rate was increased from 7.47% to 8.47% effective July 1, 2013. The District is required to make contributions of 9.85% to TRS for working retirees. The State supplemental rate is 2.49%.

Actuarial Information

An actuarial valuation of the retirement system is performed annually. The purpose of the valuation is to determine the financial position of the fund, the normal cost, and the unfunded actuarial accrued liability based on present and prospective assets and liabilities of the system. If employee and employer contribution rates are sufficient to amortize any unfunded liability over 30 years or less, the system is actuarially sound and does not have a shortfall. According to TRS publications as of July 1, 2013, TRS does not have a shortfall and is actuarially sound.

Montana Public Employees' Retirement System (PERS)

PERS is a state wide retirement plan established in 1945 and governed by Title 19, chapter 2 & 3 of the Montana Code Annotated providing retirement services to substantially all public employees. Within 12 months of their hire date, employees must choose between the Defined Benefit Retirement Plan (DBRP) and the Defined Contribution Retirement Plan (DCRP). The default plan is the DBRP. The PERS is a mandatory, except for those employed less than one half time. It is a multiple-employer, cost-sharing plan administered by the Public Employees' Retirement Division (PERD).

The PERS Defined Benefit Retirement Plan (DBRP) offers service retirement, early retirement, disability and survivorship benefits to plan members and their beneficiaries. Members' rights become vested after five years of service. The plan allows for a Guaranteed Annual Benefit Adjustment (GABA) that provides for an annual benefit increase each January that could range from 0% to 1.5% depending upon the funding status of the plan.

The service retirement benefit eligibility is age 65 with at least five years of service credit or age 70 regardless of service. Actuarial reduced benefits may be taken with age 55 with at least 5 years of service. Monthly retirement benefits are calculated as: *Membership Service Factor times Highest Average Compensation times Service Credit*. This formula is multiplied by an Early Retirement Factor to determine the early retirement benefit.

The PERS Defined Contribution Retirement Plan (DCRP) consists of three components; member contributions, other contributions and employer contributions. Each component has different vesting criteria. Members are fully vested when they have earned five years of membership service. Member contributions and earnings are fully vested immediately. Other contributions i.e., 403(b) or 457(b) rollover contributions are fully vested immediately. Employer contributions are fully vested after five years of membership service. Employer contrib-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

utions are forfeited if the employee dies or if service is terminated prior to attaining five years of membership service. Both the employee and the employer make contributions to the plan at the same rates as the DBRP.

Contribution rates for either plan above are required and determined by State law. Effective, July 1, 2013, the PERS rates for all employees was changed to 7.9%. The basic PERS rate for school district employers is 6.8%. Effective July 1, 2013 school district employers are required to contribute an additional employer contribution of 1.10% for total employer contributions of 7.9%. The PERS local government employer rate is 6.8% plus an additional employer contribution of \$1.37% for total employer contributions of 8.17%. The PERS rate paid by State is .37% for school districts.

Both Plans

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

Montana Teachers Retirement System P.O. Box 200139 1500 Sixth Avenue Helena, MT 59620-0139 Phone: 406-444-3134 www.trs.doa.state.mt.us	Montana Public Employees Retirement System P.O. Box 200131 1712 Ninth Avenue Helena, MT 59620-0131 Phone: 406-444-3154 www.state.mt.us/doa/perb/prb.htm
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State contributions to PERS and TRS totaled \$1,256 and \$26,256 respectively and have been included in the Retirement Fund's revenues and expenditures.

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>
TRS	\$196,905	\$183,089	\$207,503
PERS	<u>40,269</u>	<u>51,237</u>	<u>54,562</u>
Total	<u>\$237,174</u>	<u>\$234,326</u>	<u>\$262,065</u>

NOTE 10: LONG TERM DEBT OBLIGATIONS

A) CHANGES IN LONG TERM DEBT

Governmental Activities:	Balance			Balance
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>
Capital Leases	\$ 26,259	\$ 0	\$ 24,877	\$ 1,382
Compensated Absences	32,095	1,874	0	33,969
OPEB Liability	<u>577,840</u>	<u>0</u>	<u>490,769</u>	<u>87,071</u>
Total	<u>\$636,194</u>	<u>\$1,874</u>	<u>\$515,646</u>	<u>\$122,422</u>

B) CAPITAL LEASES

<u>Leased Property</u>	<u>Lessor</u>	<u>Inception of Lease</u>	<u>Term</u>	<u>Annual Payment</u>	<u>Balance at June 30, 2014</u>
2008 Chevy Malibu	ALLY	9/18/08	4 yrs	\$ 3,450	\$ 0
2010 Chevy Girardin Bus	DeLage Landen	12/15/10	3 yrs	24,222	0
Copier C2550	Cannon	6/30/10	5 yrs	1,487	1,382

In September 2008, a lease-purchase agreement was entered into between GMAC and the District to finance a 2008 Chevrolet Malibu. ALLY assumed this lease in 2011. The vehicle cost was \$15,500 and the district made a down-payment of \$180 and \$15,320 was financed. The interest rate was 5.89% over 60 months for total finance charges of \$2,439. This lease was paid in full in fiscal year 2014.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

In December 2010, a lease-purchase agreement was entered into with DeLage Landen Public Finance LLC to finance a 2010 Chevy Girardin Bus. The Bus cost was \$69,000, a trade-in allowance of \$3,000 was granted and \$66,000 was financed. The interest rate was 5% over 3 years for total finance charges of \$6,666. This lease-purchase was paid in full in fiscal year 2014 and the District took ownership of the bus.

In June 2010, a lease agreement was entered into between Cannon Financial Services and the District to finance a copier. The amount due on this lease purchase is reflected as a District liability on the Statement of Net Position. The copier cost was \$5,364. The interest rate was 13.7% over 60 months for total finance charges of \$2,070. In addition, the district pays \$230 a year for insurance on the copier. The principal amount paid as of June 30, 2014 was \$3,982. The principal balance as of June 30, 2014 is \$1,382.

<u>Future Minimum Lease Payments</u>	
Year Ending:	<u>Cannon</u>
June 30, 2015	\$1,487
Less Interest	<u>105</u>
Principal Balance	<u>\$1,382</u>

NOTE 11: SPECIAL EDUCATION COOPERATIVE

The District is a member of the Big Sky Special Needs Cooperative, a Special Education Cooperative. The financial records of the Cooperative are prepared and maintained by the Cooperative Clerk. The financial records of the Cooperative are separate from those of the District, and the financial statements of the Cooperative are not included in the Districts' financial statements. The Cooperative's financial statements are audited separately from those of the District. All revenue received, including Federal, State, or other types of grant payments, and the financial support provided by each of the Cooperative's members are deposited into the Cooperative's funds, which are maintained in the custody of the Pondera County Treasurer. The Superintendent of Public Instruction may directly deposit to the Cooperative the State and Federal portion of any participating member District's budgeted costs for contracted special education services. All fixed assets of the Cooperative are included in the Cooperative's financial statements.

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

NOTE 12: CHANGE IN ACCOUNTING ESTIMATE

In fiscal year 2014, the District hired a consultant to recalculate its Other Post-Employment Benefits (OPEB) liability. It was determined that the previously reported OPEB liability was over-estimated. The reduction is primarily because the District has 19 members and no spouses participate in the health insurance plan; and past experience shows that 10% of the retirees remain on the District health insurance plan due to the availability of the Indian Health Care Services available to them. The OPEB liability was reduced by (\$490,769) which is reported as a prior period adjustment on the Statement of Activities as further illustrated in Notes 13 and 14.

The District elected to accelerate their Annual Required Contribution (ARC) by \$25,196 rather than reducing the OPEB liability to \$61,875 (\$12,375 x 5 years - 2010 to 2014). The District reported the full Actuarial Accrued Liability (AAL) as their current year OPEB liability. The effects of these changes are as follows:

	<u>ARC</u>	<u>AAL</u>	<u>OPEB Liability</u>
Prior Year ARC & AAL	\$ 144,460	\$800,030	
Reduction in ARC & AAL	<u>\$(144,460)</u>	<u>(712,959)</u>	
Restated Beginning ARC & AAL	<u>\$ 0</u>	<u>\$ 87,071</u>	
Reported OPEB obligation - beginning of year			577,840
Prior Period Adjustment to OPEB Liability			<u>(490,769)</u>
Reported OPEB obligation - end of year			<u>\$ 87,071</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 13: OTHER POST EMPLOYMENT BENEFITS (OPEB) OTHER THAN PENSIONS

The District participated in the Montana Unified School Trust (MUST) for employee and retired member health insurance during fiscal year 2014. A retiree who retires with the Teachers' Retirement System (TRS) or the Public Employees' Retirement System (PERS) is eligible to keep the District's health insurance as a retiree. The retiree is on the same medical plan as the District's active employees. The retired members must pay all premiums without any District assistance. The MUST health insurance program uses the same premiums for active and retired members. Since retirees are usually older than the average age of the active participants, they receive a benefit of lower insurance rates. This benefit is referred to as the "OPEB liability."

Plan Description – In accordance with MCA (2-18-704) the District allows employees who are at least age 50 with at least 5 years of service to remain on the District's health insurance plan after retiring from the District as long as they pay the same premium as active employees. The District has less than 100 plan members and elected to use the "Alternative Measurement Method" to calculate its OPEB liability. The OPEB plan does not provide a stand-alone financial report. The District pays 100% of the single active employee's health insurance premium. The implicit subsidy is \$674 per member and \$1,348 per member and spouse. The required schedule of funding progress is reported in the Required Supplementary Section of this report which is immediately following the notes to the financial statements.

Funding Policy - The District pays OPEB liabilities on a "pay-as-you-go" basis. The District's OPEB liability is amortized on a level dollar basis annually until the Actuarial Accrued Liability (AAL) is reached. The District's OPEB liability has reached the Actuarial Accrued Liability (AAL) shown below. A trust fund for future liabilities has not been established.

Funding status and progress - As of June 30, 2014 the funded status of the plan was as follows:

	<u>Alternative Measurement Method</u>
Actuarial Accrued Liability (AAL)	\$ 87,071
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	87,071
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$1,543,719
UAAL as a percentage of covered payroll	6%
Date of latest AAL calculation	June 30, 2014

Annual OPEB Cost and Net OPEB Obligation – The district's annual Other Post-Employment Benefit (OPEB) cost (expense) is calculated based on the Annual Required Contribution (ARC) of the employer, an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed (30) years. The following table shows the components of the district's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the district's net OPEB obligation.

The following table shows the components of the district's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the district's net OPEB obligation.

	<u>Alternative Measurement Method</u>
Annual Required Contribution (ARC)	\$ 0
Interest on net OPEB obligation	0
Adjustment to ARC	<u>(0)</u>
Annual OPEB Cost (Expense)	0
Contributions made	<u>0</u>
Current Year increase (decrease in OPEB)	0
Net OPEB obligation - beginning of year	577,840
Prior Period Adjustment to Annual OPEB cost (expense)	<u>(490,769)</u>
Net OPEB obligation - end of year	<u>\$ 87,071</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Actuarial Cost Method	<u>Alternative Measurement Method</u>
Average age of retirement (based on historical data)	Age 55
Average Salary Increase	2%

Health care cost rate trend:

<u>Year</u>	<u>% Increase</u>
2015	6.60%
2016	6.70%
2017	7.00%
2018 and after	6.80%

Actuarial calculations reflect a long-term perspective and consistent with that perspective, the actuarial method and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and actuarial value of assets. The district has no actuarial value of assets because the plan is not funded.

The District's Net OPEB obligation for the current and preceding two fiscal years is illustrated below. The ARC is a misleading term, since no cash contribution is actually required. No interest has been applied to the Net OPEB obligation.

<u>Fiscal Year</u> <u>Ending June 30:</u>	<u>Annual Required</u> <u>Contribution (ARC)</u>	<u>ARC/AAL**</u> <u>Adjustment</u>	<u>Percent of ARC</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2012	\$144,460	\$ 0	0%	\$433,380
2013	144,460	0	0%	577,840
2014	0	(\$490,769)	0%	87,071

**In fiscal year 2014, the District elected to accelerate their Annual Required Contribution (ARC) and report the full Actuarial Accrued Liability (AAL) which effectively eliminated the Annual Required Contribution (ARC).

The required supplementary information section immediately following the notes of this report presents multiple years fund information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the AAL for benefits. The projection of benefits are based on the types of benefits provided under the substantive plan at the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point, and if applicable, the projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the patterns of cash shares between the employer and plan members in the future.

NOTE 14: PRIOR PERIOD ADJUSTMENTS

<u>FUND</u>	<u>AMOUNT</u>	<u>REASON</u>
Miscellaneous	\$ 13,521	Clearing fund corrections
Impact Aid	(12,686)	Prior Extracurricular expenditures paid from wrong fund
Impact Aid	<u>31,732</u>	Clearing fund corrections
Total Fund Adjustments	\$ 32,567	
<u>GASBS 34 Adjustments</u>		
Reduction in Capital Assets	\$(2,026,739)	
Reduction in OPEB liability	<u>490,769</u>	
Total GASBS 34 Adjustments	\$(1,535,970)	
Net Prior Period Adjustments	<u>\$(1,503,403)</u>	

Note 15: SUBSEQUENT EVENTS

Subsequent events were evaluated through March 12, 2015. In October 2014, the District purchased a yellow bus from Harley School Buses, Inc. for \$109,000. Since June 30, 2014, the District purchased four housing units from Kingsbury Colony for a total of \$40,000.

Heart Butte School District No.1
Pondera County
Heart Butte, Montana

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(Budget and Actual)
ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
for the Fiscal Year Ended June 30, 2014

	General Fund	
	Original & Final	
	Budget	Actual
REVENUES:		
District Levies	\$ 4,576	\$ 4,494
Interest Earnings	278	565
State Sources	<u>1,350,762</u>	<u>1,230,128</u>
Total Revenues	1,355,616	1,235,187
EXPENDITURES:		
Instructional Services		647,025
Instructional Support Services		54,113
Educational Media Services		56,359
General Administrative Services		297,963
Operation & Maintenance Services		67,845
Transportation Services		46,124
Extracurricular		29,286
School Food Services	<u>-</u>	<u>36,267</u>
Total Expenditures	1,355,616	1,234,982
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		
		205
FUND BALANCES:		
BEGINNING FISCAL YEAR FUND BALANCES		<u>134,797</u>
ENDING FISCAL YEAR FUND BALANCES		<u>\$ 135,002</u>

The accompanying NOTES TO REQUIRED SUPPLEMENTAL INFORMATION are an integral part of this statement.

Board of Trustees
Heart Butte School District No. 1
Pondera County
Heart Butte, Montana 59448

NOTES TO THE BUDGET AND ACTUAL SCHEDULE

NOTE 1. BUDGETS

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

General Budget Policies:

The District's funds are either budgeted or nonbudgeted in accordance with State statutes. Budgeted funds are those for which a legal budget must be adopted to have expenditures from such funds and are noted above. All other funds are nonbudgeted, meaning a legal budget is not required in order to spend the cash balance of such a fund. The Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual, has been prepared on the modified accrual basis of accounting and contains financial information for only the major budgeted Special Revenue funds. The major special revenue “Miscellaneous” fund is not included in the schedule because it is not a budgeted fund. The original budget was not amended so the original budget and the final budget are the same.

Budget Operation:

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

- (1) Before the fourth Monday in July, the County Superintendent estimates the revenue required for each fund.
- (2) By the first Monday in August, the County Assessor transmits a statement of the assessed valuation and taxable valuation of all property in the District's borders.
- (3) Before the later of the first Thursday in September or within 30 calendar days of the receipt of the Certified Taxable Valuations from the County Assessor, the Board of Trustees must meet to legally adopt the final budget. The final budget for the general fund is fund total only.
- (4) Once adopted, the budget can be amended by subsequent Board action. An increase of the total budget of a given fund requires the adoption of an amended budget in accordance with State statutes.
- (5) According to State statutes, the expenditures of a budgeted fund may not legally exceed the adopted budget.
- (6) At the end of a fiscal year, unencumbered appropriations lapse unless specifically obligated by the District.

Fund Balance Reconciliation:

The General fund balance on the *Schedule of Revenue, Expenditures, and Changes in Fund Balances – Combined Funds* is different than the General fund balance on the *Schedule of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual)* for major funds by \$11 which represent the General fund's budget carryover for encumbrances. Encumbrances are not included as expenditures in fund balance – GAAP basis because they do not meet the GAAP definition of expenditures or liabilities. The District reports encumbrances at year end as budgeted expenditures and establishes a budget carryover of fund balances for encumbrances.

NOTE 3. STATE PORTION OF TRS AND PERS

The State portion of TRS and PERS totaling \$26,256 and \$1,256 respectively is included in the Retirement Fund's revenues and expenditures reported on the District's financial statements. These expenditures are exempt from budget constraints.

Board of Trustees
Heart Butte School District No. 1
Pondera County
Heart Butte, Montana 59448

SCHEDULE OF OTHER POST-EMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
For the Fiscal Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial AAL Alternative Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
2012	\$0	\$800,030	\$800,030	0%	\$1,505,202	58%
2013	0	800,030	800,030	0%	1,540,323	58%
2014	0	87,071	87,071	0%	1,543,719	6%

The purpose of the above table is to provide information that serves as a surrogate for the funding progress of the Other Post-Employment Benefit plan.

The District hired a consultant to calculate its OPEB Accrued Actuarial Liability (AAL) as of June 30, 2014 in accordance with the 3-year recalculation requirement of GASB Statement No. 45. A significant reduction in the OPEB liability was determined. See Notes 12 and 13 for further details.

Heart Butte School District No.1
Pondera County
Heart Butte, Montana

SCHEDULE OF COMBINED FUNDS
BALANCE SHEET - COMBINED FUNDS
as of June 30, 2014

	General Fund	Impact Aid Fund	Flexibility Fund	Total Combined Funds
ASSETS:				
Cash and Investments	\$ 135,014	\$ 1,945,122	\$ 26,117	\$ 2,106,253
Taxes Receivable	652	-	-	652
Receivable From Other Funds	-	-	-	-
Due From Other Governments	-	-	-	-
Other Current Assets	-	-	-	-
Inventories	-	-	-	-
Prepaid Expenses	-	-	-	-
Total Assets	<u>135,665</u>	<u>1,945,122</u>	<u>26,117</u>	<u>2,106,905</u>
LIABILITIES:				
Payable to Other Funds	-	-	-	-
Due to Other Governments	-	-	-	-
Other Current Liabilities	-	-	-	-
Unearned Revenue	-	-	-	-
Total Liabilities	-	-	-	-
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	<u>652</u>	<u>-</u>	<u>-</u>	<u>652</u>
TOTAL DEF INFLOWS OF RESOURCES	652	-	-	652
FUND BALANCES:				
Restricted:	-	-	-	-
Instruction	-	-	-	-
Media Support Services	-	-	-	-
Transportation	-	-	-	-
Retirement	-	-	-	-
Food Service Operations	-	-	-	-
Capital Asset Const./Acquisition	-	-	-	-
Committed - Operations & Maintenance	-	-	-	-
Unassigned (deficit):	<u>135,014</u>	<u>1,945,122</u>	<u>26,117</u>	<u>2,106,253</u>
Total Fund Balances	<u>135,014</u>	<u>1,945,122</u>	<u>26,117</u>	<u>2,106,253</u>
Total Liabilities, Deferred Inflows & Fund Bal.	<u>\$ 135,665</u>	<u>\$ 1,945,122</u>	<u>\$ 26,117</u>	<u>\$ 2,106,905</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Heart Butte School District No.1
Pondera County
Heart Butte, Montana

SCHEDULE OF COMBINED FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - COMBINED FUNDS
For the Year Ended June 30, 2014

	General Fund	Impact Aid Fund	Flexibility Fund	Total Combined Funds
REVENUES:				
District Levies	\$ 4,494	\$ -	\$ -	\$ 4,494
Interest	565	5,379	49	5,992
Other	-	764	15,008	15,772
State	1,230,128	-	-	1,230,128
Federal	-	931,946	-	931,946
Total Revenues	1,235,187	938,088	15,057	2,188,332
EXPENDITURES:				
Instructional Services	647,025	209,816	-	856,842
Instructional Support Services	54,113	255	-	54,368
Educational Media Services	56,359	40,887	-	97,247
General Administrative Services	297,963	207,462	-	505,424
Operation & Maintenance Services	67,845	344,373	250	412,469
Transportation Services	46,124	89,522	-	135,646
Extracurricular	29,286	29,011	-	58,297
School Food Services	36,267	5,400	-	41,666
Total Current Expenditures	1,234,982	926,727	250	2,161,958
Debt Service (Principal, Interest, Fees)	-	26,308	-	26,308
Total Expenditures	1,234,982	953,035	250	2,188,267
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	205	(14,946)	14,807	66
FUND BALANCES:				
Beginning of the Year	134,808	1,941,023	11,310	2,087,142
Prior Period Adjustments	-	19,045	-	19,045
End of the Year	\$ 135,014	\$ 1,945,122	\$ 26,117	\$ 2,106,253

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Heart Butte School District No.1
Pondera County
Heart Butte, Montana

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(Budget and Actual)
BUDGETED COMBINED FUNDS
for the Fiscal Year Ended June 30, 2014

	General Fund		Flexibility Fund	
	Original & Final		Original & Final	
	Budget	Actual	Budget	Actual
REVENUES:				
District Levies	\$ 4,576	\$ 4,494	\$ -	\$ -
Interest Earnings	278	565	-	49
Other Sources	-	-	-	15,008
State Sources	<u>1,350,762</u>	<u>1,230,128</u>	-	-
Total Revenues	1,355,616	1,235,187	-	15,057
EXPENDITURES:				
Instructional Services		647,025	11,010	-
Instructional Support Services		54,113	-	-
Educational Media Services		56,359	-	-
General Administrative Services		297,963	-	-
Operation & Maintenance Services		67,845	300	250
Transportation Services		46,124	-	-
Extracurricular		29,286	-	-
School Food Services	<u>-</u>	<u>36,267</u>	<u>-</u>	<u>-</u>
Total Expenditures	1,355,616	1,234,982	11,310	250
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
		205		14,807
FUND BALANCES:				
BEGINNING FISCAL YEAR FUND BALANCES		<u>134,797</u>		<u>11,310</u>
ENDING FISCAL YEAR FUND BALANCES		<u>\$ 135,002</u>		<u>\$ 26,117</u>

The accompanying NOTES TO REQUIRED SUPPLEMENTAL INFORMATION are an integral part of this statement.

Heart Butte School District No. 1
Pondera County
Heart Butte, Montana 59448

SCHEDULE OF REPORTED ENROLLMENT
Fiscal Year Ended June 30, 2014

	Reported Enrollment	Per Audit	Difference
FALL ENROLLMENT			
OCTOBER, 2013			
Kindergarten:	15	15	0
Grades 1 - 6:	96	96	0
Junior High:	<u>28</u>	<u>28</u>	<u>0</u>
Total Elementary:	<u>139</u>	<u>139</u>	<u>0</u>
High School:	48	48	0
MT Youth Challenge	<u>1</u>	<u>1</u>	<u>0</u>
Total High School:	<u>49</u>	<u>49</u>	<u>0</u>
WINTER ENROLLMENT			
DECEMBER, 2013			
Kindergarten:	15	15	0
Grades 1 - 6:	93	93	0
Junior High:	<u>26</u>	<u>26</u>	<u>0</u>
Total Elementary:	<u>134</u>	<u>134</u>	<u>0</u>
High School:	45	45	0
MT Youth Challenge	1	1	0
Part-time	<u>2</u>	<u>2</u>	<u>0</u>
Total High School:	<u>48</u>	<u>48</u>	<u>0</u>
SPRING ENROLLMENT			
FEBRUARY, 2014			
Kindergarten:	14	14	0
Grades 1 - 6:	89	89	0
Junior High:	<u>27</u>	<u>27</u>	<u>0</u>
Total Elementary:	<u>130</u>	<u>130</u>	<u>0</u>
High School:	42	42	0
Part-time	<u>1</u>	<u>1</u>	<u>0</u>
Total High School:	<u>43</u>	<u>43</u>	<u>0</u>

HEART BUTTE SCHOOL DISTRICT NO. 1
SCHEDULE OF REVENUES, EXPENDITURES AND FUND BALANCES
EXTRACURRICULAR FUNDS
June 30, 2014

	BALANCE	REVENUES	EXPENSES	BALANCE
	July 1, 2013			June 30, 2014
2013 CLASS	\$ 1,020	\$ -	\$ 1,020	\$ -
2014 CLASS	7,033	5,173	12,206	-
2015 CLASS	5,663	2,616	1,582	6,698
2016 CLASS	3,965	2,376	300	6,041
2017 CLASS	1,655	408	-	2,063
2018 CLASS	563	985	123	1,426
2019 CLASS	(16)	1,920	123	1,781
2020 CLASS	127	541	183	485
2021 CLASS	106	770	627	249
2022 CLASS	157	133	268	22
2023 CLASS	328	770	627	471
2024 CLASS	71	-	-	71
AIBL	45	-	-	45
ART CLUB	1	340	174	166
ATHLETICS	32,106	16,168	39,061	9,213
BLACKFEET CULTURE CLUB	-	500	240	260
BOOK FAIR	-	2,417	2,003	414
BOOSTER CLUB	812	-	613	198
CONCESSIONS	-	8,426	4,101	4,325
FIRST FOX	15	-	-	15
JOURNALISM	255	-	-	255
PYCE	1,480	-	-	1,480
SCIENCE CLUB	-	459	459	-
STUDENT COUNCIL	1,691	-	578	1,113
SUBTOTAL	<u>57,077</u>	<u>44,001</u>	<u>64,288</u>	<u>36,790</u>
Less: Transfers		<u>(4,009)</u>	<u>(4,009)</u>	
TOTAL	<u><u>57,077</u></u>	<u><u>39,992</u></u>	<u><u>60,279</u></u>	<u><u>36,790</u></u>

GRANTOR/PASS THROUGH GRANT AND PROGRAM TITLE	Pass Through or Grantor Contract #	CFDA Number	GRANT AWARD AMOUNT
U.S. DEPARTMENT OF EDUCATION DIRECT PROGRAMS:			
PL 874 Impact Aid ²	S041B20142878	84.041	\$969,820
PL 874 Impact Aid - Construction	S041B20112878	84.041	0
Title VII Indian Education	5060A130383	84.060	43,957
Title VI Part B – SRS (REAP)	5358A132829	84.358A	689
Gear Up	600-021	84.334	33,284
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH STATE OF MONTANA OFFICE OF PUBLIC INSTRUCTION:			
Title I Part A ⁴	03712263214	84.010	\$ 29,654
Title I Part A ⁴	03712263213	84.010	118,280
Title II Part A – Improving Teacher Quality ⁴	03712263213	84.367	23,355
Title II Part A – Improving Teacher Quality ⁴	03712263214	84.367	13,428
Carl Perkins	03712268114	84.048A	4,781
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH STATE OF MONTANA OFFICE OF PUBLIC INSTRUCTION:			
NATIONAL SCHOOL LUNCH			
National School Lunch - Cash Payments ¹		10.555	\$124,806
National School Lunch - Commodities ¹		10.555	7,759
Fresh Fruits and Vegetables		10.582	841

Notes: 1.No separate funds or accounts maintained. District assumed first in first out for program monies.
2. Impact aid revenue includes other revenue generated from Impact Aid money, i.e., interest.
3. The Schedule of Expenditures of Federal Awards is prepared using the modified accrual basis of accounting which is described in Note 1B.
4. Title I Part A and Title II Part A grants were consolidated into a Schoolwide plan.

GRANTOR/PASS THROUGH GRANT AND PROGRAM TITLE	Balance July 1, 2013	Revenues	Allowable Expenditures	Balance June 30, 2014
U.S. DEPARTMENT OF EDUCATION DIRECT PROGRAMS:				
PL 874 Impact Aid ²	\$1,941,023	\$ 969,820	\$965,721	\$1,945,122
PL 874 Impact Aid Construction	19,698	0	0	19,698
Title VII Indian Education	0	43,957	43,957	0
Title VI Part B – SRS (REAP)	0	689	689	0
Gear Up	0	33,284	33,284	0
U.S. DEPARTMENT OF EDUCATION: PASSED THROUGH STATE OF MONTANA OFFICE OF PUBLIC INSTRUCTION:				
Title I Part A ⁴	0	29,654	29,654	0
Title I Part A ⁴	0	118,280	118,280	0
Title II Part A – Improving Teacher Quality ⁴	0	23,355	23,355	0
Title II Part A – Improving Teacher Quality ⁴	0	13,428	13,428	0
Carl Perkins	0	4,781	4,781	0
TOTAL DEPT OF EDUCATION:	1,960,721	1,237,248	1,233,149	1,964,820
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH STATE OF MONTANA OFFICE OF PUBLIC INSTRUCTION:				
NATIONAL SCHOOL LUNCH				
National School Lunch - Cash Payments ¹	0	124,806	124,806	0
National School Lunch - Commodities ¹	0	7,759	7,759	0
Fresh Fruits and Vegetables	0	841	841	0
TOTAL DEPT OF AGRICULTURE:	0	133,406	133,406	0
TOTAL FEDERAL PROGRAMS:	<u>\$1,960,721</u>	<u>\$1,370,654</u>	<u>\$1,366,555</u>	<u>\$1,964,820</u>

Notes: 1. No separate funds or accounts maintained, district assumed first in first out for program monies.
2. Impact aid revenue includes other revenue generated from Impact Aid money, i.e., interest.
3. The Schedule of Expenditures of Federal Awards is prepared using the modified accrual basis of accounting which is described in Note 1B.
4. Title I Part A and Title II Part A grants were consolidated into a Schoolwide plan.

Tripp & **A**ssociates
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Billings, Montana 59102

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
Heart Butte School District No. 1
Pondera County
Heart Butte, Montana 59448

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 Heart Butte School District No. 1 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Heart Butte School District No. 1's basic financial statements and have issued our report thereon dated March 13, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered Heart Butte School District No. 1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Heart Butte School District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of Heart Butte School District No. 1's internal control.

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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses; items 1, 2, 3 and 5, 2014.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies; items 4, 6 and 9, 2014.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Heart Butte School District No. 1'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Heart Butte School District No. 1's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. Heart Butte School District No. 1'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 the audit performed in accordance with Governmental Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Tripp & Associates

Tripp & **A**ssociates
Billings, Montana
March 13, 2015

Tripp & **A**ssociates
1645 Ave. D, Suite E
Billings, Montana 59102

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Trustees
Heart Butte School District No. 1
Pondera County
Heart Butte, Montana 59448

Report on Compliance for Each Major Federal Program

We have audited Heart Butte School District No. 1's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. Heart Butte School District No. 1's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Heart Butte School District No. 1's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America: the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Heart Butte School District No. 1's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Heart Butte School District No. 1's compliance.

Opinion on Each Major Federal Program

In our opinion, Heart Butte School District No. 1, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs; items 7 & 8, 2014. Our opinion on each major federal program is not modified with respect to these matters.

Heart Butte School District No. 1's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Heart Butte School District No. 1's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Heart Butte School District No. 1 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Heart Butte School District No. 1's internal control over compliance with the types of requirement that could have a material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Heart Butte School District No. 1's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider items 7 & 8, 2014 to be significant deficiencies.

Our consideration of the internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Tripp & Associates

Tripp & **A**ssociates
Billings, Montana
March 13, 2015

Heart Butte School

School District No. 1 • Pondera County

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

FINDING NUMBER 4 – REVENUES 2013 (repeat finding from 2010-2012):

This is not a finding for fiscal year 2014

FINDING NUMBER 6 – CONTRACT EMPLOYEES 2013 (repeat finding from 2012):

This is not a finding for fiscal year 2014

FINDING NUMBER 8 – UNEARNED REVENUE - IMPACT AID - CONSTRUCTION 2013:

This is not a finding for fiscal year 2014

FINDING NUMBER 9 – PRIOR PERIOD ADJUSTMENT - REVENUE 2013:

This is not a finding for fiscal year 2014

FINDING NUMBER 10– ENROLLMENT COUNTS 2013:

This is not a finding for fiscal year 2014

FINDING NUMBER 11– IMPACT AID – STUDENT LIST 2013:

This is not a finding for fiscal year 2014

FINDING NUMBER 1 –CAPITAL ASSETS 2013 (Repeat finding from 2003 – 2012):

Criteria: GAAP requires that the costs of capital assets are properly reported along with the associated depreciation. The State of Montana requires that capital assets and associated depreciation is reported on the Trustee's Financial Summary (TFS).

Condition: The District did not report, on the TFS submitted to the State of Montana, the updated capital assets costs. The accumulated depreciation section of the TFS associated with the capital assets was left blank.

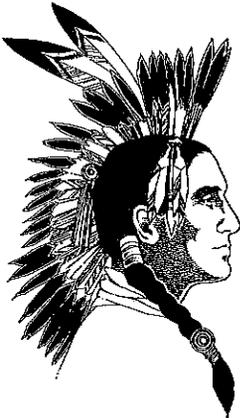
Context: The District did not properly report the District's capital assets costs and associated depreciation. The costs shown on the TFS were outdated.

Effect: The District is not in compliance with GAAP and State of Montana capital assets reporting requirements.

Cause: The District was unaware of the importance of updating the TFS.

Recommendation: We recommend that the District update TFS to include the District's capital assets costs, current year depreciation by function, and accumulated depreciation.

Auditee response: The District will update the TFS to include the District's capital assets costs, current year depreciation by function and accumulated depreciation.



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Heart Butte School

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)
School District No. 1 • Pondera County

FINDING NUMBER 2 – CASH 2013 (Repeat finding from 2006 -2012):

Criteria: GAAP requires that District cash is reconciled to Bank/County statements on a monthly basis. Proper internal controls require timely reconciliations of all cash accounts and timely follow up of reconciling items.

Condition: The District did not properly report governmental and fiduciary cash amounts.

Context: Extracurricular cash reported on the TFS was understated by \$12,613. Cash in governmental funds was overstated by \$12,613.

Effect: The TFS overstated governmental fund assets and understated governmental fund expenditures. The TFS understated fiduciary assets and ending balance.

Cause: The District did not fully reconcile County/Bank statements. The District records did not agree to the County/Bank statements but no changes were made to bring the District records into agreement with the County/Bank statements.

Recommendations: We recommend that on a monthly basis, the District reconcile its cash to the County and local bank statements. When differences are discovered, the District should either make adjustments to District records to bring the District records into agreement with the County/Bank statements or obtain confirmation from the County/Bank that their balances will be corrected.

Auditee response: The District will reconcile its cash to the County and local bank statements on a monthly basis. If differences are discovered, the District will make adjustments to District records to bring the District records into agreement with the County/Bank Statements or obtain confirmation from the County/Bank that their balances will be corrected.

FINDING NUMBER 3 – LIABILITIES 2013 (repeat finding from 2010-2012):

Criteria: GAAP requires that all liabilities are properly reported on the Financial Statements.

Condition: The District did not report liabilities totaling \$88,453 on the TFS.

Context: The District did not report a liability for capital leases \$1,382 or OPEB liability of \$87,071 on the TFS.

Effect: The effect was understated liabilities and overstated net position on the financial statements.

Cause: No prior amounts were reported for capital leases or OPEB liability on the TFS and the District clerk did not understand how the mechanics of the TFS worked in order to properly report them on the TFS.

Recommendation: We recommend that the District include leases and OPEB liabilities on the TFS.

Auditee response: The District will include leases and OPEB liabilities on the TFS.

FINDING NUMBER 5 – ENCUMBRANCES 2014 (repeat finding from 2011- 2013)):

Criteria: Generally Accepted Accounting Principles (GAAP) requires that expenditures are reported in the proper period. Encumbrances are amounts associated with purchase orders outstanding at year end but paid in subsequent years. MCA requires that encumbrances are reported only in budgeted funds.

Condition: Encumbrances reported on the TFS were determined to be invalid encumbrances.

Context: Encumbrances reported on the TFS totaled \$7,430. All were determined to be invalid encumbrances which should be voided.

Effect: Expenditures and fund balance available for budget were overstated.

Cause: The District was hesitant to void outstanding purchase orders.

Recommendation: We recommend that the District enter purchase orders into the District records as of the **date the order** for the item was placed rather than the **date the entry was made**. Further, the District should void invalid encumbrances and report proper encumbrances in budgeted funds on the TFS.

Auditee response: The District will enter purchase orders into the district records as of the date of order for the item. The district will also void invalid encumbrances and report only proper encumbrances in budgeted funds on the TFS.



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Heart Butte School

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued) School District No. 1 • Pondera County

FINDING NUMBER 7 – DISTRICT RECORDS 2013 (Repeat finding from 2012):

Criteria: U.S. Generally Accepted Accounting Procedures (GAAP) requires that financial statements are a reflection of the District's records. The TFS is the District's financial statement.

Condition: The District records for some assets and liabilities did not match those reported on the TFS for the corresponding accounts.

Context: Amounts in District records reported differently on the TFS are as follows:

<u>Fund</u>	<u>Account</u>	<u>District</u>	<u>TFS</u>
Miscellaneous	Due From Other Gov. (Asset)	\$(273,429)	\$48,218
Miscellaneous	Other Liabilities (Liability)	(300)	0
Student Activities	Cash (Asset)	(12,759)	24,176
Payroll Clearing	Due To Other Gov. (Liability)	15,649	19,310

Effect: Non-compliance with GAAP.

Cause: Inattention to District records when transferring data to the TFS; disbelief in the District records; and/or forcing the TFS to balance.

Recommendation: We recommend that the District make adjustments to District records using Prior Period Adjustments to bring the District records into agreement with the TFS as of June 30, 2014. Then, the District should make adjustments to the District's accounting system (Black Mountain) for account balances they do not feel are proper balances.

Auditee Response: The District will make adjustments to District records using prior period adjustments to bring the District records into agreement with the TFS as of June 30, 2014. The District will also make adjustments to the District's accounting system (Black Mountain) for account balances that we feel are not proper balances.



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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

A. Summary of Auditor's Results

Financial Statements:

The auditor, Tripp & Associates, has issued a qualified opinion on Heart Butte School District No. 1's financial statements as of and for the year ended June 30, 2014.

Internal Control over financial reporting:

- Material Weaknesses identified? YES NO
 - Significant Deficiencies identified? YES NONE REPORTED
- Noncompliance material to financial
statements noted? YES NO

Federal Awards:

The auditor, Tripp & Associates, has issued an unmodified opinion on Heart Butte School District No. 1's compliance with major federal awards programs as of and for the year ended June 30, 2014.

Internal Control over compliance for major programs:

- Material Weaknesses identified? YES NO
- Significant Deficiencies identified? YES NONE

Any compliance audit findings disclosed that are
required to be reported in accordance with Section
.510(a) of OMB Circular A-133? YES NO

1. The major programs for Heart Butte School District No. 1 for the year ended June 30, 2014 were the Impact Aid Cluster 84.041; Child Nutrition Cluster 10.553, 10.555, 10.556, 10.559; and Title I Part A 84.010.
2. The threshold used to distinguish between Type A and Type B programs was \$300,000. Heart Butte School District No. 1 has the Impact Aid Cluster as a "Type A" program.
3. This school district does not qualify as a low risk audit client.

B. Findings relating to the financial statements which are required to be reported in accordance with "Governmental Auditing Standards."

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FINDING NUMBER 1 – CAPITAL ASSETS 2014 (Repeat finding from 2003 – 2013):

Criteria: GAAP requires that the costs of capital assets are properly reported along with the associated depreciation. The State of Montana requires that capital assets and associated depreciation is reported on the Trustee's Financial Summary (TFS).

Condition: The District did not report, on the TFS submitted to the State of Montana, the updated capital assets costs. The accumulated depreciation section of the TFS associated with the capital assets was left blank.

Context: The District did not properly report the District's capital assets costs and associated depreciation. The costs shown on the TFS were outdated.

Effect: The District is not in compliance with GAAP and State of Montana capital assets reporting requirements.

Cause: The District was unaware of the importance of updating the TFS.

Recommendation: We recommend that the District update the TFS to include the District's capital assets costs, current year depreciation by function, and accumulated depreciation.

Auditee response: The District will update the TFS to include the District's capital assets costs, current year depreciation by function and accumulated depreciation.

FINDING NUMBER 2 – CASH 2014 (Repeat finding from 2006 -2013):

Criteria: GAAP requires that District cash is reconciled to Bank/County statements on a monthly basis. Proper internal controls require timely reconciliations of all cash accounts and timely follow up of reconciling items.

Condition: The District did not properly report governmental and fiduciary cash amounts.

Context: Extracurricular cash reported on the TFS was understated by \$12,613. Cash in governmental funds was overstated by \$12,613.

Effect: The TFS overstated governmental fund assets and understated governmental fund expenditures. The TFS understated fiduciary assets and ending balance.

Cause: The District did not fully reconcile County/Bank statements. The District records did not agree to the County/Bank statements but no changes were made to bring the District records into agreement with the County/Bank statements.

Recommendations: We recommend that on a monthly basis, the District reconcile its cash to the County and local bank statements. When differences are discovered, the District should either make adjustments to District records to bring the District records into agreement with the County/Bank statements or obtain confirmation from the County/Bank that their balances will be corrected.

Auditee response: The District will reconcile its cash to the County and local bank statements on a monthly basis. If differences are discovered, the District will make adjustments to District records to bring the District records into agreement with the County/Bank Statements or obtain confirmation from the County/Bank that their balances will be corrected.

FINDING NUMBER 3 – LIABILITIES 2014 (Repeat finding from 2010-2013):

Criteria: GAAP requires that all liabilities are properly reported on the Financial Statements.

Condition: The District did not report liabilities totaling \$88,453 on the TFS.

Context: The District did not report a liability for capital leases \$1,382 or OPEB liability of \$87,071 on the TFS.

Effect: The effect was understated liabilities and overstated net position on the financial statements.

Cause: No prior amounts were reported for capital leases or OPEB liability on the TFS and the District clerk did not understand how the mechanics of the TFS worked in order to properly report them on the TFS.

Recommendation: We recommend that the District include leases and OPEB liabilities on the TFS.

Auditee response: The District will include leases and OPEB liabilities on the TFS.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FINDING NUMBER 4 – ENCUMBRANCES 2014 (Repeat finding from 2011- 2013):

Criteria: Generally Accepted Accounting Principles (GAAP) requires that expenditures are reported in the proper period. Encumbrances are amounts associated with purchase orders outstanding at year end but paid in subsequent years. MCA requires that encumbrances are reported only in budgeted funds.

Condition: Encumbrances reported on the TFS were determined to be invalid encumbrances.

Context: Encumbrances reported on the TFS totaled \$7,430. All were determined to be invalid encumbrances which should be voided.

Effect: Expenditures and fund balance available for budget were overstated.

Cause: The District was hesitant to void outstanding purchase orders.

Recommendation: We recommend that the District enter purchase orders into the District records as of the **date the order** for the item was placed rather than the **date the entry was made**. Further, the District should void invalid encumbrances and report proper encumbrances in budgeted funds on the TFS.

Auditee response: The District will enter purchase orders into the district records as of the date of order for the item. The district will also void invalid encumbrances and report only proper encumbrances in budgeted funds on the TFS.

FINDING NUMBER 5 – DISTRICT RECORDS 2014 (Repeat finding from 2013):

Criteria: U.S. Generally Accepted Accounting Procedures (GAAP) requires that financial statements are a reflection of the District’s records. The TFS is the District’s financial statement.

Condition: The District records for some assets and liabilities did not match those reported on the TFS for the corresponding accounts.

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Effect: Non-compliance with GAAP.

Cause: Inattention to District records when transferring data to the TFS; disbelief in the District records; and/or forcing the TFS to balance.

Recommendation: We recommend that the District make adjustments to District records using Prior Period Adjustments to bring the District records into agreement with the TFS as of June 30, 2014. Then, the District should make adjustments to the District’s accounting system (Black Mountain) for account balances they do not feel are proper balances.

Auditee Response: The District will make adjustments to District records using prior period adjustments to the District’s accounting system (Black Mountain) for account balances that we feel are not proper balances.

FINDING NUMBER 6 – SCHEDULE OF EXPENDITURES of FEDERAL AWARDS (SEFA) 2014:

Criteria: The federal government requires that a Schedule of Expenditures of Federal Awards (SEFA) is prepared annually with CFDA numbers, grant project numbers, and federal program revenues and expenditures.

Condition: The District did not provide grant numbers in the front section of the TFS. The District did not make revenue accruals for the Miscellaneous Fund where the miscellaneous federal programs are accounted for.

Context: The federal grant award numbers section of the TFS was left blank. The District reported cash received as revenue when it was actually earned (the grant was spent) in a prior year.

Possible Effect: The SEFA provided by the District was incomplete.

Cause: The clerk was unfamiliar with the severity of the need for this information to be present.

Recommendations: We recommend that the district clerk include grant numbers on the TFS and learn to properly accrue federal grants.

Auditee response: The District Clerk will include grant numbers on the TFS and properly accrue federal grants.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FINDING NUMBER 7 – IMPACT AID – CWD 2014:

Program CFDA Number and Title: 84.041 PL874 Impact Aid Federal Award Year: 2013 -2014
Federal Award Number S041B20142878

Criteria: The Impact Aid federal program contains a requirement that a specified amount of Impact Aid funds must be spent on children with disabilities (CWD) each fiscal year based on the number of CWD reported on the Impact Aid application.

Condition: The District spent \$22,087 less than the required amount of Impact Aid monies on CWD.

Context: The District only spent \$5,941 of Impact Aid funds on CWD when the required amount was \$28,028. The Impact Aid CWD spending requirement was underspent by \$22,087.

Possible Effect: The District may be required to return unspent Impact Aid CWD funds of \$22,087.

Cause: Unfamiliarity with Impact Aid vouchers and how to determine the spending requirement.

Recommendations: We recommend that the District look at the Impact Aid vouchers, representing the current fiscal year, and designate the amount identified on the vouchers as the 8003(d) total as the CWD spending requirement.

Auditee response: The District will look at the Impact Aid vouchers that represent the current fiscal year to designate the amount identified on the vouchers as the 8003(d) total as the CWD spending requirement.

FINDING NUMBER 8 – GRADUATION DATA 2014:

Program CFDA Number and Title: 84.010 Title I Part A Federal Award Year: 2013 -2014
Federal Award Number 03712263214

Criteria: The OMB Circular A-133 Title I Part A compliance supplement requires Title I Part A recipients to maintain appropriate written documentation to support the High School Graduation Rate.

Condition: The District did not maintain appropriate "graduation rate" supporting documentation.

Context: The District was unable to produce documentation to confirm whether a student reported as "transferred out" on the regulatory adjusted cohort report actually transferred to another district.

Possible Effect: Noncompliance with Title I Part A requirements.

Cause: High turnover in the superintendent position for the fiscal year 2014.

Recommendations: We recommend that the District maintain documentation required by federal grants to remain in compliance with federal grants; in this case, graduation cohort documentation.

Auditee response: The district will maintain documentation required by federal grants to remain in compliance with federal grants for graduation cohort documentation.

FINDING NUMBER 9 – PAYROLL 2014:

Criteria: Generally Accepted Accounting Principles (GAAP) and contract agency laws require that employees are properly paid according to contracts if contracts exist and the later date of written agreements prevails.

Condition: The District paid two persons in excess of their employee contract amounts.

Context: Two employees changed positions on March 10, 2014. A board motion dated March 20, 2014 states that these employees are to be paid at the higher rate for 2013-2014. Their employee contracts signed March 25, 2014 stated that the pay would be at the higher rate for the remainder of the school term of 70 days at a specified amount per day. The employees were paid at the higher rate retroactively as if they were in the new positions since the beginning of the year.

Possible Effect: Employee payroll payments were not in agreement with employee contracts.

Cause: Employees were paid based on board minutes rather than employee contracts.

Recommendations: We recommend that employees are paid according to their contracts and that contracts are amended if new interpretations are made.

Auditee response: The two employees were paid according to board intent. The District will ensure employees are paid according to contract and contracts will be amended if new interpretations are made.

- C.** Findings and questioned costs for Federal awards, as defined in section .510 (a) of OMB Circular A-133. The audit disclosed findings or questioned costs relating to federal awards as defined in section .510 (a) of the OMB Circular A-133 as items 7 & 8, 2014.