

Board of Trustees
 Montana City School District No. 27
 Jefferson County
 Clancy, MT 59634

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Board of Trustees
Montana City School District No. 27
Jefferson County
Clancy, MT 59634

ORGANIZATION
Fiscal Year Ended June 30, 2014

BOARD OF TRUSTEES

Sherry Meador	Chairman
Marta Bertoglio	Vice Chairman
Betty Ferriter	Trustee
Robert Workman	Trustee
Robert Henschel	Trustee

OFFICIALS

Tony Kloker	Superintendent
Diane Smith	Business Manager/District Clerk
Garry Pace	County Superintendent
Mathew Johnson	County Attorney

Montana City School District #27 Management's Discussion and Analysis

Our discussion and analysis of the financial performance provides an overview of the financial position and activities of the Montana City School District #27 for the fiscal year ended June 30, 2014. Please read it along with the District's financial statements that begin on page 9.

Using This Audit Report

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

Overview of the Financial Statements

Government wide financial statements: One of the most important questions asked about the District's finances is, "is the District, as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities (pages 9 and 10) report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting generally including the elimination of internal service activity between or within funds, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

Fund financial statements: The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law. Also, the Board of Trustees

establishes other funds to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other money. We utilize the following funds:

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

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

The District as a Whole

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In our case the net position in the district was \$2,629,673 as of June 30, 2014.

STATEMENT OF NET POSITION		Governmental Activities			
	2014	2013	\$ CHANGE	% CHANGE	
Current Assets					
Cash & Investments	277,635	284,608	(6,973)	-2.45%	
Restricted Cash & Investments	1,093,340	5,010,685	(3,917,346)	-78.18%	
Capital Assets, net	8,490,696	4,319,917	4,170,779	96.55%	
Total Assets	9,861,671	9,615,210	246,461	2.56%	
Current Liabilities	35,698	28,478	7,219	25.35%	
Long Term Liabilities	7,196,300	7,447,781	(251,481)	-3.38%	
Total Liabilities	7,231,998	7,476,260	(244,262)	-3.27%	
Net Position:					
Net Investment in Capital Assets	2,542,860	1,946,251	596,609	30.65%	
Restricted - Endowment Corpus	10,000	10,000	0	0.00%	
Restricted - Debt Proceeds	207,929	-	207,929		
Restricted - Other	959,741	226,242	733,499	324.21%	
Unrestricted	(1,090,858)	(43,543)	(1,047,315)	2405.27%	
Total Net Position	2,629,673	2,138,951	490,722	22.94%	

CHANGES IN NET POSITION					
Revenues					
Program Revenues:					
Charges for Services	212,348	113,826	98,522	86.56%	
Operating Grants	237,700	261,974	(24,274)	-9.27%	
Capital Grants & Contributions	282,299	-	282,299		
General Revenues:					
District Levy	1,400,481	1,122,327	278,154	24.78%	
State Equalization	1,857,360	1,783,254	74,106	4.16%	
Other State Revenue	268,465	254,908	13,557	5.32%	
County	333,652	292,535	41,117	14.06%	
Investment Earnings	4,674	5,819	(1,145)	-19.68%	
Other	19,949	27,952	(8,003)	-28.63%	
Gain on Reissuance of Debt	9,992	116,027	(106,035)	-91.39%	
Total Revenues	4,626,920	3,978,622	754,333	18.96%	
Program Expenses					
Instruction	2,162,068	2,309,252	(147,184)	-6.37%	
Support	202,872	136,361	66,511	48.78%	
Media	167,085	138,855	28,230	20.33%	
Administration:	471,137	456,225	14,912	3.27%	
O & M	414,438	437,105	(22,667)	-5.19%	
Transportation	125,256	123,342	1,914	1.55%	
Extracurricular	31,886	27,716	4,170	15.05%	
School Food	255,036	196,071	58,965	30.07%	
Interest	255,038	59,034	196,004	332.02%	
Loss on Asset	1,264	-	1,264		
OPEB Expense	75,880	32,536	43,344	133.22%	
Deferred Charges Amortization	-	74,667	(74,667)	-100.00%	
Depreciation-unallocated	82,120	65,231	16,889	25.89%	
Total Expenses	4,244,080	4,056,396	187,684	4.63%	
Change in Net Position	382,840	(77,774)			

Fund Financial Statements

The fund financial statements provide detailed information about the major (most significant) funds. Major funds are defined as the general fund and other funds where total assets, liabilities, revenues, or expenditures of the individual fund must be at least 10 percent of the corresponding element total (assets, liabilities, etc.) for all funds. The District fund financial statements report the General, Debt Service, and Building funds as major funds. See the notes to the financial statements for a description of these funds.

Only the General Fund is required to report budgetary comparison information because the other two major funds are not special revenue funds. The General Fund expenditures did not exceed total budgeted expenditures.

Capital Asset and Debt Administration

The District's significant long term debt is its general obligation bonds.

The 2013-2014 year was the first year that the newly approved bond issue of the Series 2013 bonds of \$5,750,000 (November 2012 election) appeared on the tax bills. The timing of this bond closing saved the taxpayers \$738,947 less than the election estimates.

The District also has two 15-year loans with semi-annual payments of principal and interest through the Montana State Board of Investments InterCap Loan program. The loans and other details of the changes in capital assets and long term debt are described in the notes to the basic financial statements.

In June 2014, the series 2006 bonds were refinanced by the issuance of the series 2014 bonds. The General Obligation Refunding Bonds, series 2014, will continue to be paid until July 1, 2020. By refinancing the outstanding 2006 General Obligation Bonds, the district taxpayers will see interest savings of \$83,278 over the remaining term of the bonds.

The Future of the District

The 2013-2014 General Fund Budget increased by only \$76,074.16 over the 2012-2013 General Fund Budget of the district. A little over 80% of the total General Fund budget goes toward employee salaries and benefits, which leaves approximately 20% for supplies, equipment, insurance, energy costs, technology, and to maintain the facility and grounds for the 450 students. The district prides itself in being fiscally responsible, and is grateful for the support of the community.

The latest construction project financed through the 2012 approved bond issue was completed through 2013-2014. The expansion included 8 new classrooms and site development with additional parking and a new track and field. The building addition was opened for use for the 2014-2015 school year. The district was fortunate to receive a Quality Schools Grant from the Department of Commerce for \$764,700 to include a fire suppression system in the entire building. Also a \$68,424 grant from the State of Montana for an expansion of the trails system to make immediate access to the school safer for students.

Our enrollment continues to increase, but since we listened to the community and no longer accept any new out of district students, we are anticipating the growth to continue at a manageable rate and believe our improved facilities will be sufficient for many years.

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Montana City School District No. 27
Jefferson County
Clancy, MT 59634

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Montana City School District No. 27 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Montana City School District No. 27 as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 – 6; Schedule of Revenues, Expenditures and Changes in Fund Balances (Budget and Actual) on page 31; and Schedule of Funding Progress for Other Post-Employment Benefits (OPEB) Other than Pensions on page 33 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 Montana City School District No. 27's basic financial statement. The Schedule of Combined Funds; 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 Combined Funds; Schedule of Reported Enrollment; and Schedule of Revenues, Expenditures and Fund Balances – Extracurricular Funds 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 Combined Funds; Schedule of Reported Enrollment; and Schedule of Revenues, Expenditures and Fund Balances – Extracurricular Funds 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 June 22, 2015, on our consideration of Montana City School District No. 27'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 Montana City School District No. 27's internal control over financial reporting and compliance.

Tripp & Associates

Billings, Montana
June 22, 2015

Montana City School District No. 27
Jefferson County
Clancy, MT 59634

STATEMENT OF NET POSITION
as of June 30, 2014

	<u>Governmental Activities</u> <u>2014</u>
ASSETS:	
Current Assets:	
Cash & Investments	\$ 158,055
Taxes Receivable	116,035
Due From Other Governments	2,427
Other Current Assets	<u>1,118</u>
Total Current Assets	277,635
Restricted Assets	
Cash & Investments	<u>1,093,340</u>
Total Restricted Cash & Investments	1,093,340
Non-Current Assets:	
Land/Construction in Progress	5,263,234
Other Capital Assets (Net)	<u>3,227,462</u>
Total Non-Current Assets	<u>8,490,696</u>
Total Assets	<u><u>9,861,671</u></u>
LIABILITIES:	
Current Liabilities:	
Compensated Absences	12,787
Other Current Liabilities	11,045
Current Notes Payable	<u>11,866</u>
Total Current Liabilities	35,698
Non-Current Liabilities:	
Compensated Absences	178,896
Notes Payable	156,380
Bonds Payable	6,655,000
OPEB Liability	<u>206,024</u>
Total Non-Current Liabilities	<u>7,196,300</u>
Total Liabilities	7,231,998
NET POSITION:	
Net Investment in Capital Assets	2,542,860
Restricted - Endowment Corpus	10,000
Restricted - Debt Service	207,929
Restricted - Other	959,741
Unrestricted	<u>(1,090,858)</u>
Total Net Position	<u><u>\$ 2,629,673</u></u>

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

Montana City School District No. 27
 Jefferson County
 Clancy, MT 59634

STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2014

Functions/Programs	-----Program Revenues-----			Net (Expense)	
	Expenses	Charges for Services	Operating Grants	Capital Grants & Contributions	Revenue and Changes in Net Position
GOVERNMENTAL OPERATIONS:					
Instruction	\$ 2,162,068	\$ 108,718	\$ 164,394	282,299	\$ (1,606,657)
Support	202,872	-	-	-	(202,872)
Media	167,085	-	-	-	(167,085)
Administration	471,137	-	-	-	(471,137)
O & M	414,438	-	-	-	(414,438)
Transportation	125,256	-	23,262	-	(101,993)
Extracurricular	31,886	-	-	-	(31,886)
School Food	255,036	103,630	50,044	-	(101,362)
Interest	255,038	-	-	-	(255,038)
Loss on Disposal of Capital Assets	1,264	-	-	-	(1,264)
Other Post Employment Benefits	75,880	-	-	-	(75,880)
Depreciation - Unallocated	82,120	-	-	-	(82,120)
Total Governmental Activities	<u>4,244,080</u>	<u>212,348</u>	<u>237,700</u>	<u>282,299</u>	<u>(3,511,732)</u>
GENERAL REVENUES:					
District Levy					1,400,481
State Equalization					1,857,360
Other State Revenue					268,465
County					333,652
Investment Earnings					4,674
Other					19,949
Gain on Reissuance of Debt					<u>9,992</u>
Total					3,894,572
CHANGE IN NET POSITION					382,840
NET POSITION:					
Beginning of the Year					2,138,951
Restatement of Net Position (Note 15)					<u>107,882</u>
End of the Year					<u>\$ 2,629,673</u>

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

Montana City School District No. 27
 Jefferson County
 Clancy, MT 59634

BALANCE SHEET
 GOVERNMENTAL FUNDS
 as of June 30, 2014

	-----MAJOR-----			Other	Total
	General Fund	Debt Service Fund	Building Fund	Government Funds	
ASSETS:					
Cash and Investments	\$ 99,292	\$ -	\$ -	\$ 58,763	\$ 158,055
Taxes Receivable	80,377	26,637	-	9,021	116,035
Receivable From Other Funds	18,000	-	-	-	18,000
Due From Other Governments	-	-	-	2,427	2,427
Other Current Assets	-	-	-	1,118	1,118
Total Current Assets	197,669	26,637	-	71,329	295,635
Restricted Cash & Investments:					
Cash and Investments	-	207,929	875,410	10,000	1,093,340
Total Assets	197,669	234,566	875,410	81,329	1,388,974
LIABILITIES:					
Payable to Other Funds	-	-	-	18,000	18,000
Other Current Liabilities	9,072	-	-	1,973	11,045
Total Liabilities	9,072	-	-	19,973	29,045
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenue - Property Taxes	80,377	26,637	-	9,021	116,035
FUND BALANCES:					
Nonspendable:					
Endowment	-	-	-	10,000	10,000
Interfund Loans	18,000	-	-	-	18,000
Restricted:					
Instruction	-	-	-	23,173	23,173
Media	-	-	-	13,947	13,947
Retirement	-	-	-	17,660	17,660
Operations & Maintenance	-	-	-	2,488	2,488
Facilities Construction/Acquisition	-	207,929	875,410	-	1,083,340
Assigned:					
Instruction	47,764	-	-	-	47,764
Other	-	-	-	26	26
Unassigned	42,456	-	-	(14,959)	27,497
Total Fund Balances	108,220	207,929	875,410	52,335	1,243,895
Total Liabilities, Deferred Inflows & Fund Bal.	\$ 197,669	\$ 234,566	\$ 875,410	\$ 81,329	\$ 1,388,974

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

Montana City School District No. 27
Jefferson County
Clancy, MT 59634

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
as of June 30, 2014

Total fund balances - Governmental Funds		\$	1,243,895
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Costs of Assets	10,520,442		
Less Accumulated Depreciation	<u>(2,029,746)</u>	8,490,696	
Less liabilities not reported in the governmental funds			
Compensated Absences	(191,683)		
Other Post-Employment Benefits	(206,024)		
Bonds Payable	(6,655,000)		
Notes Payable	<u>(168,246)</u>	(7,220,953)	
Deferred Inflows of Resources due to Property Tax Collections Receivable		<u>116,035</u>	
Net Position - Governmental Activities		<u>\$</u>	<u>2,629,673</u>

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

Montana City School District No. 27 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 Jefferson County
 Clancy, MT 59634

GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2014

	-----MAJOR-----			Other	Total
	General Fund	Debt Service Fund	Building Fund	Government Funds	Governmental Funds
REVENUES:					
District Levies	\$ 802,937	\$ 485,383	\$ -	\$ 101,890	\$ 1,390,210
Interest	229	489	3,894	62	4,674
Other	13,339	-	-	6,611	19,949
County	-	-	-	345,368	345,368
State	2,059,715	81,995	-	354,830	2,496,540
Federal	-	-	-	137,568	137,568
Charges for Services	-	-	-	212,348	212,348
Total Revenues	2,876,218	567,868	3,894	1,158,677	4,606,657
EXPENDITURES:					
Instructional Services	1,844,470	-	(96,337)	392,248	2,140,381
Instructional Support Services	83,276	-	-	116,931	200,207
Educational Media Services	156,118	-	-	10,815	166,933
General Administrative Services	416,453	-	-	54,761	471,214
Operation & Maintenance Services	288,876	-	113,032	7,978	409,887
Transportation Services	-	-	-	125,256	125,256
Extracurricular	28,523	-	-	2,388	30,911
School Food Services	43,338	-	-	172,677	216,015
Total Current Expenditures	2,861,055	-	16,695	883,054	3,760,804
Capital Outlays	-	-	3,900,146	303,482	4,203,628
Total Expenditures	2,861,055	-	3,916,841	1,186,536	7,964,433
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	(429)	567,868	(3,912,947)	(27,859)	(3,357,775)
OTHER FINANCING SOURCES (USES)					
Proceeds from Debt (Series 2014)	-	-	1,080,000	-	1,080,000
Advance Refunding of Bonds (Series 2006)	-	-	(1,080,000)	-	(1,080,000)
Premium on Sale of Bonds (Series 2014)	-	28,578	-	-	28,578
Bond Issuance Costs (Series 2014)	-	(18,586)	-	-	(18,586)
Debt Service (Principal, Interest, Fees)	(15,592)	(578,223)	(4,036)	-	(597,850)
Total Other Financing Sources (Uses)	(15,592)	(568,231)	(4,036)	-	(587,858)
NET CHANGES IN FUND BALANCES	(16,020)	(363)	(3,916,983)	(27,859)	(3,945,634)
FUND BALANCES:					
Beginning of the Year	108,649	208,292	4,792,393	80,195	5,189,529
End of the Year	<u>\$ 92,628</u>	<u>\$ 207,929</u>	<u>\$ 875,410</u>	<u>\$ 52,335</u>	<u>\$ 1,243,895</u>

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

Montana City School District No. 27
 Jefferson County
 Clancy, MT 59634

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		\$ (3,945,634)
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		10,271
Revenues reported in the Governmental Funds Statement not included in the Statement of Activities		
Bond Proceeds		(1,080,000)
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	(139,467)	
Loss on Disposal of Capital Assets	(1,264)	
Other Post-Employment Benefits (Increase) Decrease	(75,880)	
(Increase) decrease in Compensated Absence Liability	(11,626)	(228,237)
Expenditures reported in the governmental funds not included in the Statement of Activities		
Capital Outlays	4,203,628	
Principal Payments on Notes	17,812	
Principal Payments on Bonds	325,000	
Advance Refunding of Debt	1,080,000	5,626,440
Change in net position reported on the Statement of Activities - governmental activities		\$ 382,840

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

Montana City School District No. 27
Jefferson County
Clancy, MT 59634

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	\$ 33,411
Total Assets	33,411
LIABILITIES:	
Total Liabilities	-
NET POSITION:	
Held in Trust for Student Activities	<u>33,411</u>
Total Net Position	<u>\$ 33,411</u>

CHANGES IN FIDUCIARY NET POSITION

ADDITIONS:	
Revenue from Student Activities	<u>28,724</u>
Total Additions	28,724
DEDUCTIONS:	
Expenses of Student Activities	<u>25,653</u>
Total Deductions	25,653
CHANGE IN NET POSITION:	3,071
Net Position, Beginning of the Year	<u>30,340</u>
Net Position, Ending of the Year	<u>\$ 33,411</u>

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

Board of Trustees
Montana City School District No. 27
Jefferson County
Clancy, MT 59634

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Montana City School District No. 27 (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 an elementary district which provides education for kindergarten through eighth 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 revenues collected in advance, 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 District's major governmental funds and a combined column for all other non-major funds and a statement on the extracurricular activities fiduciary fund. 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 is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as revenues collected in advance 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. Proceeds from the issuance of long-term debt are recognized when received and payments of long-term debt principal are reported as expenditures when paid. 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, Debt Service and Building funds are this year's 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.

The *Flexibility fund* is combined with the General fund for reporting purposes due to the availability of these funds for purposes similar to the General fund. This budgeted fund is used to account for State and local revenues that are not directed to other funds.

Debt Service Fund – This debt service fund is used to account for the accumulation of funds restricted by debt covenants or committed by the Board for the payment of General Obligation Bond debt.

Building Fund – This capital project fund is used to account for revenues, Bond proceeds and other expenditures for construction of and general repairs and maintenance of the District's buildings.

The corpus of the Permanent Endowment fund is \$10,000. The available funds as of June 30, 2014 totaled \$26. It is the District's policy to spend the total-return of the fund on scholarships. According to MCA 20-9-604, permanent endowments are only able to spend the net appreciation. This fund is invested in STIP.

Fiduciary Funds

Private Purpose Trust Funds – The Trust Funds account for the receipt and disbursement of monies from extracurricular organizations. 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 extracurricular organizations.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

C) CASH AND INVESTMENTS

Montana Code Annotated (MCA) allows school districts to invest public money not necessary for immediate use in United States government treasure 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 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, 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 Jefferson 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 retroactively capitalizes the value of all infrastructure assets back to 1988. 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	20 years
Buildings	7 – 150 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 \$12,787 and it is generally paid out of the general fund. The accrued liability for sick and vacation leave at June 30, 2014 was \$191,683.

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 carryover a portion of an applicable budget appropriation, is utilized for budgetary control purposes. Encumbrances are not the equivalent of expenditures and accordingly, encumbrances at the governmental fund level indicate that portion of the fund balance segregated for expenditures upon vendor performance.

NOTE 2: CASH AND INVESTMENTS

A) CASH AND INVESTMENTS

Cash resources of the District are held in the Jefferson County investment pool which is managed by the Jefferson County Treasurer. They are combined with cash resources of other governmental entities within Jefferson County to form a pool of cash and cash equivalents. At June 30, 2014 the carrying amount of the District's deposits held by the County is \$1,606,377 and investments are \$10,026 for total deposits and investments \$1,616,403. This includes \$365,008 in agency funds. The District's cash and cash equivalents for the extracurricular activities fiduciary fund of \$33,411 are held at a local bank in demand accounts.

The District does not own specific identifiable investment securities in the Jefferson county investment pool. Therefore, the District's portion of the pool is not subject to categorization. Fair values approximate carrying values for investments as of June 30, 2014.

Information regarding the collateral and security for cash held by the Jefferson County treasurer is not available to the District. However, State statute requires that United State government securities or agencies be held as collateral to secure deposits of public funds in excess of Federal Deposit Insurance Corporation (FDIC) insurance. The external investment pool is audited as part of Jefferson County's financial statements. This investment pool is not registered with or monitored by the Securities and Exchange Commission (SEC). The County provides monthly statements to the district. Information regarding investment risk, collateral, security, and fair values for Jefferson County investment pool deposits and investments is available from the Jefferson County Treasurer's office, Box H, Boulder, MT 59632.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Short Term Investment Pool (STIP)

The Montana Board of Investments Short Term Investment Pool (STIP) is an investment pool that allows governments within the State of Montana to pool their funds for investment purposes. The objectives of the STIP program are to maintain high liquidity and obtain current income reflective of money market yields. The STIP investment portfolio consists of securities with maximum maturity of 397 days or less. The portfolio is carried at amortized cost.

The Montana STIP is not registered with the Securities and Exchange Commission (SEC) as an investment fund, but has a policy that it will and does operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. The District's investment position in STIP is determined by the District's share of the investment pool's value. Information concerning the Montana Board of Investment's Short-Term Investment Pool (STIP) may be obtained by contacting April Madden; STIP Program Manager; Montana Board of Investments; PO Box 200126; Helena, MT 59620-0126.

B) RESTRICTED CASH & INVESTMENTS

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Endowment	\$ 10,000	Corpus
Building	875,410	Bond proceeds for construction of school capital assets
Debt Service	<u>207,929</u>	Bond payments
Total Restricted Cash & Investments	<u>\$1,093,340</u>	

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 Net Investment in Capital Assets, Restricted and Unrestricted.

Net 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. (Net capital assets \$8,490,696, plus unspent bond proceeds of \$875,410, less Bonds & Notes Payable of \$6,823,246 = \$2,542,860).

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. At June 30, 2014, restricted Net Position for governmental activities totaled \$1,177,670 of which \$1,140,608 is restricted by 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., amounts due from other funds or endowment corpus.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

C) FUND BALANCE CLASSIFICATIONS

Nonspendable Fund Balance

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	\$ 18,000	Amounts Due From Other Funds
Endowment	<u>10,000</u>	Endowment Corpus
Total Nonspendable	28,000	

Restricted Fund Balance

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Retirement	\$ 17,660	Retirement
Tuition	11,426	Instruction
Miscellaneous	11,748	Instruction
Technology	13,947	Instruction
Debt Service	207,929	Bond Payments
Building	875,410	Bond Proceeds – Construction of Capital Assets
Building Reserve	<u>2,488</u>	Operations & Maintenance of District Buildings
Total Restricted	1,140,608	

Assigned Fund Balance

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	\$ 47,764	Instruction
Endowment	<u>26</u>	Scholarships
Total Assigned	47,790	

Unassigned Fund Balance

<u>Fund</u>	<u>Amount</u>
General	\$ 24,437
Flexibility	<u>18,019</u>
Subtotal Combined Funds	42,456
Transportation	(6,051)
School Food	<u>(8,908)</u>
Total	27,497

Total District Fund Balance \$1,243,895

D) MATERIAL CHANGES IN FUND CLASSIFICATIONS

The District reviewed its GASBS 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 Restricted.

E) STATEMENT OF NET POSITION VS. BALANCE SHEET – GOVERNMENTAL FUNDS

The difference of \$37,063 between restricted fund balance on the Balance Sheet – Governmental Funds, and restricted net position on the Statement of Net Position is comprised of the corpus of the endowment fund of \$10,000 and deferred inflows of resources due to taxes receivable of \$27,063 in the restricted funds (Tuition and Debt Service). The deferred inflows difference is attributable to the difference in accounting basis of these two statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 \$6,283,689 for the district. The tax rates assessed for the year ended June 30, 2014 to finance District operations were as follows:

<u>Fund</u>	<u>Mills</u>
General	129.50
Transportation	16.38
Debt Service	<u>79.13</u>
Total	<u>225.01</u>

B) TAXES RECEIVABLE

<u>Fund</u>	<u>District</u>
General	\$ 80,377
Transportation	8,595
Tuition	426
Debt Service	<u>26,637</u>
Total	<u>\$116,035</u>

C) DUE FROM OTHER GOVERNMENTS

<u>Fund</u>	<u>Amount</u>	<u>Due From / Reason</u>
School Food	\$ 575	State of Montana – School Food Match
School Food	<u>1,852</u>	Federal Gov. – School Food Reimbursement
Total	<u>\$ 2,427</u>	

C) DUE FROM OTHER FUNDS

<u>Fund</u>	<u>Amount</u>	<u>Due From / Reason</u>
General	\$ 6,500	Transportation Fund – Prior Year Overdrafts
General	11,500	School Food – Prior Year Overdrafts
Total	<u>\$ 18,000</u>	

NOTE 5: CAPITAL ASSETS

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Removals</u>	<u>Balance</u> <u>June 30, 2014</u>
COST Non-Depreciable:				
CIP	\$ 551,373	\$4,141,249	\$ 0	\$ 4,692,622
Land	<u>570,612</u>	<u>0</u>	<u>0</u>	<u>570,612</u>
Total Non-Depreciable	1,121,985	4,141,249	0	\$ 5,263,234
COST Depreciable:				
Land Improvements	\$ 460,396	\$ 107,882	\$ 23,492	\$ 544,786
Buildings	4,538,025	62,379	7,774	4,592,630
Major Equipment	<u>119,792</u>	<u>0</u>	<u>0</u>	<u>119,792</u>
Total Depreciable COST	<u>5,118,213</u>	<u>170,261</u>	<u>31,266</u>	<u>5,257,208</u>
Total COST	<u>\$ 6,240,198</u>	<u>\$4,311,510</u>	<u>\$ 31,266</u>	<u>\$10,520,442</u>
ACCUMULATED DEPRECIATION:				
Land Improvements	\$ (229,367)	\$ (32,634)	\$ (22,228)	\$ (239,773)
Buildings & Imp.	(1,630,120)	(101,282)	(7,774)	(1,723,628)
Major Equipment	<u>(60,794)</u>	<u>(5,551)</u>	<u>0</u>	<u>(66,345)</u>
Total Depreciation	<u>\$(1,920,281)</u>	<u>\$ (139,467)</u>	<u>\$ (30,002)</u>	<u>\$(2,029,746)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Depreciation was charged to the District's programs as follows:

Instructional	\$ 13,199
Support	2,176
Operation & Maintenance	6,033
School Food	34,964
Extracurricular	975
Unallocated	<u>82,120</u>
Total Current Year Depreciation	<u>\$139,467</u>

NOTE 6: OTHER CURRENT LIABILITIES

A) DUE TO OTHER FUNDS

<u>Fund</u>	<u>Amount</u>	<u>Due To / Reason</u>
Transportation	\$ 6,500	General – Prior year overdraft
School Food	11,500	General – Prior year overdraft
Total	<u>\$18,000</u>	

C) OTHER CURRENT LIABILITIES

<u>Fund</u>	<u>Amount</u>	<u>Description</u>
General	\$ 8,567	Voided Warrants reported as liabilities
Flexibility	505	Voided Warrants reported as liabilities
School Food	727	Voided Warrants reported as liabilities
Miscellaneous	<u>1,246</u>	Voided Warrants reported as liabilities
Total	<u>\$ 11,045</u>	

NOTE 7: DEFERRED INFLOWS OF RESOURCES

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
General	\$ 80,377	Taxes Receivable
Transportation	8,595	Taxes Receivable
Tuition	426	Taxes Receivable
Debt Service	<u>26,637</u>	Taxes Receivable
District Total	<u>\$116,035</u>	

NOTE 8: 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 tort, 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 WRRP with 60 days' notice. Information regarding the WCRRP may be obtained by contacting WCRRP at 1 S. Montana Ave., Helena, MT, 59601.

The District increased their building and contents coverage by \$235,000 in fiscal year 2013 and by \$3,265,000 in fiscal year 2014 to match the progress of the school building addition. Other coverages have not changed and settlements have not exceeded insurance coverage limits during the current or each of the two previous years.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 state wide 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. Members' 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. 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 – Employees who became members after July 1, 2013. 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 will vary 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 2013, 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. Also effective July 1, 2013, employers are required to make contributions to TRS of 9.85% for working retirees and the State supplemental rate is 2.49%.

In fiscal year 2014, the District was not assessed an excess reserves assessment to TRS because they had no excess reserves in their retirement fund.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 plan, 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 contributions 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 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:

Montana Teachers Retirement System	Montana Public Employees Retirement System
P.O. Box 200139	P.O. Box 200131
1500 Sixth Avenue	1712 Ninth Avenue
Helena, MT 59620-0139	Helena, MT 59620-0131
Phone: 406-444-3134	Phone: 406-444-3154
www.trs.doa.state.mt.us	www.state.mt.us/doa/perb/prb.htm

State contributions to PERS and TRS totaled \$779 and \$47,236 respectively and are reported in the Retirement Fund as revenues and expenditures.

The amounts contributed to the TRS and PERS 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	\$304,824	\$325,399	\$362,603
PERS	<u>28,280</u>	<u>29,303</u>	<u>33,819</u>
Total	<u>\$333,104</u>	<u>\$354,702</u>	<u>\$396,422</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 10: LONG TERM DEBT OBLIGATIONS

A) CHANGES IN LONG TERM DEBT

	Balance			Balance	Current
<u>Governmental Activities:</u>	<u>July 1, 2013</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2014</u>	<u>Portion</u>
Intercap Loans	\$ 186,059	\$ 0	\$ 17,813	\$ 168,246	\$11,866
Compensated Absences	180,057	11,626	0	191,683	12,787
General Obligation Bonds	6,980,000	1,080,000	1,405,000	6,655,000	0
OPEB Liability	<u>130,144</u>	<u>75,880</u>	<u>0</u>	<u>206,024</u>	<u>0</u>
Total	<u>\$7,476,260</u>	<u>\$1,167,506</u>	<u>\$1,422,813</u>	<u>\$7,220,953</u>	<u>\$24,653</u>

B) GENERAL OBLIGATION BONDS

The District issued general obligation bonds in fiscal years 2006 and 2013 for the acquisition and construction of capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. These bonds were issued for the terms and payment schedules indicated in the schedules later in this section. The District's bonds were issued for the terms and payment schedules shown below:

Issue Date	Original Term	Amount	Interest Rate	Retired	Outstanding June 30, 2014
7/2006	15 years	\$1,710,000	4% - 4.125%	\$1,710,000	\$ 0
2/2013	20 years	5,750,000	2% - 3.0%	175,000	5,575,000
6/2014	6 years	<u>1,080,000</u>	2%	<u>0</u>	<u>1,080,000</u>
Total		\$8,540,000		\$1,885,000	<u>\$6,655,000</u>

2013 Series Bonds:

In 2013, the District issued general obligation bonds of \$5,750,000 for the acquisition and construction of a new addition. The 2013 bond series consists of three repayment arrangements that flow consecutively in a similar fashion as if there were only one series of bonds. Principal of \$175,000 and interest of \$201,985 was paid in fiscal year 2014.

- 1 - Serial bonds from 1/1/2014 to 7/1/2025
- 2 - Term bonds from 1/1/2025 to 7/1/2029
- 3 - Serial bonds from 1/1/2030 to 7/1/2033

2006 Series Bonds:

In 2006, the District issued general obligation bonds of \$1,710,000 for the acquisition and construction of capital facilities. In 2014, these bonds were paid off by the issuance of the refunding Series 2014 Bonds. Principal of \$150,000 and interest of \$50,888 was paid on the series 2006 bonds in fiscal year 2014. The table below illustrates the resulting interest savings achieved by the issuance of the series 2014 bonds.

Series 2006 and Series 2014 Bond Repayment Schedule Comparison

6/30:	<u>2006 Series</u>		<u>2014 Series</u>		<u>Interest Savings</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2015	\$ 0	\$ 22,256	\$ 0	\$12,060	\$10,196
2016	160,000	41,113	170,000	19,900	21,213
2017	170,000	34,100	175,000	16,450	17,650
2018	175,000	26,987	175,000	12,950	14,037
2019	185,000	19,788	185,000	9,350	10,438
2020-2024	<u>390,000</u>	<u>16,294</u>	<u>375,000</u>	<u>7,550</u>	<u>8,744</u>
Totals	<u>\$1,080,000</u>	<u>\$160,538</u>	<u>\$1,080,000</u>	<u>\$78,260</u>	<u>\$82,278</u>

2014 Series Bonds:

In 2014 the District issued general obligation Series 2014 refunding bonds of \$1,080,000 to refund the Series 2006 general obligation bonds as mentioned above. The bonds are non-callable and were issued at 2% for 6 years. The District will realize a total savings of \$92,270 over the remaining term of the bonds. The interest savings are illustrated in the table above. The resulting savings is illustrated below.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

<u>Item</u>	<u>Amount</u>
Bond Premium	\$28,578
Issuance Costs	<u>(18,586)</u>
Gain on Reissuance	9,992
Interest Savings	<u>82,278</u>
Total Savings & Gain	<u>\$92,270</u>

Debt service requirements for principal and interest to maturity for the District's outstanding bonded long term obligations are as follows as of June 30, 2014:

6/30:	<u>2013 Series</u>		<u>2014 Series</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 0	\$ 70,388	\$ 0	\$12,060	\$ 0	\$ 82,448
2016	240,000	138,375	170,000	19,900	410,000	158,275
2017	245,000	133,525	175,000	16,450	420,000	149,975
2018	245,000	128,625	175,000	12,950	420,000	141,575
2019	250,000	123,675	185,000	9,350	435,000	133,025
2020-2024	1,350,000	538,675	375,000	7,550	1,725,000	546,225
2025-2029	1,515,000	365,812	0	0	1,515,000	365,812
2030-2034	<u>1,730,000</u>	<u>129,750</u>	<u>0</u>	<u>0</u>	<u>1,730,000</u>	<u>129,750</u>
Totals	<u>\$5,575,000</u>	<u>\$1,628,825</u>	<u>\$1,080,000</u>	<u>\$78,260</u>	<u>\$6,655,000</u>	<u>\$1,707,085</u>

C) INTERCAP LOANS

In August of 2005, the district entered into an intercap loan of \$44,893 with Montana Board of Investments for the construction of a ball field. Total payments made in fiscal year 2014 were \$6,108, which included \$46 of interest. This loan was paid in full in fiscal year 2014.

In February 2012, the district entered into an intercap loan with the Montana Board of Investments of \$134,343 for the acquisition and retrofit of a new boiler. Total payments made in fiscal year 2014 were \$9,484, which included interest of \$1,227. The loan was issued for the terms and payment schedule indicated below.

In October 2012, the district entered into an intercap loan of \$55,600 with Montana Board of Investments for the repairs to the septic system and drain field. Draws totaling \$55,168 were made. The District does not intend to take the available draw of \$432. Total payments made in fiscal year 2014 were \$1,036, which included interest of \$543. The loan was issued for the terms and payment schedule indicated below.

<u>Issue Date</u>	<u>Purpose</u>	<u>Original Term</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Retired</u>	<u>Outstanding June 30, 2014</u>	<u>Current Portion</u>
8/2005	Ball Field	10 years	\$ 44,893	3.8% - 1.95%	\$44,893	\$ 0	\$ 0
2/2012	Boiler	15 years	134,343	1.95%	17,772	116,571	3,537
10/2013	Drain Field/Septic	14 years	<u>55,168</u>	1.25%	<u>3,493</u>	<u>51,675</u>	<u>8,329</u>
Totals			<u>\$234,404</u>		<u>\$66,158</u>	<u>\$168,246</u>	<u>\$11,866</u>

For the year ended 6/30:	<u>Drain Field/Septic</u>	<u>Boiler</u>	<u>Total</u>
2015	\$ 3,537	\$ 8,329	\$ 11,866
2016	3,581	8,492	12,073
2017	3,626	8,659	12,285
2018	3,671	8,829	12,500
2019	3,718	9,001	12,719
2020-2024	19,300	47,723	67,023
2025-2027	<u>14,242</u>	<u>25,538</u>	<u>39,780</u>
Totals	<u>\$51,675</u>	<u>\$116,571</u>	<u>\$168,246</u>

NOTE 11: OPERATING LEASES

On May 27, 2013, the District entered into an operating lease with Northwestern Energy for the use of twelve (12) yard lights for the parking lot. The District paid a one-time buy-down cost of \$37,494. The lease was for 84

NOTES TO THE FINANCIAL STATEMENTS (Continued)

months with monthly payments of \$140. Total payments in fiscal year 2014 were \$1,680. The future minimum lease payments are as follows:

Year Ending June 30, 2015	\$ 1,680
2016	1,680
2017	1,680
2018	1,680
2019	1,680
2020	<u>1,703</u>
Total	<u>\$11,783</u>

NOTE 12: SPECIAL EDUCATION COOPERATIVE

The District is a member of the **Prickly Pear 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 District's 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 Lewis and Clark 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 13: OTHER POST-EMPLOYMENT BENEFITS (OPEB) OTHER THAN PENSIONS

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. 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." 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 \$509 per member and \$1,017 per member and spouse. The required schedule of funding progress is reported in the Required Supplementary Section of this report which immediately follows 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. A trust fund for future liabilities has not been established. The District's OPEB liability has reached the AAL.

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)	\$ 206,024
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	206,024
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$2,173,351
UAAL as a percentage of covered payroll	9.5%
Date of latest AAL calculation	June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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)	\$ 19,551
Interest on net OPEB obligation	0
Accelerated ARC to meet AAL in 2014	<u>56,329</u>
Annual OPEB cost (expense)	75,880
Contribution made	<u>0</u>
Increase in net OPEB obligation	75,880
Net OPEB obligation - beginning of year	<u>130,144</u>
Net OPEB obligation - end of year	<u>\$206,024</u>

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

<u>Actuarial Cost Method</u>	<u>Alternative Measurement Method</u>
Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	1%
Average Salary Increase	3%

Health Care Cost Rate Trend

<u>Year</u>	<u>% Increase</u>
2015	10.0%
2016	9.5%
2017	9.0%
2018	8.5%
2019	8.0%
2020	7.5%
2021	7.0%
2022	6.5%
2023	6.0%
2024	5.5%
2025 and after	5.0%

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 Annual Required Contribution (ARC) 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</u> <u>Adjustment</u>	<u>Adjusted</u> <u>ARC</u>	<u>Percent of ARC</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2012	\$32,536	\$ 0	\$32,536	0%	\$ 97,608
2013	32,536	0	32,536	0%	130,144
2014	19,551	56,329	75,880	0%	206,024*

* The District's OPEB expense has reached its full Actuarial Accrued Liability.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The required supplementary information section 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: DEFICIT FUND BALANCES

<u>FUND</u>	<u>BALANCE</u>	<u>HOW TO CORRECT</u>
Transportation	\$ (6,052)	Pay more costs from other funds
Food Services	<u>(8,907)</u>	Pay more costs from other funds
Total	<u>\$(14,959)</u>	

NOTE 15: RESTATEMENT OF NET POSITION

The District decided to capitalize prior year roof replacement costs of \$62,379 and costs to remove a house in preparation for the new addition of \$45,503. These expenditures were made in fiscal year 2013 in the Building fund.

<u>Item</u>	<u>Amount</u>
Re-roof Metal Buildings	\$ 62,379
House removal	<u>45,503</u>
Total	<u>\$107,882</u>

NOTE 16: ENCUMBRANCES AND OUTSTANDING PURCHASE ORDERS

The District had outstanding purchase orders in the General and Building funds of \$47,764 and \$113,032 respectively which were reported as encumbrances. The Building fund is a non-budgeted major fund.

NOTE 17: SUBSEQUENT REPORTABLE EVENTS

Subsequent events were evaluated through June 2, 2015. The District's construction project was materially complete as of December 31, 2014.

Montana City School District No. 27
 Jefferson County
 Clancy, MT 59634

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	\$ 813,796	\$ 802,937
Interest Earnings	362	229
Other Local & District Sources	4,424	3,679
State Sources	<u>2,059,715</u>	<u>2,059,715</u>
Total Revenues	2,878,296	2,866,558
EXPENDITURES:		
Instructional Services		1,850,443
Instructional Support Services		83,276
Educational Media Services		156,118
General Administrative Services		416,453
Operation & Maintenance Services		287,246
Extracurricular		24,521
School Food Services		<u>43,338</u>
Total Current Expenditures		2,861,395
Debt Service (Principal, Interest, Fees)		<u>15,592</u>
Total Expenditures	2,878,296	2,876,987
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		(10,429)
FUND BALANCES:		
BEGINNING FISCAL YEAR FUND BALANCES		<u>52,866</u>
ENDING FISCAL YEAR FUND BALANCES		<u>\$ 42,437</u>

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

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 the budgeted capital project fund (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. Financial information for only major, budgeted, Special Revenue funds is presented. Although the Building and Debt Service funds are major funds, they are not included in the schedule because they are not special revenue funds.

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's fund balance on the *Schedule of Revenue, Expenditures, and Changes in Fund Balances – Combined Funds* is different than the General Fund's fund balance on the *Schedule of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual)* by \$47,764 which is attributable to encumbrances. Encumbrances are not included as expenditures on the first statement as they do not meet the GAAP definition of expenditures. The District reports encumbrances at year end as budgeted expenditures and establishes a budget carryover of fund balances for encumbrances on the GAAP balance sheet since they do not represent GAAP expenditures or liabilities.

NOTE 2: EXCESS EXPENDITURES OVER APPROPRIATIONS

<u>Fund</u>	<u>Amount</u>	<u>REASON</u>
Debt Service	(\$18,337)	Unplanned bond refunding issuance in June

NOTE 3: STATE PORTION OF TRS AND PERS

The State portion of TRS and PERS totaling \$47,236 and \$779 respectively is reported in the Retirement Fund as revenues and expenditures. These expenditures are exempt from budget constraints.

Board of Trustees
Montana City School District No. 27
Jefferson County
Clancy, MT 59634

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial AAL Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
2011	\$0	\$288,773	\$288,773	0%	\$2,003,189	14.4%
2012	0	288,773	288,773	0%	2,020,269	14.3%
2013	0	288,773	288,773	0%	2,171,667	13.3%
2014	0	206,024	206,024	0%	2,173,351	9.5%

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

The District recalculated its OPEB Accrued Actuarial Liability (AAL) on June 30, 2014 in accordance with the 3-year recalculation requirement of GASB Statement No. 45.

Montana City School District No. 27
 Jefferson County
 Clancy, MT 59634

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

	General Fund	Flexibility Fund	Total Combined Funds
ASSETS:			
Cash and Investments	\$ 80,768	\$ 18,523	\$ 99,292
Taxes Receivable	80,377	-	80,377
Receivable From Other Funds	18,000	-	18,000
Total Assets	<u>179,146</u>	<u>18,523</u>	<u>197,669</u>
LIABILITIES:			
Other Current Liabilities	<u>8,567</u>	<u>504</u>	<u>9,072</u>
Total Liabilities	8,567	504	9,072
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	<u>80,377</u>	<u>-</u>	<u>80,377</u>
TOTAL DEF INFLOWS OF RESOURCES	80,377	-	80,377
FUND BALANCES:			
Nonspendable:			
Endowment	-	-	-
Interfund Loans	18,000	-	18,000
Restricted:			
Instruction	-	-	-
Transportation	-	-	-
Retirement	-	-	-
Capital Purchases	-	-	-
Committed:			
Instruction	-	-	-
Facility Acquisition	-	-	-
Student and Staff Support	-	-	-
Assigned:			
Instruction	47,764	-	47,764
Transportation	-	-	-
Capital Purchases	-	-	-
Unassigned	<u>24,437</u>	<u>18,019</u>	<u>42,456</u>
Total Fund Balances	<u>90,201</u>	<u>18,019</u>	<u>108,220</u>
Total Liabilities, Deferred Inflows & Fund Bal.	<u>\$ 179,146</u>	<u>\$ 18,523</u>	<u>\$ 197,669</u>

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

Montana City School District No. 27
 Jefferson County
 Clancy, MT 59634

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

	General Fund	Flexibility Fund	Total Combined Funds
REVENUES:			
District Levies	\$ 802,937	\$ -	\$ 802,937
Interest	229	-	229
Other	3,679	9,660	13,339
State	<u>2,059,715</u>	<u>-</u>	<u>2,059,715</u>
Total Revenues	2,866,558	9,660	2,876,218
EXPENDITURES:			
Instructional Services	1,843,554	917	1,844,470
Instructional Support Services	83,276	-	83,276
Educational Media Services	156,118	-	156,118
General Administrative Services	416,453	-	416,453
Operation & Maintenance Services	287,246	1,630	288,876
Extracurricular	24,521	4,002	28,523
School Food Services	<u>43,338</u>	<u>-</u>	<u>43,338</u>
Total Current Expenditures	2,854,507	6,549	2,861,055
Debt Service (Principal, Interest, Fees)	<u>15,592</u>	<u>-</u>	<u>15,592</u>
Total Expenditures	2,870,098	6,549	2,876,647
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES			
	(3,540)	3,111	(429)
FUND BALANCES:			
Beginning of the Year	<u>93,741</u>	<u>14,908</u>	<u>108,649</u>
End of the Year	<u>\$ 90,201</u>	<u>\$ 18,019</u>	<u>\$ 108,220</u>

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

Montana City School District No. 27
 Jefferson County
 Clancy, MT 59634

SCHEDULE OF COMBINED FUNDS
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 (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	\$ 813,796	\$ 802,937	\$ -	\$ -
Interest Earnings	362	229	-	-
Other Local & District Sources	4,424	3,679	-	9,660
County Sources	-	-	-	-
State Sources	2,059,715	2,059,715	-	-
Federal Sources	-	-	-	-
Charges for Services	-	-	-	-
Total Revenues	2,878,296	2,866,558	-	9,660
EXPENDITURES:				
Instructional Services	-	1,850,443	-	917
Instructional Support Services	-	83,276	-	-
Educational Media Services	-	156,118	-	-
General Administrative Services	-	416,453	-	-
Operation & Maintenance Services	-	287,246	-	1,630
Transportation Services	-	-	-	-
Extracurricular	-	24,521	-	4,002
School Food Services	-	43,338	-	-
Other Current Charges	2,878,296	-	14,908	-
Total Current Expenditures	2,878,296	2,861,395	14,908	6,549
Capital Outlay	-	-	-	-
Debt Service (Principal, Interest, Fees)	-	15,592	-	-
Total Expenditures	2,878,296	2,876,987	14,908	6,549
EXCESS (DEFICIENCY) OF REVENUES				
OVER EXPENDITURES		(10,429)		3,111
FUND BALANCES:				
BEGINNING FISCAL YEAR FUND BALANCES		52,866		14,908
ENDING FISCAL YEAR FUND BALANCES		\$ 42,437		\$ 14,908

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

Montana City School District No, 27
Jefferson County
Clancy, MT 59634

SCHEDULE OF REPORTED ENROLLMENT
Fiscal Year Ended June 30, 2014

	Reported Enrollment	Per Audit	Difference
FALL ENROLLMENT			
OCTOBER, 2013			
Kindergarten:	34	34	0
Grades 1 - 6:	317	317	0
Junior High:	<u>98</u>	<u>98</u>	<u>0</u>
Total Elementary:	<u>449</u>	<u>449</u>	<u>0</u>
WINTER ENROLLMENT			
DECEMBER, 2013			
Kindergarten:	34	34	0
Grades 1 - 6:	316	316	0
Junior High:	<u>97</u>	<u>97</u>	<u>0</u>
Total Elementary:	<u>447</u>	<u>447</u>	<u>0</u>
SPRING ENROLLMENT			
FEBRUARY, 2014			
Kindergarten:	34	34	0
Grades 1 - 6:	317	317	0
Junior High:	<u>99</u>	<u>99</u>	<u>0</u>
Total Elementary:	<u>450</u>	<u>450</u>	<u>0</u>

MONTANA CITY ELEMENTARY SCHOOL
Schedule of Revenues, Expenditures and Fund Balances
Extracurricular Funds
June 30, 2014

	BALANCE July 1, 2013	REVENUES	EXPENSES	BALANCE June 30, 2014
SEWING KITS	\$ 63	\$ 1	\$ -	\$ 64
LIBRARY ACTIVITY	6,034	4,546	3,902	6,677
LOST BOOKS	992	408	338	1,062
SUNSHINE	201	290	293	199
STUDENT ACTIVITIES	430	-	430	-
AGENDA BOOKS/PLANNERS	659	1,072	904	826
MUSICAL	75	1	-	76
SRO	2,820	1,673	2,742	1,750
SRO - STOP R WORD	1,237	-	-	1,237
YEARBOOK	1,587	4,024	3,293	2,318
ANGEL	1,351	1	400	952
MUSIC/REEDS	1,003	284	-	1,288
ART (TARGET)	1,229	512	-	1,740
EMORY O'CONNOR MEMORIAL	376	1	-	377
8TH CELEBRATION	317	1,863	2,076	105
CONF. MGRS / PLANT SALE	473	699	1,064	108
ATHLETICS	-	4,520	4,520	-
ATHLETICS FUNDRAISING	93	1	-	94
MISCELLANEOUS	2,459	1,535	1,107	2,886
PTA - INDIVIDUAL CLASSROOMS	4,868	6,179	4,408	6,639
EXPLORATIONS	111	201	165	147
SPORTS COMPLEX	1,001	1	-	1,002
CALCIUM CART	107	1	-	108
QUEST	373	1	12	362
PLAYGROUND BEAUTY	828	912	-	1,740
KALLIE FUND	669	1	-	670
VISION TEAM T-SHIRTS	874	1	-	875
5TH GRADE MUSEUM	109	1	-	110
TOTAL	\$ 30,340	\$ 28,724	\$ 25,653	\$ 33,411

Trripp & **A**ssociates
1645 Ave. D, Suite E
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
Montana City School District No. 27
Jefferson County
Clancy, MT 59634

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 Montana City School District No. 27 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Montana City School District No. 27's basic financial statements, and have issued our report thereon dated June 22, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered Montana City School District No. 27'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 Montana City School District No. 27's internal control. Accordingly, we do not express an opinion on the effectiveness of Montana City School District No. 27'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 Responses to be material weaknesses; items 2014-001 and 2014-002.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be significant deficiencies; item 2014-003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montana City School District No. 27's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2014-004.

Montana City School District No. 27's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of 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
June 22, 2015

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

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

FINDING NUMBER 2013-001 – CAPITAL ASSETS 2013:

This is still a finding for fiscal year 2014. It is reported as finding number 2014-001.

FINDING NUMBER 2013-002 – BOND ISSUANCE COSTS – 2013:

This is a repeat finding for fiscal year 2014. It is reported as finding number 2014-002.

SCHEDULE OF FINDINGS AND RESPONSES

A. Summary of Auditor's Results

Financial Statements:

The auditor, Tripp & Associates, has issued an unmodified opinion on Montana City School District No. 27'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

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

FINDING NUMBER 2014-001 – CAPITAL ASSETS (Repeat finding since 2013):

Criteria: Generally Accepted Accounting Principles (GAAP) requires that capital assets are properly coded and reported.

Condition: Capital assets were incorrectly reported on the Trustees' Financial Summary (TFS).

Context: CIP was underreported by \$4,692,622. Costs of Land Improvements were overreported by \$103,703; and Buildings were overreported by \$378,691. Depreciation was overreported on Land Improvements by \$1,547; overreported on Buildings by \$5,703; and underreported on Machinery and Equipment by \$15,898.

Possible Effect: The District has an internal control weakness concerning coding of capital assets and reporting of capital assets on the TFS that has not been corrected sufficiently to prevent further occurrences.

Cause: The Construction in Process spreadsheet was not updated as purchases were made. There was confusion as to when assets should be moved from CIP to the final capital asset category. The District decided to report prior year repairs and maintenance costs on the replacement of a roof as capital assets after the TFS was presented for audit.

Recommendation: We recommend that the District compare the capital asset coding report (7xx listing) to the Capital Asset worksheet and CIP worksheet when preparing the TFS to assure all capital assets are properly coded and reported.

Auditee Response: The source of this finding is the new construction and land purchase costs which happen infrequently. The auditor's recommendation to gather the various reports and worksheets will be referred to in the future.

SCHEDULE OF FINDINGS AND RESPONSES (Continued)

FINDING NUMBER 2014-002: BOND TRANSACTIONS IMPROPERLY REPORTED:
(Repeat finding since 2013)

Criteria: US Generally Accepted Accounting Principles (US GAAP) requires that all transactions associated with bond issuances are properly booked and reported to third parties.

Condition: Bond issuance costs, bond premiums, bond proceeds and payoff of existing bond were improperly booked and reported in the Trustee’s Financial Summary (TFS).

Context: Series 2014 bond issuance costs of \$13,735 were reported as an offset to the bond premium of \$28,578 rather than as expenditures. The Series 2014 bond premium of \$28,578 was under-reported by \$13,735 due to the netting of the bond issuance costs and bond premium. The District did not report the Series 2014 bond proceeds of \$1,080,000 in any fund, nor report the expenditure of \$1,080,000 to pay off the Series 2006 bonds.

Possible Effect: Revenues and expenditures were understated by \$1,093,735.

Cause: The District booked the net amount transferred from the bond company to the County without looking at the bond documentation to determine whether the issuance costs and premium amounts were properly separated. The District did not directly receive the bond proceeds or premium and did not issue a warrant for bond issuance costs or to pay off the Series 2006 bonds. Therefore, the transactions performed by the bond company were not booked.

Recommendation: Due to the fact that bond issuances are relatively unusual for the District, we recommend that the District consult with an accountant for proper recording and reporting of bond issuance proceeds and costs.

Auditee Response: The district will consult with the auditor in future Bond Issuances/Refinancing. As noted, the transactions were made by the bond company and the district did not book the transactions in any fund.

FINDING NUMBER 2014-003: DISTRICT RECORDS & FINANCIAL STATEMENT MISMATCH:

Criteria: Generally Accepted Accounting Principles requires that the financial statements presented to third parties are a representation of the entities records.

Condition: The District reported liabilities as Prior Period Adjustments or reductions to cash and left a liability off of the Trustee’s Financial Summary (TFS).

<u>Context:</u>	Liabilities	Prior Period Adjustments	Cash
	<u>Under-reported</u>	<u>Over-Reported</u>	<u>Under-reported</u>
General	\$ 8,567	\$ 8,567	\$ 0
School Food	727	727	0
Miscellaneous	1,246	1,246	0
Flexibility	504	0	504
Claims Clearing	<u>365,009</u>	<u>0</u>	<u>365,009</u>
Total	\$376,053	\$10,540	\$365,513

Possible Effect: Cash held by the County on behalf of the District was \$365,513 more than cash reported to the State on the TFS. Liabilities were underreported by \$376,053 and prior period adjustments were overreported by \$10,540.

Cause:

1. Confusion as to the need to report clearing fund cash and warrants payable because they are Agency funds that net to zero and are not reported on the audit report.
2. The District records show liability balances for voided checks. The District Clerk did not report the liabilities on the TFS and plugged a prior period adjustment to get the TFS to balance. However, the District records still show liability balances for these voided checks. Therefore, additional prior period adjustments would be necessary to remove the liabilities, which would result in double reporting of prior period adjustments.

Recommendation: We recommend that the District review all balances on their Trial Balance and make adjustments to remove any balances that they do not believe are correct i.e., liabilities improperly booked when trying to void stale dated warrants.

Auditee Response: The Cash and Warrants Payable in the Clearing Fund will be clearly shown on future Trustee Financial Summary Reports. I was confused by the first line Cash Less Warrants Payable which made the amount Zero. The auditor explained by putting the same amount on the lines for Cash (line 01) and Warrants Payable (line 24) would be the correct reporting. The auditor gave me a listing of “Audit Adjusting Entries” which should clean up the liabilities and prior period adjustments.

SCHEDULE OF FINDINGS AND RESPONSES (Continued)

FINDING NUMBER 2014-004: BUDGET OVERSPENT:

Criteria: Montana Code Annotated (MCA) 20-9-133(2) requires that expenditures of budgeted funds do not exceed their budgets.

Condition: The Debt Service fund overspent its budget by \$18,587.

Context: The District over spent the Debt Service fund budget in the amount of the re-issuance costs to refund the series 2006 bonds.

Possible Effect: Noncompliance with MCA.

Cause: The Series 2006 bonds were refinanced late in June of 2014. The District did not realize that the Series 2014 bonds would actually be issued in the fiscal year, and did not have the figures in time to make a budget amendment.

Recommendation: We recommend that the District make budget amendments in anticipation of estimated expenditures rather than waiting for final number in order to remain in compliance with MCA.

Auditee Response: The source of this finding is a refunding of the 2006 bond issue in May and June 2014 which was not expected when the budgets were set in August 2013. We understand that a budget amendment should have been requested. Sufficient funds were on hand for the costs of the refinancing, but in the future the budget amendment process will be followed.