

**ROY SCHOOL DISTRICT NO. 74**

**FERGUS COUNTY  
ROY, MONTANA**

**FINANCIAL AND COMPLIANCE REPORT**

**Fiscal year Ended June 30, 2014**

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

**PO BOX 1980  
Billings, Montana 59103**

Roy School District No. 74  
Fergus County  
Roy, Montana 59471

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Roy School District No. 74  
Fergus County  
Roy, Montana 59471

ORGANIZATION

BOARD OF TRUSTEES

Kirk Donsbach	Chair
Doreen McClure	Vice Chair
Jerry Knerr	Trustee
Kraig Bergum	Trustee
Tammy Grindheim	Trustee

OFFICIALS

Lori Goodell	Superintendent
Karen Moseman	District Clerk
Rhonda Long	County Superintendent
Thomas Meisner	County Attorney

ROY PUBLIC SCHOOLS  
FERGUS COUNTY  
ROY, MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

This section of Roy Public School's annual financial report presents our discussion and analysis of the Districts' financial performance for the fiscal year ended June 30, 2014. Please read it in conjunction with the District's basic financial statement.

FINANCIAL HIGHLIGHTS

The district's financial operations in 2014 were very steady. The net position for FY14 were \$477,714 and total expenses were \$1,043,229 in comparison to FY2013 net position being \$528,224 and total expenses being \$927,944.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District.

The first two statements are Government-wide financial statements that provide both short-term and long-term information about the District's overall financial status. The other statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the Government-wide financial statements.

Government-wide financial statements report information using full accrual accounting methods, which are the methods used by most private-sector companies. It includes all of the District's assets and liabilities, and all of the District's revenues and expenses, regardless of when cash is received or paid out. It also includes depreciation on capital assets.

Governmental fund financial statements present a short-term view of the District's activities (they only include current assets expected to be collected in the very near future and liabilities expected to be paid in the very near future). They present detailed information about the District's general fund and the other governmental funds. The financial statements also include footnotes that explain in more detail some of the information included in the body of the financial statements. This is followed by required supplementary information, such as budget to actual information for the General Fund and any major special revenue funds with legally adopted budgets. The other supplementary information includes enrollment and extracurricular information and is not a part of the basic financial statements.

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

Information in the government-wide financial statements helps to determine whether the District is better or worse off as a result of the year's activities. The change in net position (the difference between total assets and total liabilities) over time is one indicator of whether the District's financial health is improving or deteriorating. However, you need to consider other non-financial factors in making an assessment of the District's health, such as changes in enrollment, changes in the State's funding of education costs, changes in the economy, changes in the District's tax base, etc. to assess the overall health of the District.

### FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

#### Net position

The District's net position were as follows:

	<u>2013</u>	<u>2014</u>	<u>Change</u>	<u>%Change</u>
Current Assets	371,815	372,902	1,087	.29%
Capital Assets – Net of Deprec.	<u>191,665</u>	<u>170,414</u>	<u>(21,251)</u>	<u>-11.09%</u>
Total Assets	563,480	543,316	(20,164)	-3.58%
Current Liabilities	1,987	15,968	13,981	703.62%
Long Term Liabilities	<u>33,269</u>	<u>49,634</u>	<u>16,365</u>	<u>49.19%</u>
Total Liabilities	35,256	65,602	30,346	86.07%
Net position:				
Invested in Capital Assets				
Net of Related Debt	191,665	170,414	(21,251)	-11.09%
Restricted	235,049	249,878	14,829	6.31 %
Unrestricted	<u>101,510</u>	<u>57,422</u>	<u>(44,088)</u>	<u>-43.43%</u>
Total Net position	528,224	477,714	(50,510)	-9.56%

Restricted net position are the net position of the transportation, bus depreciation, school food, retirement, adult education, traffic education, lease rental, compensated absence, technology, and building funds. State law establishes the criteria for the property tax levies on these funds for specific purposes, and therefore the net position of those funds are considered restricted, as they cannot be used for the general funding of the District expenses.

REVENUES	<u>2013</u>	<u>2014</u>	<u>Change</u>	<u>%Change</u>
<b>PROGRAM REVENUES:</b>				
Charges for Services	34,581	38,706	4,125	11.93%
Operating Grants	103,036	80,239	(22,797)	-22.13%
<b>GENERAL REVENUES;</b>				
District Levy	269,928	250,836	(19,092)	-7.07%
State Equalization	286,519	312,669	26,150	9.13%
Other State Revenue	192,705	214,144	21,439	11.13%
County	64,608	84,774	20,166	31.21%
OPEB Gain	0	0	0	0%
Federal	0	771	771	100.00%
Investment Earnings	1,069	2,382	1,313	122.00%
Other	<u>14,186</u>	<u>8,198</u>	<u>(5,988)</u>	<u>-42.21%</u>
Total Revenues	966,632	992,719	26,087	2.70 %

## EXPENSES

<b>PROGRAM EXPENSES:</b>				
Instruction	442,673	511,376	68,703	15.52%
Support	1,561	1,049	(512)	-32.80%
Media	9,380	20,240	10,860	115.77%
Administration	145,875	149,592	3,717	2.55%
O & M	115,793	165,498	49,705	42.93 %
Transportation	108,720	107,099	(1621)	-1.49 %
Extracurricular	42,878	28,039	(14,839)	-34.61%
School Food	49,110	56,861	7,751	15.78%
Other Post Empl. Benefits	4,257	0	(4,257)	-100%
Other Current Charges	4,222	0	(4,222)	100.00%
Depreciation-unallocated	<u>3,475</u>	<u>3,475</u>	<u>0</u>	<u>0.00%</u>
Total Expenses	927,944	1,043,229	115,285	12.42%

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The fund financial statements provide detailed information about the most significant of the District's funds; the District is required to provide detailed information for its "major" funds.

Major funds are defined as the general fund and any other fund where the assets, liabilities, revenues, or expenditures exceed 10% of total governmental fund amounts. The major funds for the District are the General Fund, Bus Depreciation Fund, Retirement Fund, and Miscellaneous Programs Fund.

The governmental funds provide a short-term view of the District's operations. They are reported using an accounting method called modified accrual accounting which measures amounts using only cash and other short-term assets and liabilities (receivables and payables) that will soon be converted to cash or will soon be paid with cash.

#### BUDGETARY HIGHLIGHTS

The districts general fund balance increased \$29,037 from the previous year.

#### FACTORS BEARING ON THE DISTRICT'S FUTURE

The enrollment remains close to the same each year due to the 3 year average that the state allows, therefore revenues for the state have remained consistent.

The taxable valuation of the District was \$1,054,329 in 2013 and \$1,044,350 in 2014. This was a decrease of \$9,979.

For additional information contact:

Lori Goodell, Supt., email: [lgoodell@roy.k12.mt.us](mailto:lgoodell@roy.k12.mt.us)  
Karen Moseman, Clerk, email: [kmoseman@roy.k12.mt.us](mailto:kmoseman@roy.k12.mt.us)

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

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Roy School District No. 74  
Fergus County  
Roy, Montana 59471

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Roy School District No. 74 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

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

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Roy School District No. 74 as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3 - 6) and the schedule of funding for other post-employment benefits other than pensions (pages 24) and budgetary comparison information (pages 25 - 28) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Roy School District No. 74's basic financial statements. The accompanying schedule of revenues, expenses and balances student activity funds (page 29) and schedule of reported enrollment (page 30) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2015 on our consideration of Roy School District No. 74 internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Roy School District No. 74 internal control over financial reporting and compliance.

*Strom & Associates, P.C.*

STROM & ASSOCIATES, PC  
Billings, Montana  
May 18, 2015

Roy School District No. 74  
 Fergus County  
 Roy, Montana 59471

STATEMENT OF NET POSITION  
 as of June 30, 2014

	<u>Governmental Activities</u>
<b>ASSETS:</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 353,898
Taxes Receivable	<u>19,003</u>
Total Current Assets	<u>372,901</u>
Noncurrent Assets:	
Capital Assets:	
Land	8,042
Net Depreciable Assets	<u>162,372</u>
Total Noncurrent Assets	<u>170,414</u>
Total Assets	<u>\$ 543,315</u>
<b>LIABILITIES:</b>	
Current Liabilities	
Current Portions Compensated Absences	\$ 2,717
Current Portions Long-Term Obligations	<u>13,251</u>
Total Current Liabilities	<u>15,968</u>
Noncurrent Liabilities:	
Long-Term Obligations	34,536
Compensated Absences	<u>15,098</u>
Total Noncurrent Liabilities	<u>49,634</u>
Total Liabilities	<u>65,602</u>
<b>NET POSITION:</b>	
Net investment in capital assets	170,414
Restricted	249,877
Unrestricted (Deficit)	<u>57,422</u>
Total Net Position	<u>477,713</u>
Total Liabilities and Net Position	<u>\$ 543,315</u>

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

STATEMENT OF ACTIVITIES  
 For the Year Ended June 30, 2014

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government
					Governmental Activities
<b>GOVERNMENT OPERATIONS</b>					
Instructional Services	\$ 509,257	\$ -	\$ 32,387	\$ -	\$ (476,870)
Support Services	1,049	-	-	-	(1,049)
Educational Media Services	20,239	-	-	-	(20,239)
General Administrative Services	149,592	-	-	-	(149,592)
Operation & Maintenance Services	165,496	22,019	-	-	(143,477)
Transportation Services	109,221	-	39,400	-	(69,821)
School Food Services	56,861	16,686	8,452	-	(31,723)
Extracurricular	28,039	-	-	-	(28,039)
Unallocated Depreciation Expense *	3,475	-	-	-	(3,475)
<b>Total Governmental Activities</b>	<u>1,043,229</u>	<u>38,705</u>	<u>80,239</u>	<u>-</u>	<u>(924,285)</u>
<b>GENERAL REVENUES</b>					
District Levies					250,835
State Equalization					312,669
Other State Revenues					214,144
County					84,774
Federal					771
Other					8,198
Interest					2,383
<b>Total General Revenues</b>					<u>873,774</u>
<b>Change in Net Position</b>					(50,511)
<b>Net Position</b>					
Beginning of the Year					528,224
End of the Year					<u>\$ 477,713</u>

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

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

Roy School District No. 74  
 Fergus County  
 Roy, Montana 59471

BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 as of June 30, 2014

	MAJOR			Other Governmental Funds	Total Governmental Funds
	General	Bus Depreciation	Building		
<b>ASSETS:</b>					
<b>Current Assets:</b>					
Cash and Cash Equivalents	\$ 105,237	\$ 78,587	\$ 74,175	\$ 95,899	\$ 353,898
Taxes Receivable	17,787	966	-	250	19,003
<b>Total Assets</b>	<b>\$ 123,024</b>	<b>\$ 79,553</b>	<b>\$ 74,175</b>	<b>\$ 96,149</b>	<b>\$ 372,901</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Property Taxes Receivable	17,787	966	-	250	19,003
<b>Total Deferred Inflows of resources</b>	<b>17,787</b>	<b>966</b>	<b>-</b>	<b>250</b>	<b>19,003</b>
<b>FUND BALANCE:</b>					
<b>Fund Balances:</b>					
Restricted	-	78,587	74,175	95,899	248,661
Assigned	33,567	-	-	-	33,567
Unassigned:	71,670	-	-	-	71,670
<b>Total Fund Balance</b>	<b>105,237</b>	<b>78,587</b>	<b>74,175</b>	<b>95,899</b>	<b>353,898</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 123,024</b>	<b>\$ 79,553</b>	<b>\$ 74,175</b>	<b>\$ 96,149</b>	<b>\$ 372,901</b>

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 353,898
Governmental Capital Assets	170,414
Long-term Liabilities	
Long-Term Obligations	(47,787)
Compensated Absences	(17,815)
Unavailable Property Taxes Receivable	19,003
<b>Net Position of Governmental Activities</b>	<b>\$ 477,713</b>

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

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

	MAJOR			Other Governmental Funds	Total Governmental Funds
	General	Bus Depreciation	Building		
<b>REVENUES:</b>					
District Levies	\$ 236,298	\$ 12,486	\$ -	\$ 3,730	\$ 252,514
Interest	1,188	413	400	382	2,383
Charges for Services	-	-	-	38,705	38,705
Other	1,032	-	7,076	90	8,198
County	-	-	-	104,474	104,474
State	531,318	-	-	27,432	558,750
Federal	709	28	-	28,636	29,373
<b>Total Revenues</b>	<b>770,545</b>	<b>12,927</b>	<b>7,476</b>	<b>203,449</b>	<b>994,397</b>
<b>EXPENDITURES:</b>					
<b>Current</b>					
Instructional Services	405,387	-	-	73,228	478,615
Support Services	1,049	-	-	-	1,049
Educational Media Services	17,760	-	-	1,134	18,894
General Administrative Services	137,113	-	-	11,808	148,921
Operation & Maintenance Services	127,670	-	-	37,411	165,081
Transportation Services	39,855	-	-	51,103	90,958
School Food Services	29,058	-	-	27,205	56,263
Extracurricular	24,279	-	-	1,572	25,851
Capital Outlay	-	-	-	6,000	6,000
<b>Total Expenditures</b>	<b>782,171</b>	<b>-</b>	<b>-</b>	<b>209,461</b>	<b>991,632</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>(11,626)</b>	<b>12,927</b>	<b>7,476</b>	<b>(6,012)</b>	<b>2,765</b>
<b>FUND BALANCE:</b>					
Beginning of the Year	116,083	65,660	66,699	102,691	351,133
Prior Period Adjustments	780	\$ -	\$ -	(780)	-
<b>End of the Year</b>	<b>\$ 105,237</b>	<b>\$ 78,587</b>	<b>\$ 74,175</b>	<b>\$ 95,899</b>	<b>\$ 353,898</b>

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

Roy School District No. 74  
Fergus County  
Roy, Montana 59471

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

Net Changes in Fund Balance	\$	2,765
Revenues on the Statement of Activity not included in governmental funds statement:		
Increase (decrease) in taxes receivable		(1,679)
Expenses on the Statement of Activity not included in the governmental funds statement:		
Depreciation Expense	(14,000)	
Other Long-Term Obligations	(26,502)	
(Increase) decrease in Other Post Employment Benefits	(4,257)	
(Increase) decrease in compensated absence liability	<u>(12,838)</u>	(57,597)
Expenditures reported in the governmental funds statement not included in the Statement of Activity		
Capital outlays		<u>6,000</u>
Change in net position reported on the Statement of Activity	\$	<u>(50,511)</u>

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

Roy School District No. 74  
 Fergus County  
 Roy, Montana 59471

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

	Private Purpose	
	Trust Funds	Agency Funds
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	\$ 53,524	\$ 47,956
Total Assets	53,524	47,956
LIABILITIES:		
Current Liabilities		
Warrants Payable	-	47,956
Total Liabilities	-	47,956
NET POSITION:		
Restricted for Student Activities	53,524	
Total Net Position	\$ 53,524	

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

	Private Purpose	
	Trust Funds	
ADDITIONS:		
Revenues from Student Activities	\$ 57,086	
Total Additions	57,086	
DEDUCTIONS:		
Expenses of Student Activities	48,835	
Total Deductions	48,835	
CHANGE IN NET POSITION	8,251	
NET POSITION:		
Beginning of the Year	45,273	
End of the Year	\$ 53,524	

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

ROY SCHOOL DISTRICT NO. 74

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of Roy School District No. 74 (School District) have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana, which conforms to generally accepted accounting principles (GAAP). The School District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

During fiscal year 2014 the School District adopted the following

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

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

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

The School District consists of one legal entity which provides education for kindergarten through twelfth grade. The board of trustees is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations.

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

1. b. BASIS OF PRESENTATION AND ACCOUNTING

1. b. 1 GOVERNMENT-WIDE STATEMENTS

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

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

ROY SCHOOL DISTRICT NO. 74  
NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

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

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

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

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

1. b. 2 FUND ACCOUNTING

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

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

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

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

GASB Statement No. 34 requires the general fund be reported as a major fund. Other individual governmental funds should be reported in separate columns as major funds based on these criteria:

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

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

The School District reports the following major governmental funds:

- General Fund – The General Fund is the general operating fund of the School District and accounts for all revenues and expenditures of the School District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. On the GASB 34 financial statements the general fund also includes the activities of the flexibility fund since the restrictions on those funds are similar to the general fund.
- Bus Depreciation Fund – This fund is used to account for financing the replacement of yellow school buses and two-way radio equipment owned by a school. Deposits made to the fund are limited by depreciation percentages of current buses and two-way radio equipment owned by the School District.

ROY SCHOOL DISTRICT NO. 74  
NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

- Building Fund – This fund is used to account for funds received for building related projects. The use of the funds is, limited to general repair and maintenance of the School District’s buildings.

1. b. 3 OTHER FUND TYPES

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

Agency Funds – Account for assets that the School District holds on behalf of others as their agent in the payroll and claims clearing funds and employee payroll tax withholdings. Cash is held for warrants which were written but have not been paid by the County Treasurer. A warrant is an order by which the drawer (the person with authority to make the order) commands the School District trustee to pay a particular sum of money to a payee (person or entity) from funds in the School District treasury which are or may become available.

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

1. c. 1 CASH AND INVESTMENTS

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

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

1. c. 2 TAXES

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

1. c. 3 INVENTORIES

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

1. c. 4 CAPITAL ASSETS

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

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings	20 – 50 years
Machinery and Equipment	8 – 20 years

ROY SCHOOL DISTRICT NO. 74  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 Fiscal Year-Ended June 30, 2014

1.c. 5 DEFERRED INFLOWS OF RESOURCES

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

1.c. 6 VACATION AND SICK LEAVE

Classified School District employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. Classified School District employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave at the current rate of pay. Classified School District employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of unused sick leave. However, upon termination, only 25% of accumulated sick leave is paid at the current rate of pay. Certified School District employees shall accrue 10 days of sick leave each year. Unused sick leave will be accruable to 180 days. Upon termination, a maximum of 25 days are paid at \$35 per day.

Liabilities incurred because of unused vacation and sick leave accumulated by employees are reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the statement of activities. The amount expected to be paid within one year is \$2,717 and it is generally paid out of the general fund.

1.c. 7 NET POSITION AND FUND BALANCE

Statement of Net Position include the following:

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

Governmental fund financial statements include the following fund balances:

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

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

<u>Purpose</u>	<u>Restricted</u>	<u>Assigned</u>
Instructional - Regular	\$ 3,754	\$ 33,567
Operations and Maintenance	12,142	0
Student Transportation	88,587	0
School Food	7,990	0
Third Party Grantor Restrictions	30,081	0
Employer Retirement Benefits	31,078	0
Future Technology	854	0
Future Capital Costs	74,175	0
Total	<u>\$ 248,661</u>	<u>\$ 33,567</u>

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

ROY SCHOOL DISTRICT NO. 74  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 Fiscal Year-Ended June 30, 2014

1. d. OTHER

1. d. 1 USE OF ESTIMATES

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

1.d. 2 County Provided Services

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

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

<u>Account Type</u>	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 353,898	\$ 101,480	\$ 455,378

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

	<u>Amount</u>
Demand Accounts	\$ 53,524
County Investment Pool	401,854
Total	<u>\$ 455,378</u>

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

The cash of the extracurricular funds is held separately by the School District, not at the Fergus County. As of June 30, 2014, \$53,524 was exposed to custodial credit risk and was covered by FDIC insurance.

NOTE 3. TAXES RECEIVABLE

The assessed value of the roll as of January 1, 2013, upon which the levy for the 2014 fiscal year was based, was \$1,044,350. The tax rates assessed for the year ended June 30, 2014 to finance School District operations and applicable taxes receivable were as follows:

<u>Fund</u>	<u>Mill Levies</u>	<u>Taxes Receivable</u>
General*	234.54	\$ 17,787
Transportation	2.94	250
Bus Depreciation*	12.64	966
Total	<u>250.12</u>	<u>\$ 19,003</u>

\* Denotes Major Funds

ROY SCHOOL DISTRICT NO. 74  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 Fiscal Year-Ended June 30, 2014

NOTE 4. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

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

<u>Governmental Activities:</u>	<u>Balance</u>		<u>Balance</u>
	<u>July 1, 2013</u>	<u>Additions</u>	<u>June 30, 2014</u>
<u>Non-depreciable:</u>			
Land	\$ 8,042	\$ 0	\$ 8,042
<u>Depreciable:</u>			
Buildings	\$ 468,376	\$ 0	\$ 468,376
Machinery and equipment	351,103	6,000	357,103
Total Depreciable	<u>\$ 819,479</u>	<u>\$ 6,000</u>	<u>\$ 825,479</u>
<u>Accumulated Depreciation:</u>			
Buildings	\$ (378,995)	\$ (2,498)	\$ (381,493)
Machinery and equipment	(256,861)	(24,753)	(281,614)
Total Depreciation	<u>\$ (635,856)</u>	<u>\$ (27,251)</u>	<u>\$ (663,107)</u>
Net Depreciable Assets	<u>183,623</u>	<u>(21,251)</u>	<u>162,372</u>
Net General Capital Assets	<u>\$ 191,665</u>	<u>\$ (21,251)</u>	<u>\$ 170,414</u>

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

<u>Function</u>	<u>Amount</u>
Instructional	\$ 1,325
School Administration	998
Transportation	18,449
School Food	816
Extracurricular	2,188
Unallocated	3,475
Total Depreciation Expense	<u>\$ 27,251</u>

NOTE 5. CHANGES IN LONG-TERM DEBT

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

<u>Governmental Activities</u>	<u>Balance</u>	<u>New Debt</u>	<u>Principal</u>	<u>Balance</u>	<u>Due within</u>
	<u>July 1, 2013</u>	<u>and Other</u>	<u>Payments</u>	<u>June 30, 2014</u>	<u>One Year</u>
		<u>Additions</u>	<u>and Other</u>		
			<u>Reductions</u>		
<u>Other Liabilities:</u>					
Compensated Absences	\$ 18,228	\$ 0	\$ 413	\$ 17,815	\$ 2,717
Retirement Incentive	0	26,502	0	26,502	13,251
Other Post-Employment Benefits (OPEB)	17,028	4,257	0	21,285	0
Total Other Liabilities	<u>\$ 35,256</u>	<u>\$ 30,759</u>	<u>\$ 413</u>	<u>\$ 65,602</u>	<u>\$ 15,968</u>
Total Governmental Activities					
- Long-Term Debt:	<u>\$ 35,256</u>	<u>\$ 30,759</u>	<u>\$ 413</u>	<u>\$ 65,602</u>	<u>\$ 15,968</u>

5.b Retirement Incentive

The School District offered a retirement incentive that was accepted by one employee in fiscal year 2014. The incentive included two lump sum payments of \$7,551 in July 2014 and 2015. The incentive also included monthly contributions of \$475 towards the retirees health insurance premium for a two year period. The liability is shown above in the table of changes in long term debt and in the financial statements as a long term obligation.

ROY SCHOOL DISTRICT NO. 74  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 Fiscal Year-Ended June 30, 2014

NOTE 6. DEFERRED INFLOWS OF RESOURCES

6. a. PROPERTY TAXES

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
General*	\$ 17,787	Taxes Receivable
Transportation	250	Taxes Receivable
Bus Depreciation*	966	Taxes Receivable
Total	<u>\$ 19,003</u>	

\* Denotes Major Funds

NOTE 7. PRIOR PERIOD ADJUSTMENTS

<u>Fund</u>	<u>Amount</u>	<u>REASON</u>
General*	\$ 780	To include flexibility fund in the general
Flexibility*	<u>(780)</u>	To include flexibility fund in the general
Total	<u>\$ 0</u>	

\* Denotes Major Funds

NOTE 8. OTHER POST EMPLOYMENT BENEFITS

Plan Description - The School District provides the same health care plan to all of its members. The implicit subsidy is \$5,700 per member and spouse. The School District had fewer than 100 plan participants and thus qualified to use an Alternative Measurement Method instead of an actuarial valuation to determine the OPEB liability. Valuations involve estimates of the reported amounts and assumptions about the probability of events far into the future and estimated amounts are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for the plan are based on types of benefits provided under the current plan. The valuation assumed that 10% of plan participants would elect to continue coverage after retirement.

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

Funding status and progress as of July 1, 2014 was as follows:

Actuarial Accrued Liability (AAL)	\$ 127,701
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>127,701</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 467,944
UAAL as a percentage of covered payroll	27%

Annual OPEB Cost and Net OPEB Obligations - The government's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the government's net OPEB obligation for the valuation performed at July 1, 2013.

Annual Required Contribution (ARC)	\$ 4,257
Interest on net OPEB obligation	0
Adjustment to ARC	<u>0</u>
Annual OPEB cost (expense)	4,257
Contribution made	<u>0</u>
Increase in net OPEB obligation	4,257
Net OPEB obligation - beginning of year	17,028
Net OPEB obligation - end of year	<u>\$ 21,285</u>

ROY SCHOOL DISTRICT NO. 74  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 Fiscal Year-Ended June 30, 2014

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

Actuarial Cost Method	Unit Credit Cost Method
Average age of retirement (based on historical data)	65
Discount rate (average anticipated rate)	5.0%
Average Salary Increase	3.00%
Health care cost rate trend	
Year	% Increase
2015 and after	3.0%

NOTE 9. OTHER COMMITMENTS

9. a. 1 ENCUMBRANCES

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

<u>Elementary Fund</u>	<u>Amount</u>
General*	\$ 33,567
Transportation	1,100
Miscellaneous	4,400
Building*	<u>4,945</u>
Total	<u>\$ 44,012</u>

\* Denotes Major Funds

NOTE 10. RISK MANAGEMENT

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

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

NOTE 11. EMPLOYEE RETIREMENT SYSTEM

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

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

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

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

ROY SCHOOL DISTRICT NO. 74  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 Fiscal Year-Ended June 30, 2014

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

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>
TRS	\$ 47,470	\$ 44,307	\$ 59,306
PERS	14,895	15,543	17,547
Total	<u>\$ 62,635</u>	<u>\$ 59,850</u>	<u>\$ 76,853</u>

NOTE 12. COOPERATIVE

12. a. SPECIAL EDUCATION

The Roy School District No. 74 is a member of the Central Montana Learning resource Center 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 Roy School District No. 74, and the financial statements of the Cooperative are not included in the School Districts' financial statements. The Cooperative's financial statements are audited separately from those of the School District. All revenue received, including Federal, State, or other types of grant payments, and the financial support provided by each of the Cooperative's members are deposited into the Cooperative's funds, which are maintained in the custody of the Fergus County Treasurer. The Superintendent of Public Instruction may directly deposit to the Cooperative the State and Federal portion of any participating member School District's budgeted costs for contracted special education services. All capital assets of the Cooperative are included in the Cooperative's financial statements.

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

NOTE 13. JOINT VENTURE AGREEMENTS

Joint ventures are legal entities or other organizations that result in a contractual arrangement and that are owned, operated, or governed by two or more participants. Each participant retains both an ongoing financial interest and an ongoing financial responsibility.

13 a. MULTIDISTRICT COOPERATIVE

The School District has entered into an agreement with Lewistown Elementary, Fergus High School, Denton Elementary, Denton High School, Grass Range Elementary, Grans Range High School, Harlowton Elementary School, Harlowton High School, Ayers Elementary, Roy K-12 Schools, Winifred K-12 Schools, Moore Elementary, Moore High School, Deerfield Elementary, Spring Creek Colony Elementary, King Colony Elementary, Hobson k-12 Schools, Judith Gap Elementary, Judith Gap High School, Stanford K-12 Schools and the Central Montana Learning Resource Center Cooperative to provide technology services to each participating School District.

Section 20-3-363, MCA allows for the creation of a multidistrict cooperative between any School District and other public entity under Title 20, Chapter 9 Part 7, MCA. The parties in a multidistrict cooperative may mutually agree to perform any services, activities, and undertakings of the participants and provide for the joint funding and operation and maintenance of all participants in the agreement.

Fergus High School is the designated prime agency and is responsible for the financial administration of the multidistrict cooperative. The activity of the multidistrict cooperative is accounted for in fund 82 of the Fergus High School. During fiscal year ended June 30, 2014 Roy School District paid Fergus High School \$6,012 for its share of the annual technical support fee.

ROY SCHOOL DISTRICT NO. 74

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll [(b-a) / c]</u>
7/1/2012	0	127,701	127,701	0	467,944	27%

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

	General			Bus Depreciation		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
District Levies	\$ 244,947	\$ 244,947	\$ 236,298	\$ 13,200	\$ 13,200	\$ 12,486
Interest	1,066	1,066	1,186	-	-	413
Other	-	-	1,032	-	-	-
State	531,318	531,318	531,318	-	-	-
Federal	-	-	709	-	-	28
Total Revenues	<u>777,331</u>	<u>777,331</u>	<u>770,543</u>	<u>13,200</u>	<u>13,200</u>	<u>12,927</u>
EXPENDITURES:						
Current						
Instructional Services			399,958	-	-	-
Support Services			1,049	-	-	-
Educational Media Services			17,760	-	-	-
General Administrative Services			137,113	-	-	-
Operation & Maintenance Services			127,670	-	-	-
Transportation Services			39,855	-	-	-
School Food Services			29,058	-	-	-
Extracurricular			24,279	-	-	-
Capital Outlay			-	78,860	78,860	-
Total Expenditures	<u>777,331</u>	<u>777,331</u>	<u>776,742</u>	<u>78,860</u>	<u>78,860</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	-	-	(6,199)	(65,660)	(65,660)	12,927
FUND BALANCE:						
Beginning of the Year			77,733			65,660
End of the Year			<u>\$ 71,534</u>			<u>\$ 78,587</u>

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

Roy School District No. 74  
 Fergus County  
 Roy, Montana 59471

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

	Flexibility Fund		
	Original Budget	Final Budget	Actual
<b>REVENUES:</b>			
District Levies	\$ -	\$ -	\$ -
Interest	-	-	2
Other	-	-	-
State	-	-	-
Federal	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>2</u>
<b>EXPENDITURES:</b>			
Current			
Instructional Services	780	780	646
Support Services	-	-	-
Educational Media Services	-	-	-
General Administrative Services	-	-	-
Operation & Maintenance Services	-	-	-
Transportation Services	-	-	-
School Food Services	-	-	-
Extracurricular	-	-	-
Capital Outlay	-	-	-
Total Expenditures	<u>780</u>	<u>780</u>	<u>646</u>
NET CHANGES IN FUND BALANCES	(780)	(780)	(644)
<b>FUND BALANCE:</b>			
Beginning of the Year			<u>780</u>
End of the Year			<u>\$ 136</u>

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

ROY SCHOOL DISTRICT NO. 74

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

NOTE 1. BUDGETS

1. a. BUDGETS

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

1. a. 1 General Budget Policies:

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

1. a. 2 Budget Operation:

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

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

NOTE 2. FUND BALANCE RECONCILIATION

The fund balances of the general fund displayed on the Statement of Revenue, Expenditures, and Changes in Fund Balances is differently displayed on the Schedule of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual) by \$33,567. This is due to the reserve for encumbrances. Encumbrances are not included as expenditures on the first statement as they do not meet the GAAP definition of expenditures. The District reports encumbrances at year end as budgeted expenditures and displays these amounts as assigned or reserve of fund balances, as applicable.

NOTE 3. BUDGET AMENDMENT

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

ROY SCHOOL DISTRICT NO. 74

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

NOTE 4. COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE ALL SUB-FUNDS OF THE GENERAL FUND

	<u>Sub-fund</u> <u>General</u> <u>Fund</u>	<u>Sub-fund</u> <u>Flexibility</u> <u>Fund</u>	<u>Total</u> <u>General</u> <u>Fund</u>
REVENUES:			
District Levies	\$ 236,298	\$ 0	\$ 236,298
Interest Earnings	1,186	2	1,188
Other	1,032	0	1,032
State Sources	531,318	0	531,318
Federal	<u>709</u>	<u>0</u>	<u>709</u>
Total Revenues	<u>\$ 770,543</u>	<u>\$ 2</u>	<u>\$ 770,545</u>
EXPENDITURES:			
Instructional Services	404,741	646	405,387
Support Services	1,049	0	1,049
Educational Media	17,760	0	17,760
General Administrative	137,113	0	137,113
Operation & Maintenance	127,670	0	127,670
Transportation	39,855	0	39,855
Extracurricular	24,279	0	24,279
School Food	<u>29,058</u>	<u>0</u>	<u>29,058</u>
Total Expenditures	<u>\$ 781,525</u>	<u>\$ 646</u>	<u>\$ 782,171</u>
Net Changes In Fund Balance	(10,982)	(644)	(11,626)
FUND BALANCE:			
Beginning of the Year	116,083	0	116,083
Prior Period Adjustment	<u>0</u>	<u>780</u>	<u>780</u>
Ending of the Year	<u>105,101</u>	<u>136</u>	<u>105,237</u>

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

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

Roy School District No. 74  
 Schedule of Revenues, Expenses and Balances  
 Student Activity Funds  
 Fiscal Year-Ended June 30, 2014

Activity Account Name	Beginning Balance <u>7/1/2013</u>	Revenues	Expenses	Transfers	Ending Balance <u>6/30/2014</u>
ATHLETICS	3,978	5,972	4,260	-	5,690
ANNUAL	2,857	1,999	2,472	-	2,384
ARTS & CRAFTS	85	-	-	-	85
BAND	825	1	-	-	826
CLASS OF 15	1,134	7,089	2,563	(664)	4,996
CLASS OF 14	5,500	1,112	7,000	388	-
CLASS OF 13	9	1,482	1,491	85	85
CLASS OF 25	-	2	-	-	2
RESERVE	4,965	708	5,441	400	632
CLASS OF 19	66	367	122	51	362
CLASS OF 18	180	1,510	564	-	1,126
CLASS OF 17	361	824	257	(92)	836
CLASS OF 20	111	192	-	-	303
CLASS OF 16	5,930	8,347	6,788	(160)	7,329
LIBRARY	131	448	357	-	222
DISTRICT CONCESSIONS	6,708	14,092	7,942	415	13,273
SCIENCE	27	-	-	-	27
COMMUNITY ACTIVITIES	1,921	2,165	1,382	-	2,704
GLACIER	1,040	155	833	-	362
GIRLS VARSITY	485	1	-	-	486
BOOSTER CLUB	7,823	2,003	805	(423)	8,598
BOYS VARSITY	3	-	-	-	3
HONOR SOCIETY	52	-	-	-	52
FFA	604	8,602	6,558	-	2,648
COMPUTER LAB	387	1	-	-	388
CLASS OF 22	27	5	-	-	32
CLASS OF 21	38	5	-	-	43
CLASS OF 23	11	-	-	-	11
CLASS OF 24	15	4	-	-	19
<b>Total</b>	<u>45,273</u>	<u>57,086</u>	<u>48,835</u>	<u>-</u>	<u>53,524</u>

ROY SCHOOL DISTRICT NO. 74

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

FALL ENROLLMENT - OCTOBER, 2013

Elementary

	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	4	4	0
Grade 1 - 6	19	19	0
Grade 7 - 8	6	6	0
Total	<u>29</u>	<u>29</u>	<u>0</u>

High School

	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>14</u>	<u>14</u>	<u>0</u>
Part-time Students			
Less than 181 hours	0	0	0
Less than 359 hours	0	0	0
Less than 539 hours	0	0	0
Less than 719 hours	0	0	0
Total Part-time	<u>0</u>	<u>0</u>	<u>0</u>
19 year olds	<u>0</u>	<u>0</u>	<u>0</u>

WINTER ENROLLMENT - DECEMBER, 2013

Elementary

	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	4	4	0
Grade 1 - 6	19	19	0
Grade 7 - 8	6	6	0
Total	<u>29</u>	<u>29</u>	<u>0</u>

High School

	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>14</u>	<u>14</u>	<u>0</u>
Part-time Students			
Less than 181 hours	0	0	0
Less than 359 hours	0	0	0
Less than 539 hours	0	0	0
Less than 719 hours	0	0	0
Total Part-time	<u>0</u>	<u>0</u>	<u>0</u>
19 year olds	<u>0</u>	<u>0</u>	<u>0</u>

SPRING ENROLLMENT - FEBRUARY, 2014

Elementary

	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	4	4	0
Grade 1 - 6	19	19	0
Grade 7 - 8	6	6	0
Total	<u>29</u>	<u>29</u>	<u>0</u>

High School

	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>14</u>	<u>14</u>	<u>0</u>
Part-time Students			
Less than 181 hours	0	0	0
Less than 359 hours	0	0	0
Less than 539 hours	0	0	0
Less than 719 hours	0	0	0
Total Part-time	<u>0</u>	<u>0</u>	<u>0</u>
19 year olds	<u>0</u>	<u>0</u>	<u>0</u>

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

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Roy School District No. 74  
Fergus County  
Roy, Montana 59471

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Roy School District No. 74 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Roy School District No. 74's basic financial statements and have issued our report thereon dated May 18, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Roy School District No. 74's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses we identified certain deficiencies in internal control 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 District'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 as item 2014 -001.

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 as item 2014-002.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Roy School District No. 74's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Roy School District No. 74's Response to Findings**

The District did not provide a response to the findings identified in our audit are described in the schedule of findings and responses. State law provides if a response is not included in the report the audited entity has thirty-days to provide a response to the State.

**Purpose of this Report**

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

*Strom & Associates, P.C.*

STROM & ASSOCIATES, PC  
Billings, Montana  
May 18, 2015

SCHEDULE OF FINDINGS AND RESPONSES

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

2014-001 LIABILITIES:

Criteria: Generally accepted accounting principles (GAAP) requires all liabilities to be properly recorded. Condition: The district's retirement incentive offered to one teacher was approved and earned prior to year end. Effect: The effect is an unrecorded liability and expense for fiscal year 2014. Context: The retirement incentive liability was \$26,502. Cause: This was a new program for the district so the clerk was unaware of the necessity to record the liability. Recommendation: We recommend the district record the liability for any future retirement incentives on the schedule of long term liabilities in its trustees financial summary.

2014-002 EXPENDITURES:

Criteria: GAAP requires capital assets to be properly coded. The district's definition of capital assets includes items in excess of \$5,000. Condition: The district coded items to capital assets that did not meet their \$5,000 definition of capital assets. Effect: The effect was over stated capital expenditures and under stated supplies expenditures. Context: Items coded to capital assets that did not meet the district's definition of capital items were \$7,658. Items that were capital but did not get coded as capital on the TFS were \$6,000. Cause: This was caused by an oversight by the clerk. Recommendation: We recommend the district compare additions in their capital asset inventory to the amount coded to capital assets at the end of the fiscal year.