

ULM SCHOOL DISTRICT NO. 85

**CASCADE COUNTY
ULM, MONTANA**

FINANCIAL AND COMPLIANCE REPORT

Fiscal year Ended June 30, 2014

Strom & Associates, P. C.

**PO BOX 1980
Billings, Montana 59103**

Ulm School District No. 85
Cascade County
Ulm, Montana 59485

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Ulm School District No. 85
Cascade County
Ulm, Montana 59485

ORGANIZATION

BOARD OF TRUSTEES

| | |
|---------------|------------|
| Val Fowler | Chair |
| Toni Phillips | Vice Chair |
| Sonya Smith | Trustee |
| Duston Jones | Trustee |
| Mitch McKamey | Trustee |

OFFICIALS

| | |
|--------------------|-------------------------|
| Lori Brown-Chauvet | Principal/Administrator |
| Diane Whitmore | District Clerk |
| Jamie Bailey | County Superintendent |
| John Parker | County Attorney |

Ulm School District 85
Management Discussions and Analysis (MD&A)
For the Year Ended June 30, 2014

The Principal and Business Manager/Clerk of Ulm Schools have provided this MD&A to give the reader or these statements an overview of the financial position and activities of the school district for the fiscal year ended June 30, 2014.

Using This Audit Report

The general format of this report is required by Statement No. 34 of the Governmental Accounting Standards Board (GASB). Components and purposes of the report are explained below.

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

B. The **Statement of Activities** shows the amount of program-specific and general school district revenues used to support the school districts various functions.

Reporting the District most Significant Funds

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

The fund statements report balances and activities of the most significant or "major" funds separately and combine the activities of less significant funds under a single category. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the school district's operations, and the existence of the legal budget requirements.

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

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

Reporting the District's Trust and Fiduciary Responsibilities

The district is the trustee, or fiduciary, for endowments and the student extracurricular fund. This report includes the activities of Fiduciary Net Position and Changes in Fiduciary Net Position because the district cannot use these assets to fund its operations.

The district is responsible for ensuring these assets are used for their intended purpose.

Ulm School District No. 85
 Cascade County
 Ulm, Montana 59485
 For the Year Ended June 30, 2014

Management Discussion and Analysis Comparison Schedules

| NET POSITION | | Governmental Activities | | |
|----------------------------------|------------|-------------------------|-------------|-------------|
| | 2013 | 2014 | CHANGE | % CHANGE |
| Current Assets | \$ 302,450 | \$ 261,788 | \$ (40,662) | -13.44% |
| Capital Assets, net | 734,960 | 678,856 | (56,104) | -7.63% |
| Total Assets | 1,037,410 | 940,644 | (96,766) | -9.33% |
| Current Liabilities | 6,713 | 3,161 | (3,552) | -52.91% |
| Long Term Liabilities | 53,196 | 10,173 | (43,023) | -80.88% |
| Total Liabilities | 59,909 | 13,334 | (46,575) | -77.74% |
| Net Position: | | | | |
| Net Investment in Capital Assets | 734,960 | 678,856 | (56,104) | -7.63% |
| Restricted | 178,156 | 111,820 | (66,336) | -37.23% |
| Unrestricted | 64,385 | 136,634 | 72,249 | 112.21% |
| Total Net Position | 977,501 | 927,310 | (50,191) | -5.13% |

| CHANGES IN NET POSITION | | Governmental Activities | | |
|---------------------------------------|----------|-------------------------|----------|----------|
| | 2013 | 2014 | CHANGE | %CHANGE |
| Revenues | | | | |
| Program Revenues: | | | | |
| Charges for Services | 9,453 | 12,535 | 3,082 | 32.60% |
| Operating Grants | 125,829 | 117,079 | (8,750) | -6.95% |
| General Revenues: | | | | |
| District Levies | 189,883 | 244,150 | 54,267 | 28.58% |
| State Equalization | 227,286 | 278,740 | 51,454 | 22.64% |
| Other State Revenues | 180,344 | 204,244 | 23,900 | 13.25% |
| County | 63,715 | 90,943 | 27,228 | 42.73% |
| Federal | 685 | - | (685) | -100.00% |
| Interest | 818 | 657 | (161) | -19.68% |
| Other | 3,067 | - | (3,067) | -100.00% |
| Gain (Loss) on sale of capital assets | - | (23,864) | (23,864) | 100.00% |
| Total Revenues | 801,080 | 924,484 | 123,404 | 15.40% |
| Program Expenses | | | | |
| Instructional Services | 558,167 | 584,532 | 26,365 | 4.72% |
| Support Services | 17,220 | 18,862 | 1,642 | 9.54% |
| Educational Media Services | 23,527 | 24,238 | 711 | 3.02% |
| General Administrative Services | 66,551 | 145,048 | 78,497 | 117.95% |
| Operation & Maintenance Services | 52,533 | 75,565 | 23,032 | 43.84% |
| Transportation Services | 37,828 | 41,170 | 3,342 | 8.83% |
| School Food Services | 44,852 | 52,200 | 7,348 | 16.38% |
| Unallocated Depreciation Expense * | 42,744 | 33,846 | (8,898) | -20.82% |
| Total Expenses | 843,422 | 975,461 | 132,039 | 15.66% |
| Change in Net Position | (42,342) | (50,977) | (8,635) | |

The District as a Whole

One important question asked about the District's finances is, "Is the District better or worse off as a result of the year's activities?" The information in the government-wide financial statements helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, including reporting depreciation on capital assets. This is similar to the basis of accounting used by most private-sector companies.

The change in net position over time is one indicator of whether the District's financial health is improving or deteriorating. There are also other non-financial factors that influence the District's fiscal health, such as enrollment changes, changes in the State's funding or educational costs, changes in the economy or changes in the District's tax bases.

Ulm's enrollment has been relatively stable which gives our tax payers somewhat of a break.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant of the District's funds. Major funds are defined as the general fund and other funds where the assets, liabilities, revenues, or expenditures exceed 10% of the total government fund amounts. In the 2013 fiscal year, the assets, liabilities, revenues and expenditure of the elementary general funds, the elementary building fund, exceed the thresholds. The bus depreciation fund is funded primarily by property taxes and the building fund is utilized for long-term building projects. The miscellaneous programs fund is funded by grant funds such as Title Funds and any one-time only funds appropriated by the legislature.

The major government 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.

Capital Assets

As of June 30, 2014, the District had a total net position of \$678856 including land, buildings, machinery and equipment. The district currently has no long-term debt such as bonds, leases, or long-term notes.

The District's Future

Small Rural Schools funding continues to enhance programs by providing additional funding. Funds from this program enable the district to ease the burden on the general fund. Funds are typically used for technology purposes. These funds may be spent according to any Title program. Ulm Schools currently receives approximately \$14,000 in Small Rural Schools Funds annually.

Legislation on Preschool Funding is a major issue for the state. If funding is provided for the Preschool Program, the General Fund monies could be used elsewhere.

Contact for Additional Information

If you have questions about this report or need additional information contact Lori Brown-Chauvet, Principal or Diane Whitmore, Business Manager/District Clerk at PO Box 189, Ulm, Montana, or by phone at (406) 866-3313 or by email dwhitmore.ulm@gmail.com

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Ulm School District No. 85
Cascade County
Ulm, Montana 59485

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 Ulm School District No. 85 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 Ulm School District No. 85 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 3-5) and budgetary comparison information (pages 23 - 26) 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 Ulm School District No. 85's basic financial statements. The accompanying schedule of revenues, expenses and balances student activity funds (page 27) and schedule of reported enrollment (page 28) 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 28, 2015 on our consideration of Ulm School District No. 85 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 Ulm School District No. 85 internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC
Billings, Montana
May 28, 2015

STATEMENT OF NET POSITION
 June 30, 2014

| | <u>Governmental Activities</u> |
|---------------------------------------|------------------------------------|
| ASSETS: | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 220,063 |
| Taxes Receivable | 38,846 |
| Due From Other Governments | <u>2,879</u> |
| Total Current Assets | <u>261,788</u> |
| Noncurrent Assets: | |
| Capital Assets: | |
| Land | 15,600 |
| Net Depreciable Assets | <u>663,256</u> |
| Total Noncurrent Assets | <u>678,856</u> |
| Total Assets | <u>\$ 940,644</u> |
| LIABILITIES: | |
| Current Liabilities | |
| Other Current Liabilities | \$ 220 |
| Current Portions Compensated Absences | <u>2,941</u> |
| Total Current Liabilities | <u>3,161</u> |
| Noncurrent Liabilities: | |
| Compensated Absences | <u>10,173</u> |
| Total Noncurrent Liabilities | <u>10,173</u> |
| Total Liabilities | <u>13,334</u> |
| NET POSITION: | |
| Net investment in capital assets | 678,856 |
| Restricted | 111,820 |
| Unrestricted (Deficit) | <u>136,634</u> |
| Total Net Position | <u>927,310</u> |
| Total Liabilities and Net Position | <u>\$ 940,644</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 | Primary Government Governmental Activities |
| GOVERNMENT OPERATIONS | | | | |
| Instructional Services | \$ 584,532 | \$ - | \$ 67,215 | \$ (517,317) |
| Support Services | 18,862 | - | - | (18,862) |
| Educational Media Services | 24,238 | - | - | (24,238) |
| General Administrative Services | 145,048 | - | - | (145,048) |
| Operation & Maintenance Services | 75,565 | - | - | (75,565) |
| Transportation Services | 41,170 | - | 17,913 | (23,257) |
| School Food Services | 52,200 | 12,535 | 31,951 | (7,714) |
| Unallocated Depreciation Expense * | 33,846 | - | - | (33,846) |
| Total Governmental Activities | <u>975,461</u> | <u>12,535</u> | <u>117,079</u> | <u>(845,847)</u> |
| Total Primary Government | <u>\$ 975,461</u> | <u>\$ 12,535</u> | <u>\$ 117,079</u> | <u>\$ (845,847)</u> |
| GENERAL REVENUES | | | | |
| District Levies | | | | 244,150 |
| State Equalization | | | | 278,740 |
| Other State Revenues | | | | 204,244 |
| County | | | | 90,943 |
| Interest | | | | 657 |
| Gain loss on Sale of Assets | | | | (23,864) |
| Total General Revenues | | | | <u>794,870</u> |
| Change in Net Position | | | | (50,977) |
| Net Position | | | | |
| Beginning of the Year | | | | 977,501 |
| Prior Period Adjustments | | | | 786 |
| End of the Year | | | | <u>\$ 927,310</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.

BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2014

| | MAJOR | | | Other Governmental Funds | Total Governmental Funds |
|---|-------------------|-----------------------|-----------------------------------|--------------------------------|--------------------------------|
| | General | Retirement (Elem.) | Miscellaneous Programs (Elem.) | | |
| ASSETS: | | | | | |
| Current Assets: | | | | | |
| Cash and Cash Equivalents | \$ 115,802 | \$ 1,360 | \$ 65,554 | \$ 37,347 | \$ 220,063 |
| Taxes Receivable | 35,323 | - | - | 3,523 | 38,846 |
| Due From Other Governments | - | - | - | 2,879 | 2,879 |
| Total Assets | \$ 151,125 | \$ 1,360 | \$ 65,554 | \$ 43,749 | \$ 261,788 |
| LIABILITIES: | | | | | |
| Current Liabilities | | | | | |
| Other Current Liabilities | - | - | - | 220 | 220 |
| Total Liabilities | - | - | - | 220 | 220 |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Unavailable Property Taxes Receivable | 35,323 | - | - | 3,352 | 38,675 |
| Total Deferred Inflows of resources | 35,323 | - | - | 3,352 | 38,675 |
| FUND BALANCE: | | | | | |
| Fund Balances: | | | | | |
| Restricted | - | 1,360 | 65,554 | 41,554 | 108,468 |
| Unassigned: | 115,802 | - | - | (1,377) | 114,425 |
| Total Fund Balance | 115,802 | 1,360 | 65,554 | 40,177 | 222,893 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balance | \$ 151,125 | \$ 1,360 | \$ 65,554 | \$ 43,749 | \$ 261,788 |

RECONCILIATION TO THE STATEMENT OF NET POSITION

| | |
|--|-------------------|
| Total fund balance reported above | \$ 222,893 |
| Governmental Capital Assets | 678,856 |
| Long-term Liabilities | |
| Compensated Absences | (13,114) |
| Unavailable Property Taxes Receivable | 38,675 |
| Net Position of Governmental Activities | \$ 927,310 |

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 | | | | Total Governmental Funds |
|--|-------------------|-----------------------|-----------------------------------|--------------------------------|--------------------------------|
| | General | Retirement (Elem.) | Miscellaneous Programs (Elem.) | Other Governmental Funds | |
| REVENUES: | | | | | |
| District Levies | \$ 188,505 | \$ - | \$ - | \$ 26,968 | \$ 215,473 |
| Interest | 22 | - | - | 635 | 657 |
| Charges for Services | - | - | - | 12,535 | 12,535 |
| County | - | 90,943 | - | 10,002 | 100,945 |
| State | 501,779 | - | 1,514 | 10,858 | 514,151 |
| Federal | - | - | 44,438 | 31,472 | 75,910 |
| Total Revenues | 690,306 | 90,943 | 45,952 | 92,470 | 919,671 |
| EXPENDITURES: | | | | | |
| Current | | | | | |
| Instructional Services | 489,346 | 86,210 | 49,569 | 6,202 | 631,327 |
| Support Services | 18,334 | 528 | - | - | 18,862 |
| Educational Media Services | 20,919 | 3,319 | - | - | 24,238 |
| General Administrative Services | 120,713 | 15,417 | - | 8,918 | 145,048 |
| Operation & Maintenance Services | 66,987 | 4,483 | - | 4,095 | 75,565 |
| Transportation Services | 1,507 | 2,072 | - | 37,591 | 41,170 |
| School Food Services | 150 | 2,621 | - | 49,429 | 52,200 |
| Total Expenditures | 717,956 | 114,650 | 49,569 | 106,235 | 988,410 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (27,650) | (23,707) | (3,617) | (13,765) | (68,739) |
| OTHER FINANCING SOURCES/USES | | | | | |
| Fund Transfers In | 14,000 | - | - | - | 14,000 |
| Fund Transfers (Out) | - | - | - | (14,000) | (14,000) |
| Total Other financial Sources/Uses | 14,000 | - | - | (14,000) | - |
| NET CHANGES IN FUND BALANCES | (13,650) | (23,707) | (3,617) | (27,765) | (68,739) |
| FUND BALANCE: | | | | | |
| Beginning of the Year | 129,452 | 25,067 | 69,171 | 68,762 | 292,452 |
| Prior Period Adjustments | - | - | - | (820) | (820) |
| End of the Year | \$ 115,802 | \$ 1,360 | \$ 65,554 | \$ 40,177 | \$ 222,893 |

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

Ulm School District No. 85
Cascade County
Ulm, Montana 59485

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 | | \$ | (68,739) |
| Revenues on the Statement of Activities not included in governmental funds statement: | | | |
| Increase (decrease) in taxes receivable | | | 28,677 |
| Expenses on the Statement of Activities not included in the governmental funds statement: | | | |
| Depreciation Expense | (33,846) | | |
| (Increase) decrease in compensated absence liability | <u>46,795</u> | | 12,949 |
| Expenditures reported in the governmental funds statement not included in the Statement of Activities | | | |
| Gain loss on sale of assets | | | <u>(23,864)</u> |
| Change in net position reported on the Statement of Activities | | \$ | <u>(50,977)</u> |

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

Ulm School District No. 85
 Cascade County
 Ulm, Montana 59485

STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 June 30, 2014

| | Private Purpose | |
|-----------------------------------|-----------------|---------------|
| | Trust Funds | Agency Funds |
| ASSETS: | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 1,383 | \$ 58,751 |
| Total Assets | <u>1,383</u> | <u>58,751</u> |
| LIABILITIES: | | |
| Current Liabilities | | |
| Warrants Payable | | 58,397 |
| Other Current Liabilities | - | 354 |
| Total Liabilities | <u>-</u> | <u>58,751</u> |
| NET POSITION: | | |
| Restricted for Student Activities | <u>1,383</u> | |
| Total Net Position | <u>\$ 1,383</u> | |

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

| | Private Purpose Trust Funds |
|----------------------------------|--------------------------------|
| ADDITIONS: | |
| Revenues from Student Activities | \$ 2,118 |
| Total Additions | <u>2,118</u> |
| DEDUCTIONS: | |
| Expenses of Student Activities | <u>3,433</u> |
| Total Deductions | <u>3,433</u> |
| CHANGE IN NET POSITION | (1,315) |
| NET POSITION: | |
| Beginning of the Year | <u>2,698</u> |
| End of the Year | <u>\$ 1,383</u> |

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

ULM SCHOOL DISTRICT NO. 85

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 Ulm School District No. 85 (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 provides education for kindergarten through eighth 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.

Ulm School District No. 85 was incorporated under the laws of the State of Montana and as required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Ulm School District No. 85 (the primary government) and any component units. 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 the 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 (primary government). Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

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.

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.
- 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 funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The student activity fund is displayed as a fiduciary fund. 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.

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).

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. In the governmental fund financial statements the general fund also includes the activities of the impact aid fund and the flexibility fund since the restrictions on those funds are similar to the general fund.

ULM SCHOOL DISTRICT NO. 85

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

- Retirement Fund – This fund is used to account for financing the employer's contribution to the Teachers' Retirement System (TRS), the Public Employees' Retirement System (PERS), Unemployment Compensation, Social Security and Medicare benefits for School District employees. County wide levies to this fund are to be based upon projected salaries for the fiscal year.
- Miscellaneous Fund – This fund is used to account for local, state or federal grants and reimbursements. Donations that allow the expenditure of both principal and interest for support of School District programs are deposited in this fund.

1. b. 3 OTHER FUND TYPES

Private-Purpose Trust Funds – Accounts for the receipt and disbursement of monies from student activity organizations. 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.

Agency Funds – Account for assets that the School District holds on behalf of others as their agent and for warrants written but not redeemed that are reported in the School District's 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. This fund primarily consists of revenues collected by the County on behalf of other governments.

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 Cascade County 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 tax levies are set connection with the budget process, and are based on taxable values listed as of January 1 for all property located in the School District. Taxable values are established by the Montana Department of Revenue based on market values. A revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by State statute as a fixed percentage of market value.

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.

Taxes that become delinquent are charged interest at the rate of 5/6 of 1% per month plus a penalty of 2%. After a period of three years, the County may begin foreclosure proceedings and sell real property at auction. In the case of personal property, the property may be seized and sold after the taxes become delinquent.

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.

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

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 | 10 – 50 years |
| Improvements other than buildings | 20 years |
| Machinery and Equipment | 5 – 25 years |

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 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 at the beginning of each year. Unused sick leave will be allowed to accumulate to 120 days. Up to 3 days personal leave with pay shall be granted each year. At the end of the school year any unused personal leave will be credited to a teacher's accumulated sick leave. Upon termination teachers shall receive 25% for all days accumulated at present salary.

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 \$2,941 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.
- Unassigned – Amounts that are available for any purpose; these amounts are reported only in the general fund or funds that have negative fund balances.

ULM SCHOOL DISTRICT NO. 85

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

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

| <u>Purpose</u> | <u>Restricted</u> |
|----------------------------------|-------------------|
| Instructional - Regular | \$ 171 |
| Student Transportation | 19,823 |
| Third Party Grantor Restrictions | 65,554 |
| Employer Retirement Benefits | 2,826 |
| Future Technology | 12,657 |
| Future Capital Costs | 7,437 |
| Total | <u>\$ 108,468</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.

- 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 Cascade County. The County also serves as cashier and treasurer for the School District for tax and assessment collections and other revenues received by the County which are subject to distribution to the various taxing jurisdictions located in the 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 Cascade County Treasurer. No service charges have been recorded by the School District or the Cascade 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</u> <u>Activities</u> | <u>Fiduciary</u> <u>Funds</u> | <u>Total</u> |
|---------------------------|--|----------------------------------|--------------|
| Cash and Cash Equivalents | \$ 220,063 | \$ 60,134 | \$ 280,197 |

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

| | <u>Amount</u> |
|--|-------------------|
| Cash on Hand | \$ 3 |
| Demand Accounts | 1,380 |
| County Investment Pool | 220,235 |
| County Reconciled Warrants Outstanding | 58,751 |
| Unreconciled | (172) |
| Total | <u>\$ 280,197</u> |

Cash resources of the School District are held and managed by the Cascade County Treasurer pursuant to State Law. They are combined with cash resources of other governmental entities within Cascade County to form a pool of cash and cash equivalents. Investments of pooled cash consist primarily of 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 Cascade County government. Because of the custodial involvement of the Cascade County government, and the commingling of cash in County deposits in the name of the Cascade County Treasurer, full risk classifications according to GASB 40 are available in the Cascade County's annual report. There is no known maturity and credit rating of the Cascade County Investment Pool.

Custodial credit risk-deposits: The cash of the extracurricular funds is held separately by the School District, not at Cascade County and the deposits may be subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2014, the deposits in the extracurricular fund were covered by FDIC insurance.

ULM SCHOOL DISTRICT NO. 85

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

2. a. FUND CASH OVERDRAFT

The following funds report overdrawn cash accounts.

| <u>Elementary Fund</u> | <u>Amount</u> | <u>Reason</u> |
|------------------------|-----------------|--|
| Transportation | \$ 2,879 | Revenues did not match budgeted expectations |
| School Food Services | 1,377 | Uncollected revenues on student accounts |
| Total | <u>\$ 4,256</u> | |

NOTE 3. TAXES RECEIVABLE

The School District is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The assessed value of the roll as of January 1, 2013, upon which the levy for the 2014 fiscal year was based, was \$1,268,297. The tax rates assessed for the year ended June 30, 2014 to finance School District operations and applicable taxes receivable were as follows:

| <u>Elementary Fund</u> | <u>Mill Levies</u> | <u>Taxes Receivable</u> |
|------------------------|--------------------|-------------------------|
| General* | 154.33 | \$ 35,323 |
| Transportation | 17.22 | 2,668 |
| Bus Depreciation | 5.12 | 684 |
| Tuition | 0.00 | 171 |
| Total | <u>176.67</u> | <u>\$ 38,846</u> |

* Denotes Major Funds

NOTE 4. DUE FROM OTHER GOVERNMENTS

| <u>Elementary Fund</u> | <u>Amount</u> | <u>Due From</u> | <u>Reason</u> |
|------------------------|---------------|-----------------|-------------------------------------|
| Transportation | \$ 2,879 | Cascade County | County transportation reimbursement |

NOTE 5. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

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

| <u>Governmental Activities:</u> | <u>Balance July 1, 2013</u> | <u>Additions</u> | <u>Deletions</u> | <u>Adjustments/Transfers</u> | <u>Balance June 30, 2014</u> |
|-----------------------------------|-----------------------------|--------------------|---------------------|------------------------------|------------------------------|
| <u>Non-depreciable:</u> | | | | | |
| Land | \$ 15,600 | \$ 0 | \$ 0 | \$ 0 | \$ 15,600 |
| Total Non-depreciable | <u>\$ 15,600</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 15,600</u> |
| <u>Depreciable:</u> | | | | | |
| Buildings | \$ 1,062,045 | \$ 0 | \$ (23,829) | \$ 0 | \$ 1,038,216 |
| Improvements other than buildings | 18,462 | 0 | 0 | 0 | 18,462 |
| Machinery and equipment | 237,217 | 0 | (159,766) | 0 | 77,451 |
| Total Depreciable | <u>\$ 1,317,724</u> | <u>\$ 0</u> | <u>\$ (183,595)</u> | <u>\$ 0</u> | <u>\$ 1,134,129</u> |
| <u>Accumulated Depreciation:</u> | | | | | |
| Buildings | \$ (391,393) | \$ (26,612) | \$ 11,003 | \$ (2) | \$ (407,004) |
| Improvements other than buildings | (9,689) | (923) | 0 | 0 | (10,612) |
| Machinery and equipment | (197,282) | (6,311) | 148,728 | 1,608 | (53,257) |
| Total Depreciation | <u>\$ (598,364)</u> | <u>\$ (33,846)</u> | <u>\$ 159,731</u> | <u>\$ 1,606</u> | <u>\$ (470,873)</u> |
| Net Depreciable Assets | <u>719,360</u> | <u>(33,846)</u> | <u>(23,864)</u> | <u>1,606</u> | <u>663,256</u> |
| Net General Capital Assets | <u>\$ 734,960</u> | <u>\$ (33,846)</u> | <u>\$ (23,864)</u> | <u>\$ 1,606</u> | <u>\$ 678,856</u> |

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

| <u>Function</u> | <u>Amount</u> |
|-----------------|---------------|
| Unallocated | \$ 33,846 |

ULM SCHOOL DISTRICT NO. 85

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

NOTE 6. CHANGES IN LONG-TERM DEBT

6. a At June 30, 2014, the schedule of changes in general long-term debt follows:

| <u>Governmental Activities</u> | <u>Balance</u> <u>July 1, 2013</u> | <u>Principal</u> <u>Payments</u> <u>and Other</u> <u>Reductions</u> | <u>Balance</u> <u>June 30, 2014</u> | <u>Due within</u> <u>One Year</u> |
|--------------------------------|---------------------------------------|--|--|--------------------------------------|
| <u>Other Liabilities:</u> | | | | |
| Compensated Absences | \$ 59,909 | \$ (46,795) | \$ 13,114 | \$ 2,941 |

NOTE 7. DEFERRED INFLOWS OF RESOURCES

PROPERTY TAXES

| <u>Elementary Fund</u> | <u>Amount</u> | <u>Reason</u> |
|------------------------|------------------|------------------|
| General* | \$ 35,323 | Taxes Receivable |
| Transportation | 2,668 | Taxes Receivable |
| Bus Depreciation | 684 | Taxes Receivable |
| Total | <u>\$ 38,675</u> | |

* Denotes Major Funds

NOTE 8. DEFICIT FUND BALANCES

| <u>Elementary Fund</u> | <u>Amount</u> | <u>How to Correct</u> |
|------------------------|---------------|---------------------------------|
| School Food Services | \$ 1,377 | Collections on overdue accounts |

NOTE 9. PRIOR PERIOD ADJUSTMENTS

| <u>Elementary Fund</u> | <u>Amount</u> | <u>REASON</u> |
|------------------------------|-----------------|--|
| Building Reserve | \$ (820) | Correction of prior year revenue |
| Total | <u>\$ (820)</u> | |
| * Denotes Major Funds | | |
| Governmental Type Activities | 1,606 | Correction of accumulated depreciation |
| Total | <u>\$ 786</u> | |

NOTE 10. OPERATING TRANSFERS

| <u>Elementary Fund - In</u> | <u>Amount</u> | <u>Elementary Fund - Out</u> | <u>Purpose of Transfer</u> |
|-----------------------------|---------------|------------------------------|---|
| General* | \$ 14,000 | Compensated Absences | Compliance with cash balance restrictions |
| * Denotes Major Funds | | | |

NOTE 11. OTHER POST EMPLOYMENT BENEFITS

The School District allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. The School District uses a single premium for both active and retired employees resulting in an implicit rate subsidy (the older retiree benefits from the School District's blended premium). The School District has not recorded a liability for the implicit rate subsidy as the District estimates a 1% probability of participation in the health insurance by retirees resulting in an insignificant liability. At June 30, 2014 the School District had no retired employees on the group insurance plan.

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

NOTE 12. 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 inter-local 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 13. 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

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 | \$ 66,650 | \$ 70,269 | \$ 86,761 |
| PERS | <u>13,785</u> | <u>11,643</u> | <u>17,186</u> |
| Total | <u>\$ 80,435</u> | <u>\$ 81,912</u> | <u>\$ 103,947</u> |

ULM SCHOOL DISTRICT NO. 85

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

NOTE 14. COOPERATIVE

14. a. SPECIAL EDUCATION

The Ulm School District No. 85 is a member of the North Central Learning Resource Center, 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 Ulm School District No. 85, 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 Cascade 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.

The school district is a member of the Golden Triangle Curriculum Cooperative. The Cooperative is administered by the Superintendent and Director of Curriculum, Shelby Public Schools. The designated fiscal agent for the project is the District Clerk, Shelby Public Schools.

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 (Elem) | | | Flexibility Fund (Elem.) | | |
|--|--------------------|-----------------|----------------|--------------------------|-----------------|----------------|
| | Original Budget | Final Budget | Actual | Original Budget | Final Budget | Actual |
| REVENUES: | | | | | | |
| District Levies | \$ 195,741 | \$ 195,741 | \$ 188,505 | \$ - | \$ - | \$ - |
| Interest | 96 | 96 | 22 | - | - | - |
| County | - | - | - | - | - | - |
| State | 501,779 | 501,779 | 501,779 | - | - | - |
| Total Revenues | 697,616 | 697,616 | 690,306 | - | - | - |
| EXPENDITURES: | | | | | | |
| Current | | | | | | |
| Instructional Services | | | 468,769 | | | 4,300 |
| Support Services | | | 18,334 | | | - |
| Educational Media Services | | | 20,919 | | | - |
| General Administrative Services | | | 120,713 | | | - |
| Operation & Maintenance Services | | | 66,987 | | | - |
| Transportation Services | | | 1,507 | | | - |
| School Food Services | | | 150 | | | - |
| Total Expenditures | 697,616 | 697,616 | 697,379 | 20,731 | 20,731 | 4,300 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | - | - | (7,073) | (20,731) | (20,731) | (4,300) |
| OTHER FINANCING SOURCES/USES | | | | | | |
| Fund Transfers In | | | 14,000 | | | - |
| Total Other financial Sources/Uses | - | - | 14,000 | - | - | - |
| NET CHANGES IN FUND BALANCES | - | - | 6,927 | (20,731) | (20,731) | (4,300) |
| FUND BALANCE: | | | | | | |
| Beginning of the Year | | | 61,749 | | | 20,731 |
| End of the Year | | | \$ 68,676 | | | \$ 16,431 |

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

Ulm School District No. 85
 Cascade County
 Ulm, Montana 59485

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

| | Retirement (Elem.) | | |
|--|--------------------|-----------------|-----------------|
| | Original Budget | Final Budget | Actual |
| REVENUES: | | | |
| District Levies | \$ - | \$ - | \$ - |
| Interest | - | - | - |
| County | 92,533 | 92,533 | 90,943 |
| State | - | - | - |
| Total Revenues | <u>92,533</u> | <u>92,533</u> | <u>90,943</u> |
| EXPENDITURES: | | | |
| Current | | | |
| Instructional Services | | | 86,210 |
| Support Services | | | 528 |
| Educational Media Services | | | 3,319 |
| General Administrative Services | | | 15,417 |
| Operation & Maintenance Services | | | 4,483 |
| Transportation Services | | | 2,072 |
| School Food Services | | | <u>2,621</u> |
| Total Expenditures | <u>98,000</u> | <u>98,000</u> | <u>114,650</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(5,467)</u> | <u>(5,467)</u> | <u>(23,707)</u> |
| OTHER FINANCING SOURCES/USES | | | |
| Fund Transfers In | | | - |
| Total Other financial Sources/Uses | <u>-</u> | <u>-</u> | <u>-</u> |
| NET CHANGES IN FUND BALANCES | (5,467) | (5,467) | (23,707) |
| FUND BALANCE: | | | |
| Beginning of the Year | | | <u>25,067</u> |
| End of the Year | | | <u>\$ 1,360</u> |

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

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 Retirement. 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 funds Miscellaneous 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. BUDGET AMENDMENT

The District approved a budget amendment due to unanticipated retirees under the provisions of 20-9-161(6), MCA for the Retirement fund. The budget amendment was for \$19,600 and Retirement Fund reserve will cover the increased costs.

ULM SCHOOL DISTRICT NO. 85

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

NOTE 3. COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE ALL SUB-FUNDS OF THE GENERAL FUND

| | <u>Sub-fund</u> <u>General Fund</u> | <u>Sub-fund</u> <u>Flexibility Fund</u> | <u>Sub-fund</u> <u>Impact Aid Fund</u> | <u>Total</u> <u>General Fund</u> |
|--------------------------------|--|--|---|-------------------------------------|
| REVENUES: | | | | |
| District Levies | \$ 188,505 | \$ 0 | \$ 0 | \$ 188,505 |
| Interest Earnings | 22 | 0 | 0 | 22 |
| State Sources | <u>501,779</u> | <u>0</u> | <u>0</u> | <u>501,779</u> |
| Total Revenues | <u>\$ 690,306</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 690,306</u> |
| EXPENDITURES: | | | | |
| Instructional Services | 468,769 | 4,300 | 16,277 | 489,346 |
| Support Services | 18,334 | 0 | 0 | 18,334 |
| Educational Media | 20,919 | 0 | 0 | 20,919 |
| General Administrative | 120,713 | 0 | 0 | 120,713 |
| Operation & Maintenance | 66,987 | 0 | 0 | 66,987 |
| Transportation | 1,507 | 0 | 0 | 1,507 |
| School Food | <u>150</u> | <u>0</u> | <u>0</u> | <u>150</u> |
| Total Expenditures | <u>\$ 697,379</u> | <u>\$ 4,300</u> | <u>\$ 16,277</u> | <u>\$ 717,956</u> |
| OTHER FINANCING SOURCES | | | | |
| Transfers In | 14,000 | 0 | 0 | 14,000 |
| Net Changes In Fund Balance | 6,927 | (4,300) | (16,277) | (13,650) |
| FUND BALANCE: | | | | |
| Beginning of the Year | <u>61,749</u> | <u>20,731</u> | <u>46,972</u> | <u>129,452</u> |
| Ending of the Year | <u>68,676</u> | <u>16,431</u> | <u>30,695</u> | <u>115,802</u> |

In the reconciliation the general fund, flexibility fund, and impact aid 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 and impact aid fund are maintained as special revenue funds for accounting purposes, however, for external financial reporting they are added to the general fund because they have 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 funds are not reported because the impact aid fund and miscellaneous fun are non-budgeted special revenue funds.

Ulm School District No. 85
 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 | Ending Balance <u>6/30/2014</u> |
|-----------------------|---|------------------------|------------------------|------------------------------------|
| STUDENT COUNCIL | <u>2,698</u> | <u>2,118</u> | <u>3,433</u> | <u>1,383</u> |
| Total | \$ <u>2,698</u> | \$ <u>2,118</u> | \$ <u>3,433</u> | \$ <u>1,383</u> |

ULM SCHOOL DISTRICT NO. 85

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 | 11 | 11 | 0 |
| Grade 1 - 6 | 59 | 59 | 0 |
| Grade 7 - 8 | 19 | 19 | 0 |
| Total | <u>89</u> | <u>89</u> | <u>0</u> |

WINTER ENROLLMENT - DECEMBER, 2013

| Elementary | | | |
|-------------------|-----------------|----------------|-----------------|
| | <u>Reported</u> | <u>Audited</u> | <u>Variance</u> |
| Kindergarten Full | 11 | 11 | 0 |
| Grade 1 - 6 | 59 | 59 | 0 |
| Grade 7 - 8 | 19 | 19 | 0 |
| Total | <u>89</u> | <u>89</u> | <u>0</u> |

SPRING ENROLLMENT - FEBRUARY, 2014

| Elementary | | | |
|-------------------|-----------------|----------------|-----------------|
| | <u>Reported</u> | <u>Audited</u> | <u>Variance</u> |
| Kindergarten Full | 10 | 10 | 0 |
| Grade 1 - 6 | 59 | 59 | 0 |
| Grade 7 - 8 | 19 | 19 | 0 |
| Total | <u>88</u> | <u>88</u> | <u>0</u> |

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
Ulm School District No. 85
Cascade County
Ulm, Montana 59485

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 Ulm School District No. 85 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Ulm School District No. 85's basic financial statements and have issued our report thereon dated May 28, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ulm School District No. 85's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency as items 2014-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ulm School District No. 85'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*.

Ulm School District No. 85's Response to Findings

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

Purpose of this Report

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


STROM & ASSOCIATES, PC
Billings, Montana
May 28, 2015

ULM SCHOOL DISTRICT NO. 85

SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year-Ended June 30, 2014

The following is the status of prior year findings and updated for the fiscal year ended June 30, 2014.

- 2013 Finding Number 1 – Other Post-Employment Benefits – Implemented
- 2013 Finding Number 2 – Compensated Absence – Repeated as finding 2014-001
- 2013 Finding Number 3 – Cash – Implemented
- 2013 Finding Number 4 – Receivables – Implemented
- 2013 Finding Number 5 – Internal Control Assessment – Implemented

2014-001 Compensated Absence (Repeat of 2013 Finding Number 1):

Criteria: Compensated absences liability should be reported per Generally Accepted Accounting Policies (GAAP) for all amounts which could be paid to employees upon retirement.

Condition: The District did not report liabilities associated with certified employees.

Effect: Liabilities and related expenses are understated on the government wide financial statements by \$7,569.

Context: The District did not include certified employees in the calculation and reporting of compensated absences.

Cause: The District erred in the recalculation of compensated absences which was changed from the prior year.

Recommendation: We recommend that the District include all employees compensated absences in determining the liability each fiscal year.