

**BAKER PUBLIC SCHOOLS
SCHOOL DISTRICT NUMBER 12
FALLON COUNTY
BAKER, MONTANA**

FINANCIAL REPORT

**FOR THE YEAR ENDED
JUNE 30, 2014**

**JAMES J. WOSEPKA, PC
CERTIFIED PUBLIC ACCOUNTANT
BAKER, MONTANA**

**BAKER PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 12
BAKER, MONTANA**

TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT DISCUSSION AND ANALYSIS	i - vi
BOARD OF TRUSTEES AND OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2 - 4
FINANCIAL STATEMENTS	
Statement of Net Position	5
Statement of Activities	6
Combined Balance Sheet - All Governmental Funds	7
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Funds	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Government Funds to Statement of Activities	9
Statements of Fiduciary Net Position	10
Statement of Change in Fiduciary Net Position	11
Notes to the Financial Statements	12 - 24
REQUIRED SUPPLEMENTAL INFORMATION	25
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	26
Notes to Required Supplemental Information	27 - 28
SUPPLEMENTAL SCHEDULES	29
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Budgeted Special Revenue Funds	30
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Building Reserve	31
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Debt Service Fund	32
Schedule of School District Enrollment	33
District Tax Levies and Taxable Valuation	34
Statement of Changes Student Activities Fund	35
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	36-37

Management Discussion and Analysis (MD&A)

The Trustees along with the administration of the Baker School District #12 have provided this MD & A to give the reader of these statements an overview of the financial position and activities of the school district for the year covered by this audit report.

FINANCIAL HIGHLIGHTS

Baker School District #12's financial position can best be described as stable. While school funding is based on student enrollment and we had a slight increase this year, legislative action allowed us to adopt a general fund budget up to the previous year's adopted budget with the passage of HB 363. The District will continue to give our students a quality education with adequate funding and reserves.

In addition, the fund balance reported on the Balance Sheet (page 7), in accordance with Generally Accepted Accounting Principles (GAAP), includes the balance of the Flexibility Fund which was \$9,169,607. Therefore, as of June 30, 2014, the General Fund had a fund balance of \$777,155.

The District's financial operations in 2014 were very steady as compared with the prior year. Net Position was \$49,512,437, which is a decrease of \$360,492 from the previous year. Total expenditures were \$8,173,718 in 2014.

USING THIS FINANCIAL 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.

Reporting the School District as a Whole

The report includes two district-wide statements that focus on operations of the district as a whole. These statements measure inputs and outflows using an economic resource measurement focus and the accrual basis of accounting. Activities that are fiduciary in nature are not included in these statements.

- A. The **Statement of Net Position** (page 5) shows the "assets", "liabilities" and the "net position" of the school district. The statement categorizes assets to show 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 buildings, equipment and other long-lived property; and some assets are available to fund budgets of the following year.
- B. The **Statement of Activities**, (page 6) shows the amounts of program-specific and general school district revenues used to support the school district's various functions. The Statement of Net Position and the Statement of Activities describe the governmental activities of the school district.

Governmental activities – The school functions, including instruction, student services, administration, etc., property taxes, state and federal revenues usually support most of these functions of the district.

Proprietary (business-type) activities – No school operations use an enterprise fund, therefore there are no proprietary activities.

Component units – The district has no component units.

Reporting the District’s Most Significant Funds

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

The fund statements report balances and activities of the most significant or “major” funds separately and combines 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 legal budget requirements. Internal Service funds are never reported as major funds, but are combined and presented in a separate column.

The Balance Sheet (page 7) and Statement of Revenues, Expenditures, and Changes in Fund Balance (page 8) are shown for governmental funds such as the general fund, special revenue funds for transportation and school food service, 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 fund statements to the district-wide statements (page 9). Most significant differences result from the use of different presentation bases. The district-wide statements are presented using the accrual basis of accounting. 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: the student extracurricular fund. This report includes the activities in a separate Statement of Fiduciary Net Position (page 10) and Changes in Fiduciary Net Position (page 11) 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.

Budget-to-Actual Comparisons

The budgetary comparison schedules on page 26 show how actual expenditures compared to the original and final budgeted expenditures for the General Fund. The budgetary comparison schedules on page 31 show how actual expenditures compared to the original and final budgeted expenditures for the Building Reserve Fund. The most significant variable in revenues in all funds was because of Oil and Gas revenues which were little more than the previous year; however, it continues to substantially affect our budgets in a positive manner.

THE DISTRICT AS A WHOLE

This section is an analysis of the district's financial activities using information from the district-wide financial statements. It should be a discussion of the current year results in comparison with the prior year, with emphasis on the current year.

1. Changes in Net Position

The net position decreased by \$360,492 during the past year. Even with the decrease in net position, the health of the school is good. Many variables play a part in the decrease/increase in net position, but Oil and Gas revenues continue to stay the same and allow the school to maintain its financial stability. The liabilities have increased drastically as we look forward to those long term employees retiring.

	TOTAL SCHOOL DISTRICT		TOTAL CHANGE	
	FY2013	FY2014	\$ Change	% Change
Current and other assets	\$31,545,444	\$30,961,458	-\$583,986	-1.85%
Capital Assets	18,583,673	18,817,473	233,800	1.26%
Total Assets	\$50,129,117	\$49,778,931	-\$350,186	-0.70%
Long-term Debt Outstanding	(\$255,060)	(\$252,494)	\$2,566	-1.01%
Other Liabilities	(1,128)	(14,000)	(12,872)	1141.13%
Total Liabilities	(\$256,188)	(\$266,494)	(\$10,306)	4.02%
Net Position				
Invested in Capital Assets net of related debt	\$18,583,673	\$18,817,473	\$233,800	1.26%
Restricted	16,925,240	20,874,361	3,949,121	23.33%
Unrestricted	14,364,016	9,820,603	(4,543,413)	-31.63%
Total Net Position	\$49,872,929	\$49,512,437	-\$360,492	-0.72%

2. General and Program Revenues

General revenues provide all the necessary revenues needed by the school district. The majority of the revenue comes from state aid. Federal aid and Oil and Gas revenue produced within the district form the next largest segments of the revenue pie. A minor amount of revenue is produced by programs that charge for specific services or from grants.

REVENUES:	TOTAL SCHOOL DISTRICTS	
	FY2013	FY2014
Property Taxes	\$0	\$7
Earnings on Investments	22,481	82,620
School Lunch Sales	86,493	93,480
Other Local Sources	766,327	1,096,936
State Aid	2,046,593	2,180,955
Oil and Gas Tax	4,265,725	4,625,292
Federal Aid	127,481	125,330
Total Revenues	\$7,315,100	\$8,204,620

EXPENDITURES:

Current:

Instructional Services	\$2,668,149	\$3,392,644
Supporting Services:		
Students	102,665	105,330
Instructional Staff	170,761	155,670
District Administration	267,075	267,551
School Administration	455,029	477,233
Business	132,496	153,634
Operation and Maintenance of Facilities	756,159	1,114,149
Transportation	319,004	339,030
Community Service	170,394	174,406
Special Education	562,340	871,429
Adult Education	55,155	47,976
Vocational Programs	256,057	262,649
Extracurricular Programs	355,536	292,391
Unallocated Depreciation	564,431	597,369
Food Services	238,145	251,310
Capital Outlay	0	59,938
Debt Service:		
Special Assessments	2,170	2,403
Total Expenditures	\$7,075,566	\$8,565,112
Excess(Deficiency) of Revenues Over (Under) Expenditures	\$239,534	-\$360,492

3. Spending Levels Compared to Resource Levels

The school district's spending for governmental activities compared to total revenues was about 104.39% for the year. In other words, expenditures exceeded revenues by \$360,492. This spending pattern is more than the prior year due to increased oil and gas revenues of \$359,567, while expenditures increased.

	FY2012-13		FY2013-14	
Expenditures Supported with General Revenues (from taxes and other sources for general school use)	\$6,733,290	92.05%	\$8,213,181	100.10%
Expenditures Supported with Program Revenues	\$342,276	4.68%	\$351,931	4.29%
Total Expenditures Related to Governmental Activities	\$7,075,566	96.73%	\$8,565,112	104.39%

4. Changes in Finances Caused by Changes in Programs

No new programs were introduced to the curriculum to cause significant changes to the financial position of the district.

5. Identifying and Resolving Financial Difficulties

No significant problems were reported in last year's audit.

6. Significant Events and Trends

The school was involved in a few construction projects at the end of the school and projected to end at the start of the next school year. The high school gymnasium girls locker room is in the middle of a complete renovation; all of the structures within the locker room were torn out. The high school gymnasium roof was re-roofed and the west bathrooms at Lincoln Elementary School were completely remodeled as well. All listed projects were completed in August & September 2014.

ANALYSIS OF FINANCIAL INFORMATION

The following analysis is provided to help the reader understand the major operations of the school district, where the resources come from, what the resources are used for, and trends, decisions, and events that are expected to affect the district's financial situation in the future. Historical information from one or more prior years is shown to illustrate trends, problems, and achievement of the District's goals.

1. What Does the School Do?

Baker Public Schools provide instruction and transportation for District students. The District participates in federal programs, extracurricular activities, the Montana High School Association, the Montana School Boards Association and the Montana Rural Education Association. The District also participates in the Prairie View Curriculum Consortium, EMET (Eastern Montana Educational Television), which provides distance learning to member districts, MSEL (Montana Schools eLearning Consortium, which provides online learning to member schools, and Big Country Special Education Cooperative.

2. Where Do the Resources Come From?

General revenues constitute the majority of all revenues. Program revenues account for an insignificant amount compared to general revenues. At this time a large portion of general revenues are raised by Oil and Gas revenue. This is a result of high oil and gas prices and the accompanying higher production of those resources.

3. What Does It Cost?

The expenditures for the past year were \$8,173,718. Of this total, the greatest percentage was to provide instructional and related services for our students. Approximately 0.03% was used for debt service.

4. What are the Capital Assets and Debt of the District?

The capital assets of the District include school buildings, land, vehicles, computers, other equipment, etc. This year, the District had capital assets purchased of \$831,169. The depreciation expense for the year was \$597,369. The District's long-term debt for

compensated absences is \$252,494. Other obligations include a Deferred Compensation agreement of \$14,000; thus, the total debt of the District would be \$266,494.

5. Fund Deficits

NONE

6. What Changes and Trends Affect the District's Future?

The District's overall financial position continues to be very favorable for the near future. Reserves are very adequate and capital improvements have been completed in the past few years which will alleviate capital expenses in the future. Oil and Gas revenue continues to supplement our budgets and reduces taxes for our local citizens. We must continue to be concerned with our fluctuating enrollment and potential legislative bills which could adversely affect our school finances.

CONTACT FOR FURTHER INFORMATION

You may contact the school management or business staff by the following means:

Contact Persons:

Donald Schillinger, Superintendent
1015 South 3rd Street West
Baker, MT 59313
Phone (406) 778-3574
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Jennifer Mettler, District Clerk
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Baker, MT 59313
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**BAKER PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 12
FALLON COUNTY, MONTANA**

ORGANIZATION

**Fiscal Year
Ended June 30, 2014**

BOARD OF TRUSTEES

Mrs. Christy Follmer	Chairman
Mr. Michael Gentilini	Vice Chairman
Mrs. Johnna Graham	Trustee
Mr. Michael Gunderson	Trustee
Mr. Scott Rabbitt	Trustee

OFFICIALS

Mr. Don Schillinger	District Superintendent
Mrs. Jennifer Mettler	District Clerk
Mr. Don Dilworth	County Superintendent
Mr. Albert R. Batterman	County Attorney
Mr. David Breitbach	Extracurricular Fund Custodian



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Beach, ND 58621-0970
Phone: 701-872-4321
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10 East Montana Ave
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Fax: 406-778-2866

James J. Wosepka, PC – Certified Public Accountant

Licensed in North Dakota and Montana

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
School Districts No. 12
Baker, Montana 59313

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District No. 12, Baker, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 School District No. 12, Baker, Montana, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i - vi and 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 the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise School District No. 12, Baker, Montana's basic financial statements. The other supplemental information on pages 30 – 35 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplemental information on pages 30 – 35 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 other supplemental information on pages 30 – 35 is 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 October 3, 2014, on our consideration of School District No. 12, Baker, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering School District No. 12, Baker, Montana's internal control over financial reporting and compliance.

James J. Wosepka, PC

By  James J. Wosepka
CPA

Baker, Montana
October 3, 2014

**BAKER PUBLIC SCHOOLS
STATEMENT OF NET POSITION
June 30, 2014**

	Primary Government Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 30,954,543
Taxes/assessments receivable	1,805
Due from other governments	179
Inventories	4,931
Capital assets not being depreciated	
Land	293,783
Construction in progress	209,112
Capital assets being depreciated	18,314,578
Total Assets	49,778,931
LIABILITIES	
Noncurrent liabilities:	
Due within one year	14,000
Due in more than one year	252,494
Total Liabilities	266,494
NET POSITION	
Net investment in capital assets	18,817,473
Unrestricted	9,820,603
Restricted for:	
Bus Depreciation	62,809
Transportation	297,689
Food Service	5,231
Retirement	153,244
Traffic Education	5,597
Debt Service	96,217
Other Educational Purposes	20,253,574
Total Net Position	\$ 49,512,437

The notes to the financial statements are an integral part of this statement.

**BAKER PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services, Fines, Forfeitures, etc.	Operating Grants and Contributions	
Primary government:				
Instructional services	\$ 3,392,644	\$ 4,800	\$ 75,756	\$ (3,312,088)
Supporting services:				
Students	105,330	-	-	(105,330)
Instructional staff	155,670	3,618	-	(152,052)
District administration	267,551	-	-	(267,551)
School administration	477,233	-	-	(477,233)
Business	153,634	-	-	(153,634)
Operation & maintenance of facility	1,114,149	-	-	(1,114,149)
Transportation	339,030	-	-	(339,030)
Community service	174,406	-	-	(174,406)
Special education	871,429	-	114,011	(757,418)
Adult education	47,976	-	-	(47,976)
Vocational education	262,649	-	9,147	(253,502)
Extracurricular programs	292,391	-	-	(292,391)
School lunch services	251,310	93,480	51,119	(106,711)
Capital outlay	59,938	-	-	(59,938)
Special assessments	2,403	-	-	(2,403)
Unallocated depreciation	597,369	-	-	(597,369)
Total governmental activities	\$ 8,565,112	\$ 101,898	\$ 250,033	(8,213,181)
General revenues:				
Property taxes				7
Unrestricted Federal/State shared revenues				1,120,475
State Oil & Gas monies				4,625,292
Unrestricted Federal/State grant revenues				1,690,683
Unrestricted investment earnings				82,620
Miscellaneous				333,612
Total general revenues and transfers				7,852,689
Change in net position				(360,492)
Total net position - July 1, 2013				49,872,929
Total net position - June 30, 2014				<u>49,512,437</u>

The notes to the financial statements are an integral part of this statement.

**BAKER PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014**

Description	Major Funds				Total Governmental Funds
	General	Miscellaneous	Building Reserve	Other Governmental Funds	
ASSETS					
Cash and cash equivalents	\$ 9,946,762	\$ 5,415,083	\$ 11,872,444	\$ 3,720,254	\$ 30,954,543
Tax/assessment receivable	1,222	-	189	394	1,805
Due from other governments	-	179	-	-	179
Inventories	-	-	-	4,931	4,931
Total Assets	9,947,984	5,415,262	11,872,633	3,725,579	30,961,458

DEFERRED INFLOWS OF RESOURCES -

Unavailable revenue-property taxes	1,222	-	189	394	1,805
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Fund balances:

Nonspendable	-	-	-	4,931	4,931
Spendable:					
Restricted	-	5,415,262	11,872,444	3,581,315	20,869,021
Assigned	-	-	-	138,939	138,939
Unassigned	9,946,762	-	-	-	9,946,762
Total fund balances	9,946,762	5,415,262	11,872,444	3,725,185	30,959,653

Total deferred inflows or resources and fund balances

\$ 9,947,984	\$ 5,415,262	\$ 11,872,633	\$ 3,725,579
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Certain property tax collections are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources in the funds.

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

18,817,473
1,805
(266,494)

Total Net Position of Governmental Funds

\$ 49,512,437

The notes to the financial statements are an integral part of this statement.

BAKER PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

Description	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Miscellaneous	Building Reserve		
REVENUES					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Earnings on investments	10,425	27,716	38,326	6,153	82,620
School lunch sales	-	-	-	93,480	93,480
Other local sources	3,782	411,829	-	681,325	1,096,936
State revenue	6,518,942	4,208	100,000	183,097	6,806,247
Federal revenue	-	74,211	-	51,119	125,330
Total Revenues	6,533,149	517,964	138,326	1,015,174	8,204,613
EXPENDITURES					
Current:					
Instructional services	2,665,296	12,139	-	704,903	3,382,338
Supporting services					
Students	93,420	-	-	11,910	105,330
Instructional staff	119,398	3,618	-	32,654	155,670
District administration	220,624	-	-	46,927	267,551
School administration	385,820	-	-	91,413	477,233
Business services	108,142	-	-	45,492	153,634
Operation & maintenance of facilities	692,056	71,617	378,157	70,117	1,211,947
Transportation	3,437	-	-	335,593	339,030
Community service	-	164,070	-	10,336	174,406
Special education	668,145	167,526	-	41,685	877,356
Adult education	-	-	-	47,976	47,976
Vocational programs	230,707	8,496	-	29,764	268,967
Extracurricular programs	311,279	863	-	724	312,866
Special assessments	-	-	-	2,403	2,403
Food services	90,526	-	-	159,618	250,144
Capital outlay	34,704	-	724,628	1,257	760,589
Total Expenditures	5,623,554	428,329	1,102,785	1,632,772	8,787,440
Excess of revenues (under) expenditures	909,595	89,635	(964,459)	(617,598)	(582,827)
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balances	909,595	89,635	(964,459)	(617,598)	(582,827)
Fund balances - July 1, 2013	9,037,167	5,325,627	12,836,903	4,343,949	31,543,646
Change in inventory	-	-	-	(1,166)	(1,166)
Fund balances - June 30, 2014	\$ 9,946,762	\$ 5,415,262	\$ 11,872,444	\$ 3,725,185	\$ 30,959,653

The notes to the financial statements are an integral part of this statement.

**BAKER PUBLIC SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014**

Net change in fund balances - total governmental funds (page 8)	<u>\$ (582,827)</u>
Amounts reported for governmental activities in the statement of activities (page 6) are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets purchased	<u>831,169</u>
Depreciation expense	<u>(597,369)</u>
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Unavailable property taxes	<u>7</u>
Adjust for Change in Inventory	<u>(1,166)</u>
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Accrued compensated absences	<u>(10,306)</u>
Change in Net Position in Governmental Activities	<u><u>\$ (360,492)</u></u>

BAKER PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2014

Description	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 319,401	\$ 198,579
Total Assets	<u>319,401</u>	<u>198,579</u>
LIABILITIES		
Warrants payable	-	158,040
Due to others		40,539
Total Liabilities	<u>-</u>	<u>\$ 198,579</u>
NET POSITION		
Held for student activities	175,955	
Held for student scholarships	143,446	
Total Net Position	<u>\$ 319,401</u>	

The notes to the financial statements are an integral part of this statement.

**BAKER PUBLIC SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2014**

Description	Private Purpose Trust Funds
ADDITIONS:	
Extra-curricular revenue	\$ 270,734
Contributions/Donations revenue	7,181
Investment earnings	70
Total Additions	277,985
 DEDUCTIONS:	
Extra-curricular activities	268,126
Scholarships paid	15,850
Total Deductions	283,976
Change in net position	(5,991)
Total net position - July 1, 2013	325,392
Total net position - June 30, 2014	\$ 319,401

The notes to the financial statements are an integral part of this statement.

**BAKER PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 12
FALLON COUNTY, MONTANA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

1. Summary of Significant Accounting Principles

The financial statements of Baker Public Schools, School District No. 12 (District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting financial reporting principles. The District's significant accounting policies are described below.

Reporting Entity

All operations of the District are controlled by a Board of Trustees, elected in district-wide elections, and responsible for all the District's activities. The financial statements include all of the District's operations controlled by the Board of Trustees. Based on the criteria for determining the reporting entity (oversight responsibility, financial accountability, services, and special relationships), the District is considered to be an independent reporting entity.

There are no other organizations that are financially dependent on the District or otherwise could be considered component units of the District.

Basis of Presentation and Basis of Accounting

Government-wide Statements - The Statement of Net Position and the Statement of Activities show information about the overall financial position and activities of the school district, with the exception of the student activity and endowment funds.

These statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the District are generally financed through property taxes, state equalization funding, and federal and state grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. On the accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which eligibility requirements have been met.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function. The District does not charge indirect expenses to programs or functions. Program revenues include fees for services (primarily school lunch and breakfast charges)

1. **Summary of Significant Accounting Policies - cont.**

Government-wide Statements – cont.

and grants and contributions that are restricted to a particular program. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

Fund Financial Statements - These statements provide information about the District's funds including a separate statement for the District's fiduciary funds (the student activity fund and endowment funds). The emphasis of fund financial statements is on major governmental funds. Each major fund is displayed in a separate column. All of the remaining funds are aggregated and reported in a single column as other governmental funds.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue is recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected soon after year end are recognized as revenue.

Most current property taxes receivable are delinquent at June 30 and amounts collected soon after year end are not significant. Deferred inflows are recorded for these receivables.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and payments for compensated absences, which are recognized as expenditures when paid. General capital asset acquisitions are reported as expenditures in governmental funds.

Under the terms of the District's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the District applies cost-reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

Major Funds - Generally accepted accounting principles require that the General Fund be reported as a major fund and that all other governmental funds whose assets, liabilities, revenues, or expenditures exceed 10% or more of the total for all government funds also be reported as major funds. Accordingly, the District reports the following major governmental funds:

General Fund - This is the District's primary operating fund and it accounts for all financial resources of the District, except those required to be accounted for in other funds.

Miscellaneous Programs Fund – Authorized by Section 20-9-507, MCA, for the purpose of accounting for local, state, or federal grants and reimbursements. Donations that allow the expenditure of both principal and interest for support of district programs are deposited in this fund.

1. **Summary of Significant Accounting Policies - cont.**
Fund Financial Statements – cont.

Building Reserve Fund - The purpose of financing voter approved building or construction projects funded with district mill levies.

The District reports the following fund types:

Trust Funds - The District also has private-purpose trust funds, its student activity fund, which accounts for the extracurricular activities of its students and a scholarship fund which accounts for funds donated for college scholarships for its graduating seniors.

Cash and Investments

Except for the Extracurricular Fund, all cash is held by the County Treasurer. Investments consist of securities issued by the federal government or one of its agencies.

All funds deposited are pooled and invested in accordance with state law. Interest earnings are allocated to the District based on average month end balances. Funds are withdrawn as needed to pay warrants.

It is not practical for the District to determine the investment risk (including amounts invested in financial derivatives), collateral, or insurance coverage for its share of the County's pooled investments. Information as to the County's investment pool can be obtained from the County's annual financial report. The extracurricular funds are deposited in interest-bearing checking and savings accounts covered by FDIC insurance.

The District has self invested cash. These investments are carried at cost which is not materially different than fair market value.

Warrants Payable

The District makes expenditures by means of warrants. These warrants are orders to the County Treasurer to pay a specified sum to the person named or to the bearer. Warrants issued by the District, but not yet paid by the County Treasurer amounted to \$158,040.

Capital Assets

Capital assets are carried at actual or estimated historical cost based on appraisals. Major additions and betterments with a cost in excess of \$5,000 are recorded as additions to capital assets. Repair and maintenance costs are not capitalized.

Depreciation is computed using the straight-line method and the estimated useful lives are as follows:

Buildings and improvements	80 years
Equipment	8-20 years

1. Summary of Significant Accounting Policies - cont.

Inventories

Inventories of materials and supplies are expensed at the time of purchase. Inventories of materials and supplies on hand are maintained and are stated at cost, first-in, first-out. Reported inventories are equally offset by a fund balance restriction which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

The school received donated commodities during the year.

Fund Balance Reporting

Implementation of GASB 54 is required for fiscal years beginning after June 15, 2010. Intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the District's financial statements. The reporting standard established a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and the principal (corpus) of an endowment fund. The District has inventories that are considered nonspendable. The District does not have any prepaid items or nonspendable funds related to endowments.

In addition to the nonspendable fund balances, GASB 54 has provided a hierarchy of spendable fund balances based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints by a formal action of the government from its highest level of decision making authority.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balances of the General Fund that are not constrained for any particular purpose.

Committed and assigned fund balances are at the determination of the Board of Trustees.

1. **Summary of Significant Accounting Policies - cont.**

	<u>Major Funds</u>			<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Funds</u>	<u>Misc. Fund</u>	<u>Building Reserve</u>		
Nonspendable:					
Inventories	\$ -	\$ -	\$ -	\$ 4,931	\$ 4,931
Restricted:					
School Operations	-	5,415,262	-	-	5,415,262
Bus Depreciation	-	-	-	62,807	62,807
Food Service	-	-	-	300	300
Retirement	-	-	-	153,244	153,244
Traffic Education	-	-	-	5,597	5,597
Compensated Absences	-	-	-	36,146	36,146
Debt Service	-	-	-	96,193	96,193
Transportation	-	-	-	297,517	297,517
Technology	-	-	-	2,218,017	2,218,017
Adult Education	-	-	-	711,494	711,494
Capital Projects	-	-	11,872,444	-	11,872,444
Assigned:					
School Operations	-	-	-	117,397	117,397
Capital Projects	-	-	-	21,542	21,542
Unassigned	<u>9,946,762</u>	-	-	-	<u>9,946,762</u>
Total Fund Balances	\$ <u>9,946,762</u>	\$ <u>5,415,262</u>	\$ <u>11,872,444</u>	\$ <u>3,725,185</u>	\$ <u>30,959,653</u>

Reported with the General Fund unassigned fund balance is \$9,169,607 from the Flexibility Fund.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted is available.

Vacation and Sick Leave

Liabilities incurred because of unused vacation and sick leave accumulated by employees, which is payable upon termination, are reflected in the financial statements. The liability for unused vacation and sick leave for governmental fund employees is recorded in the general long-term debt account group. Expenditures for these liabilities are recognized when paid.

1. **Summary of Significant Accounting Policies - cont.**

Taxes

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method, which is other than GAAP, is used for these accounts. Management does not believe that the accounting method being used results in any material differences.

Interfund Transactions

Interfund transactions are reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are eliminated in the government-wide financial statements.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any of this type of item.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

2. **Reconciliation of Government-wide and Fund Financial Statements**

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net position-governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds."

2. **Reconciliation of Government-wide and Fund Financial Statements – cont.**

The details of this difference are as follows:

Contracts payable	\$ (1,128)
Compensated absences	<u>(265,366)</u>
Net adjustment to reduce fund balance-total governmental funds to arrive at net position-governmental activities	<u>\$ (266,494)</u>

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances-total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay	\$ 831,169
Depreciation expense	<u>(597,369)</u>
Net adjustment to increase net changes in fund balances-total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 233,800</u>

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds." The details of this difference are as follows:

Compensated absences	<u>\$ (10,306)</u>
Net adjustment to decrease net changes in fund balances-total governmental funds to arrive at changes in net position of government activities	<u>\$ (10,306)</u>

3. **Property Taxes**

Property tax levies are set in August, in connection with the budget process, and are based on taxable values listed as of January 1 for all property located in the District. Taxable values are established by the State 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.

Real property taxes are generally billed in October and are payable 50% by November 30 and 50% by May 31. After these dates, taxes become delinquent and become a lien on the property. Personal property is assessed and personal

3. **Property Taxes – cont.**

property taxes are billed throughout the year with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

Taxes that become delinquent are charged interest at the rate of 5/6 of 1% per month plus a penalty of 2%. Real property on which taxes remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property is to be seized and sold after the taxes become delinquent.

The District is permitted by the state statutes to levy taxes for various purposes. The taxes levied by the District for the year ended June 30, 2014 were properly established and were within the legal limits or approved by the voters.

4. **Cash and Investments**

Cash, except for those of the Extracurricular Fund, are held by the County Treasurer in an agency fund.

Authorized investments allowed by Section 20-9-213, MCA, include direct obligations of the United States government; savings or time deposits in a state or national bank, building or loan association, or credit union insured by the FDIC or NCUA located in the state, repurchase agreements, and the State Unified Investment Program.

At year end, the carrying amount of the District's bank deposits and bank balance for the Extracurricular Fund was \$175,955. The bank balance was fully covered by Federal Depository Insurance.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. All of the deposits held in the District's name are authorized by the State of Montana.

Custodial Credit Risk

The investment policy of the District does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits other than the provision of state law.

Custodial risk for deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Montana law requires 50% security of deposits with financial institutions in excess of the depository insurance coverage limits. Governmental entities' money is insured for each "public unit" based on how the account is titled at the financial institution. The District's Certificate of Deposit is titled in the name of the County Treasurer as the Custodian for the District; therefore, the District has separate FDIC coverage from the other funds under the control of the Fallon County Treasurer. The Fallon County government is considered to have \$250,000 FDIC coverage for

4. **Cash and Investments – cont.**

demand deposits and \$250,000 FDIC coverage for time and savings deposits in each bank in the state.

All of the District deposits with financial institutions that are in excess of the federal depository insurance limits are held by the investment counterparty, not in the name of the District.

Credit, Interest Rate, and Foreign Currency Risk

The District has no interest rate risk, credit risk, or foreign currency risk of debt securities. The District's investments are in U.S. government securities that are held to maturity.

Statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. agencies, municipal securities, and repurchase agreements. The carrying value of investments owned at year end was \$9,985,488 in securities issued by the federal government or one of its agencies, which are carried at cost, which approximated fair value.

5. **Capital Assets**

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

	<u>Beginning Balance</u>	<u>Adjustments/ Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 293,783	\$ -	\$ -	\$ 293,783
Construction in progress	<u>14,934</u>	<u>209,112</u>	<u>14,934</u>	<u>209,112</u>
Total capital assets, not being depreciated	308,717	209,112	14,934	502,895
Capital assets, being depreciated:				
Buildings and improvements	21,656,839	526,033	-	22,182,872
Furniture and equipment	<u>1,020,464</u>	<u>118,457</u>	<u>(35,652)</u>	<u>1,103,269</u>
Total capital assets, being depreciated	22,677,303	644,490	(35,652)	23,286,141
Accumulated depreciation for:				
Buildings and improvements	(3,912,662)	(508,459)	-	(4,421,121)
Furniture and equipment	<u>(489,685)</u>	<u>(88,910)</u>	<u>28,153</u>	<u>(550,442)</u>
Total accumulated depreciation	<u>(4,402,347)</u>	<u>(597,369)</u>	<u>28,153</u>	<u>(4,971,563)</u>
Total capital assets, being depreciated, net	<u>18,274,956</u>			<u>18,314,578</u>
Governmental activities capital assets, net	<u>\$ 18,583,673</u>			<u>\$ 18,817,473</u>

Depreciation expense was charged to functions of the District as follows:

Unallocated	<u>\$ 597,369</u>
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6. **Long-term Debt**

The following is a summary of long-term debt transactions of the District for fiscal year ended June 30, 2014.

	<u>Balance</u> <u>July 01, 2013</u>	<u>Earned</u>	<u>Used</u>	<u>Balance</u> <u>June 30, 2014</u>
Compensated Absences Payable	\$ 255,060	\$ 10,306	\$ -	\$ 265,366

The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions.

Liability for Compensated Absences

The amount of compensated absences payable for fiscal year ended June 30, 2014 is \$265,366.

Noncertified employees accrue 12 days sick leave each year without limit and may elect to receive 1/4 of the sick leave accumulated since July 1, 1971 in cash.

Noncertified employees accrue 15 to 24 days of vacation leave each year, up to two times the maximum number of days earned annually. Employees are allowed to receive pay in lieu of vacation days not used upon termination.

Teachers do not receive paid vacations, but are paid only for the number of days they are required to work each year. The Superintendent does receive 30 days paid vacation each year, accrued up to a limit of 60 days.

Teachers and administrative personnel receive 12 sick leave days each year. The sick leave may accumulate to 112 days and at the end of the contract year, the teacher is paid \$80 per day for each day in excess of 100. Teachers with five or more years of service will receive termination pay equal to 1/3 the accumulated sick leave days at the current rate of certified substitute pay per day. The Superintendent receives 12 days sick leave each year, without limit, and he may elect to receive 1/4 of the sick leave accumulated since July 1, 1971 in cash.

Non Qualified Deferred Compensation

The District entered into an agreement with an employee during 2007 to defer compensation until after employment ends. The amount to be paid is \$1,128. The due date of the payment is not known, but estimated for 2014. The deferred compensation will be paid from the Flexibility Fund.

7. **Statewide Retirement Plans**

The District participates in two statewide cost-sharing multiple-employer defined benefit retirement plans which cover all employees, except certain substitute teachers and part time nonteaching employees. The Teachers Retirement System (TRS) covers certified teaching employees. The Public Employees Retirement System (PERS) covers nonteaching employees. The plans are established by state law and are administered by the Department of Administration of the State of

7. Statewide Retirement Plans – cont.

Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. 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	Public Employees Retirement System
P.O. Box 200139	P.O. Box 200231
1500 Sixth Avenue	1712 Ninth Avenue
Helena, MT 56920-0139	Helena, MT 59620-0131
(406) 444-3134	(406) 444-3154

The financial statement for PERS includes activity for the Defined Benefit and Defined Contribution Retirement Plans. The Defined Contribution Plan is available to all active members starting July 1, 2002. The assets of one retirement plan cannot be co-mingled with those of another plan.

Contribution rates for both plans are required and determined by state law. The contribution rates, expressed as a percentage of covered payrolls, were as follows:

	<u>Employer</u>	<u>Employee</u>	<u>Total</u>
TRS	8.47	8.15	16.62
PERS	6.80	6.90	13.70
PERS hired after 7/1/11	6.80	7.90	14.70

For the year ended June 30, 2014, the State of Montana contributed .37% of the employees' payroll for PERS and 2.49% for TRS. This is considered an "on-behalf" payment. The District does not record this contribution in their financial statements which is not in accordance with U. S. generally accepted accounting principles. The covered payrolls for each plan are as follows:

	<u>PERS</u>	<u>TRS</u>
Covered Payrolls	\$ <u>643,759</u>	\$ <u>3,107,138</u>
Employee Contributions	51,523	289,134
Employer Contributions	50,263	307,968

The District's contributions for the years ended June 30, 2012 and 2013 were \$54,122 and \$46,803 for PERS and \$213,250 and \$255,698 for TRS, respectively.

8. County Provided Services

The District is provided various financial services by Fallon County. The County serves as a bank for the District. All District funds, except the Extracurricular Fund and investments, are maintained and accounted for as agency funds at the County. The County also serves as Cashier and Treasurer for the District for tax collections and other revenues subject to deposit into the District agency funds maintained by the County. The County bills and collects property taxes and makes payments on District issued warrants. No service charges have been recorded by the District or the County.

9. **Pending Litigation**

There was no pending or threatened litigation or unasserted claims or assessments against the District through the date of this audit report for the year ended June 30, 2014.

10. **Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District participates in the Montana School Groups Worker's Compensation Risk Retention Program, a statewide public risk pool currently operating as a common risk management and insurance program for the member school districts. The District pays quarterly premiums for its employee injury insurance coverage. The agreement for formation of the pool provides that it will be self-sustaining through member premiums. There are no deductibles or maximum coverage limits in the plan.

The District carries commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

11. **Joint Ventures**

A joint venture is a legal entity or other contractual agreement created by two or more governments for a special purpose.

Special Education Cooperative

School District Number 12 is a member of the Big Country Cooperative. The Cooperative is comprised of 21 member districts, each of which contributes to the operating costs of the Cooperative based on the annual fiscal budget adopted by the Cooperative and the benefits derived from the Cooperative's services.

The Cooperative is administered by a Board comprised of one member from each participating district. The Cooperative does have an annual audit of which a copy of the report is obtained by the School District.

12. **Property Taxes Receivable**

As discussed in Note 1, the District records property taxes not collected and offset this amount in the deferred revenue account. Each fiscal year end, the County Treasurer supplies the District with the balance of uncollected property taxes.

Detailed information on collections and levies are not made available to the District. Reconciliations of these amounts are not considered practical, whereas all information is maintained by the County Treasurer.

13. **Estimates**

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

14. **Commitments**

The District committed to re-roofing the High School gym roof in the amount of \$182,357, as of June 30, 2014, \$0 had been spent. The District has also committed to remodeling the bathrooms at Lincoln School in the amount of \$78,235, as of June 30, 2014, \$34,250 had been spent. Lastly, the District committed to remodeling the girls' locker rooms at the High School in the amount of \$698,960, of which \$149,202 had been paid as of June 30, 2014. All three projects have been completed.

15. **Subsequent Events**

The District also has evaluated subsequent events through the date of this report.

SCHOOL DISTRICT NO. 12
FALLON COUNTY
BAKER, MONTANA

REQUIRED SUPPLEMENTAL INFORMATION
Fiscal Year Ended June 30, 2014

BAKER PUBLIC SCHOOLS
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
General Fund
Year Ended June 30, 2014

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Property taxes	\$ -	\$ -	\$ -	-
Earnings on investments	511	511	1,139	628
Other local sources	4,472	4,472	3,782	(690)
Oil and gas tax	1,430,598	1,430,598	1,430,598	-
State aid	2,093,650	2,093,650	2,093,651	1
Federal aid	-	-	-	-
Total revenues	<u>3,529,231</u>	<u>3,529,231</u>	<u>3,529,170</u>	<u>(61)</u>
Expenditures:				
Current:				
Instructional services	1,654,392	1,654,392	1,379,182	275,210
Supporting services:				
Students	85,322	85,322	87,018	(1,696)
Instructional staff	98,683	98,683	93,923	4,760
District administration	157,700	157,700	199,963	(42,263)
School administration	256,584	256,584	299,087	(42,503)
Business services	84,551	84,551	94,313	(9,762)
Operation and maintenance of facilities	359,829	359,829	413,391	(53,562)
Transportation	3,000	3,000	669	2,331
Special education	371,354	371,354	634,155	(262,801)
Vocational programs	170,482	170,482	204,276	(33,794)
Extracurricular programs	133,000	133,000	68,119	64,881
Food services	48,020	48,020	71,234	(23,214)
Capital outlay	135,000	135,000	12,586	122,414
Total expenditures	<u>3,557,917</u>	<u>3,557,917</u>	<u>3,557,916</u>	<u>1</u>
Excess of revenues over expenditures	<u>(28,686)</u>	<u>(28,686)</u>	<u>(28,746)</u>	<u>(60)</u>
Other financing sources (uses):				
Transfers	-	-	-	-
Total other financing sources (uses):	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ (28,686)</u>	<u>\$ (28,686)</u>	<u>(28,746)</u>	<u>(60)</u>
Fund balance - beginning - Budget basis and GAAP basis			<u>805,901</u>	
Fund balance - ending - Budget basis and GAAP basis			<u>\$ 777,155</u>	

**BAKER PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 12**

Notes to Required Supplemental Information

June 30, 2014

Budgets

An annual appropriated budget is adopted by the Board of Trustees each fiscal year for the General Fund and those other governmental fund types classified by state law as budgeted funds. All budgets are formulated in accordance with state law and are prepared on the basis of accounting described above.

The General Fund budgets are based on the State's Foundation Program which is designed to equalize taxing effort throughout the state and bases the budgets primarily on enrollment. Budgets of other funds are based primarily on estimated revenues and expenditures. Budgeted fund expenditures are limited by state law to budgeted amounts, except that they can be increased for emergencies as defined by state law.

Transfers may be made between expenditure objects and/or functions within the same fund. The budgeted amounts as shown in the financial statements are as originally adopted or as revised by legal budget transfers, if applicable.

Preliminary budgets must be adopted by August 15 and the final budget on the fourth Monday in August. Budget appropriations not expended or obligated (as described above) lapse at the end of the fiscal year.

The District made the following budget amendment:

	<u>Original</u>	<u>Change</u>	<u>Final</u>
Retirement Funds	\$ 780,000	\$ 75,000	\$ 855,000

Encumbrances

All appropriations, except for construction in progress, lapse at the end of the fiscal year. The District does utilize a formal encumbrance accounting system. Encumbrance accounting, which is an extension of the budgetary accounting in the General, Special Revenue, and Capital Projects Funds, enables the District to record purchase orders, contracts, and other commitments for the expenditure of monies in order to reserve that portion of the applicable appropriation. Encumbrances at year end are shown as expenditures in the budget-to-actual statements and as restrictions of fund balance on the balance sheet. The encumbrances have been recorded as expenditures since they meet the "valid obligation criteria" established by the Office of Public Instruction in the Montana School Accounting Manual and as defined in the Administrative Rules of Montana (ARM 10.10.101).

Notes to Required Supplemental Information – cont.
Encumbrances – cont.

The valid obligation criteria are:

1. The costs of personal property including materials, supplies, and equipment ordered, but not received, may be encumbered if a valid purchase order was issued prior to June 30.
2. The cost of commitments related to construction in progress may be encumbered, if a legally binding contract was signed and effective or a valid purchase order was issued prior to June 30. If the contract is complete or virtually complete, the entire cost of the contract should be accrued.

As of June 30, 2014, there were encumbrances of \$0.

Reporting

The Statement of Revenues, Expenditures, and Changes in Fund Balances, on page 8, combines the General and Flexibility Funds.

	<u>General</u>		<u>Flexibility</u>		<u>Total</u>
Fund balance, beginning	\$ 805,901	\$	8,231,266	\$	9,037,167
Revenues	3,529,170		3,003,979		6,533,149
Expenditures	<u>3,557,916</u>		<u>2,065,638</u>		<u>5,623,554</u>
Fund balance, ending	<u>\$ 777,155</u>	\$	<u>9,169,607</u>	\$	<u>9,946,762</u>

SCHOOL DISTRICT NO. 12
FALLON COUNTY
BAKER, MONTANA

SUPPLEMENTAL SCHEDULES

Fiscal Year Ended June 30, 2014

BAKER PUBLIC SCHOOLS
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
Budgeted Special Revenue Funds
Year Ended June 30, 2014

	Original Budgeted Amounts	Budget Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Earnings on investments	11,225	11,225	15,077	3,852
Other local sources	644,512	644,512	644,512	-
Oil and gas tax	-	-	3,094,693	3,094,693
State aid	79,761	79,761	79,761	-
Total revenues	<u>735,498</u>	<u>735,498</u>	<u>3,834,043</u>	<u>3,098,545</u>
Expenditures:				
Current:				
Instructional services	5,543,030	5,618,030	1,984,350	3,633,680
Supporting services:				
Students	89,180	89,180	18,312	70,868
Instructional staff	181,350	181,350	58,129	123,221
District administration	107,150	107,150	62,346	44,804
School administration	364,500	364,500	178,146	186,354
Business services	137,875	137,875	59,321	78,554
Operation and maintenance of facilities	1,272,250	1,272,250	328,309	943,941
Transportation	403,000	403,000	338,361	64,639
Community service	11,100	11,100	10,336	764
Special education	193,025	193,025	75,675	117,350
Adult education	551,060	551,060	47,976	503,084
Vocational programs	579,715	579,715	56,195	523,520
Extracurricular programs	370,220	370,220	243,884	126,336
Food services	65,245	65,245	34,310	30,935
Capital outlay	2,076,300	2,076,300	22,118	2,054,182
Total expenditures	<u>11,945,000</u>	<u>12,020,000</u>	<u>3,517,768</u>	<u>8,502,232</u>
Excess of revenues over expenditures	<u>(11,209,502)</u>	<u>(11,284,502)</u>	<u>316,275</u>	<u>11,600,777</u>
Other financing sources				
Transfers	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ (11,209,502)</u>	<u>\$ (11,284,502)</u>	<u>316,275</u>	<u>\$ 11,600,777</u>
Fund balances - beginning - Budget basis and GAAP basis			<u>12,397,210</u>	
Fund balances - ending - Budget and GAAP basis			<u>\$ 12,713,485</u>	

BAKER PUBLIC SCHOOLS
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
Building Reserve Fund
Year Ended June 30, 2014

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Earnings on investments	11,773	11,773	38,326	26,553
Oil and gas tax	-	-	100,000	100,000
State aid	-	-	-	-
Total revenues	<u>11,773</u>	<u>11,773</u>	<u>138,326</u>	<u>126,553</u>
Expenditures:				
Operations and maintenance	2,370,000	2,370,000	378,157	1,991,843
Capital outlay	5,630,000	5,630,000	724,628	4,905,372
Total expenditures	<u>8,000,000</u>	<u>8,000,000</u>	<u>1,102,785</u>	<u>6,897,215</u>
Excess of revenues over (under) expenditures	<u>(7,988,227)</u>	<u>(7,988,227)</u>	<u>(964,459)</u>	<u>7,023,768</u>
Other financing sources (uses):				
Transfer in	-	-	-	-
Net change in fund balances	<u>\$ (7,988,227)</u>	<u>\$ (7,988,227)</u>	(964,459)	<u>\$ 7,023,768</u>
Fund balances - beginning - Budget and GAAP basis			<u>12,836,903</u>	
Fund balances - ending - Budget and GAAP basis			<u>\$ 11,872,444</u>	

BAKER PUBLIC SCHOOLS
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
Debt Service Funds
Year Ended June 30, 2014

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance Favorable (Unfavorable)
Revenues:				
Taxes/special assessments	\$ -	\$ -	\$ -	\$ -
Investment and royalty earnings	-	-	218	218
Total revenues	<u>-</u>	<u>-</u>	<u>218</u>	<u>218</u>
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Public health	-	-	-	-
Social and economic services	-	-	-	-
Culture and recreation	-	-	-	-
Miscellaneous	-	-	-	-
Debt service				
Principal	6,000	6,000	2,403	3,597
Interest	-	-	-	-
Total expenditures	<u>6,000</u>	<u>6,000</u>	<u>2,403</u>	<u>3,597</u>
Excess of revenues over expenditures	<u>(6,000)</u>	<u>(6,000)</u>	<u>(2,185)</u>	<u>3,815</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers (out)	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ (6,000)</u>	<u>\$ (6,000)</u>	(2,185)	<u>\$ 3,815</u>
Fund Balances - beginning - Budget basis and GAAP basis			<u>98,378</u>	
Fund Balances - ending - Budget and GAAP basis			<u>\$ 96,193</u>	

**SCHOOL DISTRICT NUMBER 12
FALLON COUNTY
BAKER, MONTANA**

**SCHEDULE OF STUDENT ENROLLMENT
FOR THE YEAR ENDED JUNE 30, 2014**

FALL ENROLLMENT 10\13

<u>Elementary Schools</u>	<u>Audit Per District Records</u>	<u>Enrollment Report</u>
Kindergarten	42	42
Grades One - Three	110	110
Grades Four - Six	97	97
Grades Seven - Eight	71	71
Total	320	320
<u>High School</u>		
9-12:		
Grades Nine - Twelve	132	132

WINTER ENROLLMENT 12/13

<u>Elementary Schools</u>	<u>Audit Per District Records</u>	<u>Enrollment Report</u>
Kindergarten	43	43
Grades One - Three	109	109
Grades Four - Six	96	96
Grades Seven - Eight	71	71
Total	319	319
<u>High School</u>		
9-12:		
Grades Nine - Twelve	132	132

SPRING ENROLLMENT 2\14

<u>Elementary Schools</u>	<u>Audit Per District Records</u>	<u>Enrollment Report</u>
Kindergarten	45	45
Grades One - Three	109	109
Grades Four - Six	95	95
Grades Seven - Eight	69	69
Total	318	318
<u>High School</u>		
9-12:		
Grades Nine - Twelve	132	132

**SCHOOL DISTRICT NO. 12
FALLON, COUNTY
BAKER, MONTANA**

**DISTRICT TAX LEVIES - ALL APPLICABLE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

No mill levies for the fiscal year ended June 30, 2014

DISTRICT TAXABLE VALUATION

District	\$24,049,154
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BAKER PUBLIC SCHOOLS
Statement of Changes
Student Activities Fund
Year Ended June 30, 2014

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2014</u>
ACTIVITIES	\$ 65,499	\$ 65,191	\$ 60,148	\$ 70,542
ANNUAL	12,284	4,606	2,555	14,335
BUSINESS CLUB	731	6,433	4,732	2,432
CHEERLEADERS/FALL	5,313	-	-	5,313
CLASS OF 2010	1,645	-	-	1,645
CLASS OF 2012	209	-	-	209
CLASS OF 2013	2,624	-	-	2,624
CLASS OF 2014	846	4,122	4,119	849
CLASS OF 2015	3,154	4,754	4,546	3,362
CLASS OF 2016	2,309	1,770	678	3,401
CLASS OF 2017	2,011	2,185	-	4,196
CLASS OF 2018	653	50	280	423
CLOSE UP	14,081	64,485	64,781	13,785
CONCESSIONS	25,838	64,661	83,043	7,456
ELEMENTARY	1,257	1,119	1,209	1,167
FFA	8,968	8,947	11,084	6,831
FCCLA	217	1,074	592	699
HONOR SOCIETY	270	20	179	111
INDUSTRIAL ARTS	4,354	177	-	4,531
STUDENT UNION	652	52	304	400
MUSIC	3,769	100	-	3,869
OFFICE	15,727	1,667	4,000	13,394
PALS	82	-	-	82
SPARTAN SCROLL	671	-	-	671
SPARTANETTES	1,807	5,247	4,767	2,287
STUDENT COUNCIL	(1,462)	16,752	11,907	3,383
SPEECH & DRAMA	(253)	18,304	10,184	7,867
VOAG MECHANICS	91	-	-	91
Total	<u>\$ 173,347</u>	<u>\$ 271,716</u>	<u>\$ 269,108</u>	<u>\$ 175,955</u>



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Licensed in North Dakota and Montana

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

Board of Trustees
School Districts No. 12
Baker, Montana 59313

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District No. 12, Baker, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise School District No. 12, Baker, Montana's basic financial statements, and have issued our report thereon dated October 3, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered School District No. 12, Baker, Montana'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 School District No. 12, Baker, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of School District No. 12, Baker, Montana'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. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether School District No. 12, Baker, Montana's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

James J. Wosepka, PC

By  James J. Wosepka
CPA

Baker, Montana
October 3, 2014