

**SCHOOL DISTRICT NUMBER 2  
CARBON COUNTY  
BRIDGER, MONTANA**

**FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2014**

**OLNESS & ASSOCIATES, P. C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

2810 CENTRAL AVENUE, SUITE B  
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SCHOOL DISTRICT NUMBER 2

ORGANIZATION

June 30, 2014

BOARD OF TRUSTEES

Krystal Zentner	Chairman
Bart Heiken	Vice-Chairman
Jim Moran	Trustee
Claude Kieth	Trustee
Steve Peterson	Trustee

OFFICIALS

Bill Phillips	Superintendent
Betty Sweet	District Clerk

# OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
School District Number 2  
Bridger, Montana

### 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 Number 2, Bridger, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government'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.

### Basis for Qualified Opinion

Management has not recorded the service credit and termination pay benefit liability and related expense in the governmental activities. Accounting principles generally accepted in the United States of America require that the service credit and termination pay benefit liability and related expense be recorded, which would increase the liabilities, decrease net assets and change the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net position and expenses has not been determined.

### Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the government, as of June 30, 2014, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (Continued)

### Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the government as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in conformity 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, budgetary comparison information and the schedule of funding progress-other post-employment benefits identified in the table of contents 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 the government's basic financial statements. The extracurricular fund schedule and schedule of school district enrollment are presented for purposes of additional analysis and are not a required part of the financial statements.

The extracurricular fund schedule and schedule of school district 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 extracurricular fund schedule and schedule of school district 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 September 26, 2014, on our consideration of the government'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 the government's internal control over financial reporting and compliance.

*O'Leary & Associates, PC*

Billings, Montana  
September 26, 2014

## SCHOOL DISTRICT NUMBER 2 MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis of School District Number 2's financial performance provides an overview of the government's financial activities for the year ended June 30, 2014. Please read the information here in conjunction with our financial statements and footnotes which begin on page 7.

### FINANCIAL HIGHLIGHTS

- School District Number 2's assets exceeded its liabilities by \$2,112,188 (net position). This amount is classified as net investment in capital assets, restricted and unrestricted net position. Net position decreased by \$86,884 as a result of this year's operations.
- The General fund budget was spent to within \$21,019. Budgets for the General fund and Transportation fund were amended to reflect unanticipated bentonite revenues. The Flexibility fund was amended for the issuance of debt. The budget increases were \$75,000, \$12,000 and \$196,960 respectively.
- Fund balance in the General fund decreased \$31,817.

### USING THIS AUDIT REPORT

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

### OVERVIEW OF THE FINANCIAL STATEMENTS

**Government-wide financial statements** One of the most important questions asked about the government's finances is, "Is the district as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities (pages 7 and 8) report information about the government as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report net position and changes in it. You can think of net position - the difference between assets and liabilities/deferred inflows - as one way to measure the government's financial health, or financial position. Over time, increases or decreases in net position is an indicator of whether the government's financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the property tax base, economy, enrollment and changes in the State's funding of educational costs to assess the overall health.

**Fund financial statements** The fund financial statements (pages 9 and 11) provide detailed information about the most significant funds—not the government as a whole. Some funds are required to be established by State law. Also, the governing body establishes many other funds to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other money. We utilize the following funds:

Governmental funds—Basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations (pages 10 and 12, respectively).

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

### THE GOVERNMENT AS A WHOLE

As noted earlier, net position may serve over time as a useful way to measure the government's financial health. In our case, assets exceeded liabilities by \$2,112,188 as of June 30, 2014. Following are schedules of net position and changes in net position.

SCHOOL DISTRICT NUMBER 2  
MANAGEMENT'S DISCUSSION & ANALYSIS

NET POSITION:

	2014	2013	Change
Current and other assets	\$ 839,406	\$ 1,066,918	\$ (227,512)
Capital assets	1,719,473	1,362,067	357,406
Total assets	<u>2,558,879</u>	<u>2,428,985</u>	<u>129,894</u>
Other liabilities	4,841	13,645	(8,804)
Long-term liabilities outstanding	441,850	216,268	225,582
Total liabilities	<u>446,691</u>	<u>229,913</u>	<u>216,778</u>
Net position:			
Net investment in capital assets	1,522,513	1,362,067	160,446
Restricted	346,111	566,075	(219,964)
Unrestricted	243,564	270,930	(27,366)
Total net position	<u>\$ 2,112,188</u>	<u>\$ 2,199,072</u>	<u>\$ (86,884)</u>

CHANGE IN NET POSITION:

	2014	2013	Change
Revenues:			
Program revenues:			
Charges for services	\$ 27,382	\$ 35,714	\$ (8,332)
Operating grants and contributions	499,882	485,171	14,711
General revenues:			
Taxes	1,022,404	933,468	88,936
State sources	1,073,016	1,045,864	27,152
County sources	252,826	242,321	10,505
Interest	3,800	5,135	(1,335)
Miscellaneous	29,290	13,635	15,655
Total revenues	<u>2,908,600</u>	<u>2,761,308</u>	<u>147,292</u>
Expenses:			
Instruction	1,690,185	1,545,267	144,918
Support services-students	108,094	112,340	(4,246)
Support services-instructional staff	75,340	90,981	(15,641)
Support services-general administration	173,334	164,068	9,266
Support services-administration	112,566	108,095	4,471
Support services-business	81,574	75,674	5,900
Operation and maintenance	281,183	271,661	9,522
Student transportation	166,810	142,277	24,533
Food services	141,848	132,388	9,460
Extracurricular	164,550	137,020	27,530
Total expenses	<u>2,995,484</u>	<u>2,779,771</u>	<u>215,713</u>
Change in net position	(86,884)	(18,463)	(68,421)
Net position, beginning	<u>2,199,072</u>	<u>2,217,535</u>	<u>(18,463)</u>
Net position, ending	<u>\$ 2,112,188</u>	<u>\$ 2,199,072</u>	<u>\$ (86,884)</u>

Revenues increased \$147,000 over the prior year. The increase is mainly due to increased property taxes.

Expenses increased \$216,000 over the prior year. The increase is due to a one-time payment to fund TRS, employee retirements and raises.

SCHOOL DISTRICT NUMBER 2  
MANAGEMENT'S DISCUSSION & ANALYSIS

**FUND FINANCIAL STATEMENTS**

The fund financial statements provide detailed information about the major (most significant) funds. To be reported as a major fund, total assets, liabilities/deferred inflows, revenues, or expenditures of an individual fund must be at least 10 percent of the corresponding element total (assets, liabilities, etc.) for all funds. The General fund is always reported as a major fund.

General fund fund balance decreased by \$31,817 due to prior year encumbrances. Transportation fund fund balance decreased by \$17,845 and the Flexibility fund fund balance increased \$11,161.

The General fund budget was spent to within \$21,019. Budgets for the General fund and Transportation fund were amended to reflect unanticipated bentonite revenues. The Flexibility fund was amended for the issuance of debt. The budget increases were \$75,000, \$12,000 and \$196,960 respectively.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

During the year the government purchased a new bus and playground equipment and completed a school-wide energy efficiency upgrade. \$196,960 of the energy efficiency upgrade was funded with new debt. The government's long-term debt consists of notes payable, compensated absences and the other post-employment benefit liability. See the notes to the financial statements for further information.

**THE GOVERNMENT'S FUTURE**

A decline in enrollment is anticipated that will cause a significant decrease in the General Fund budget in the ensuing year. We also expect one teacher to retire at the end of this school year. Negotiations with the teachers' union have been unsuccessful and will continue on into the new school year. Not knowing what the next legislative session will bring has the School Board and Administration wary of increases that may not be sustainable given the decline in enrollment. The Superintendent and School Board will continue to evaluate ways and means to conserve financial resources. The next major project is a new boiler for the high school building. Another Department of Commerce grant will be submitted to an effort to help fund this project. If this grant is unsuccessful, other avenues will be explored which may include community meetings to test the waters for a building levy. Oil and Gas revenues continue to decline as a result of 2011 legislative actions. Bentonite revenues will continue to be a source of additional funding and budget amendments will be done to access these funds for further facility improvements.

The district continues to focus resources on the K-8 reading and math programs, while implementing the Common Core. Information gained from the Montana Behavior Institute will help direct administration and staff in adding items to the curriculum to reinforce and encourage good behavior in the students.

The district continues to benefit from the 21st Century Grant, which funds an after-school enrichment and summer school program for another year. The Technology Levy that passed our voters in 2013 has helped to replace and update equipment purchased with grant monies from prior years.

SCHOOL DISTRICT NUMBER 2  
STATEMENT OF NET POSITION  
June 30, 2014

<b>ASSETS</b>	
Cash and cash equivalents	\$ 610,206
Receivables:	
Taxes	202,430
Governments	7,194
Prepays	19,576
Capital assets not being depreciated-land	903
Capital assets, net of accumulated depreciation	<u>1,718,570</u>
Total assets	<u>2,558,879</u>
 <b>LIABILITIES</b>	
Unearned revenues	4,841
Noncurrent liabilities:	
Due within one year:	
Notes payable	23,635
Compensated absences	7,521
Due in more than one year:	
Notes payable	173,325
Compensated absences	44,170
Other post-employment benefits	<u>193,199</u>
Total liabilities	<u>446,691</u>
 <b>NET POSITION</b>	
Net investment in capital assets	1,522,513
Restricted for:	
Instruction	140,516
Support services:	
General administration	10,116
Operations and maintenance	9,475
Student transportation	185,887
Food services	117
Unrestricted	<u>243,564</u>
Total net position	<u><u>\$ 2,112,188</u></u>

SCHOOL DISTRICT NUMBER 2  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Instruction	\$ 1,690,185	\$ 1,830	\$ 336,512	\$ (1,351,843)
Support services:				
Students	108,094	-	50,833	(57,261)
Instructional staff	75,340	-	-	(75,340)
General administration	173,334	-	-	(173,334)
School administration	112,566	-	-	(112,566)
Business services	81,574	-	-	(81,574)
Operation and maintenance	281,183	-	-	(281,183)
Student transportation	166,810	-	43,937	(122,873)
Food services	141,848	25,552	68,600	(47,696)
Extracurricular	164,550	-	-	(164,550)
<b>Total</b>	<b>\$ 2,995,484</b>	<b>\$ 27,382</b>	<b>\$ 499,882</b>	<b>(2,468,220)</b>
General revenues:				
Property taxes				1,022,404
Intergovernmental:				
State aid				852,144
State other				220,872
County				252,826
Interest				3,800
Contributions and donations				17,064
Miscellaneous				10,226
Gain on disposal of capital assets				2,000
<b>Total general revenues</b>				<b>2,381,336</b>
Change in net position				(86,884)
Net position - beginning				2,199,072
Net position - ending				<b>\$ 2,112,188</b>

SCHOOL DISTRICT NUMBER 2  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2014

	General	Transportation	Flexibility	Total Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 90,532	\$ 92,234	\$ 148,627	\$ 278,813	\$ 610,206
Receivables:					
Property taxes	169,666	17,646	-	15,118	202,430
Governments	-	-	-	7,194	7,194
Prepaid items	-	-	-	19,576	19,576
<b>Total assets</b>	<b>\$ 260,198</b>	<b>\$ 109,880</b>	<b>\$ 148,627</b>	<b>\$ 320,701</b>	<b>\$ 839,406</b>
<b>LIABILITIES</b>					
Unearned revenues	\$ -	\$ -	\$ -	\$ 4,841	\$ 4,841
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,841</b>	<b>4,841</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue-property taxes	169,666	17,646	-	15,118	202,430
<b>Total deferred inflows of resources</b>	<b>169,666</b>	<b>17,646</b>	<b>-</b>	<b>15,118</b>	<b>202,430</b>
<b>FUND BALANCES</b>					
Nonspendable:					
Prepaid items	-	-	-	19,576	19,576
Restricted for:					
Instruction	-	-	-	137,311	137,311
Support services:					
General administration	-	-	-	10,116	10,116
Operations and maintenance	-	-	-	9,475	9,475
Student transportation	-	92,234	-	64,094	156,328
Food services	-	-	-	117	117
Committed to:					
Instruction	-	-	148,627	46,464	195,091
Support services:					
Students	-	-	-	13,589	13,589
Assigned to:					
Instruction	8,247	-	-	-	8,247
Support services:					
General administration	285	-	-	-	285
Operations and maintenance	51	-	-	-	51
Unassigned	81,949	-	-	-	81,949
<b>Total fund balances</b>	<b>90,532</b>	<b>92,234</b>	<b>148,627</b>	<b>300,742</b>	<b>632,135</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 260,198</b>	<b>\$ 109,880</b>	<b>\$ 148,627</b>	<b>\$ 320,701</b>	<b>\$ 839,406</b>

SCHOOL DISTRICT NUMBER 2  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION  
June 30, 2014

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances - governmental funds	\$ 632,135
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,719,473
Other long-term assets are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the funds.	202,430
Other post employment benefits, notes payable and compensated absences are not due and payable in the current period and, therefore, are not included in the funds.	<u>(441,850)</u>
Net position of governmental activities	<u>\$ 2,112,188</u>

SCHOOL DISTRICT NUMBER 2  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2014

	General	Transportation	Flexibility	Total Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>					
Property taxes	\$ 813,097	\$ 139,666	\$ -	\$ 62,051	\$ 1,014,814
Intergovernmental:					
County	-	21,963	-	252,826	274,789
State aid	852,144	-	-	-	852,144
State other	305,977	34,398	65,856	73,709	479,940
Federal	-	-	-	218,851	218,851
Charges for services	-	-	-	27,382	27,382
Interest	678	472	674	1,976	3,800
Miscellaneous	4,826	-	-	6,100	10,926
<b>Total revenues</b>	<b>1,976,722</b>	<b>196,499</b>	<b>66,530</b>	<b>642,895</b>	<b>2,882,646</b>
<b>EXPENDITURES</b>					
Current:					
Instruction	1,191,380	-	-	439,009	1,630,389
Support services:					
Students	47,342	-	-	59,537	106,879
Instructional staff	67,505	-	-	5,438	72,943
General administration	135,525	17,956	-	16,200	169,681
School administration	80,778	14,283	-	15,201	110,262
Business services	54,845	16,452	-	7,090	78,387
Operation and maintenance	229,393	17,184	-	18,075	264,652
Student transportation	-	132,137	-	4,209	136,346
Food services	34,516	-	-	102,901	137,417
Extracurricular	127,183	-	-	10,936	138,119
Capital outlay	37,168	8,335	260,326	155,000	460,829
<b>Total expenditures</b>	<b>2,005,635</b>	<b>206,347</b>	<b>260,326</b>	<b>833,596</b>	<b>3,305,904</b>
Excess (deficiency) of revenues over expenditures	(28,913)	(9,848)	(193,796)	(190,701)	(423,258)
<b>OTHER FINANCING SOURCES (USES)</b>					
Long-term debt issued	-	-	196,960	-	196,960
Transfers in	-	-	7,997	2,904	10,901
Transfers out	(2,904)	(7,997)	-	-	(10,901)
<b>Total other financing sources (uses)</b>	<b>(2,904)</b>	<b>(7,997)</b>	<b>204,957</b>	<b>2,904</b>	<b>196,960</b>
<b>Net change in fund balances</b>	<b>(31,817)</b>	<b>(17,845)</b>	<b>11,161</b>	<b>(187,797)</b>	<b>(226,298)</b>
Fund balances - beginning	122,349	110,079	137,466	488,539	858,433
Fund balances - ending	\$ 90,532	\$ 92,234	\$ 148,627	\$ 300,742	\$ 632,135

SCHOOL DISTRICT NUMBER 2  
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

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (226,298)
<p>Governmental funds report capital outlay expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
This is the amount by which capital outlay (\$460,829) exceeded depreciation (\$121,787) in the current period.	339,042
The net effect of various transactions involving capital assets (i.e., sales, donations and trade ins) is to increase net assets.	18,364
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	7,590
Governmental funds report debt issued as an other financing source. In contrast, the statement of activities treats debt issued as an increase in long-term liabilities. This is the amount of debt issued.	(196,960)
<p>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 the governmental funds:</p>	
Compensated absences	(7,890)
Other post-employment benefits	<u>(20,732)</u>
Change in net position of governmental activities	<u>\$ (86,884)</u>

SCHOOL DISTRICT NUMBER 2  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
June 30, 2014

	Private Purpose Trust Fund- Extracurricular	Agency Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 53,058	\$ 3,118
Total assets	53,058	\$ 3,118
<b>LIABILITIES</b>		
Accounts payable	-	\$ 3,118
Total liabilities	-	\$ 3,118
<b>NET POSITION</b>		
Net position held in trust	\$ 53,058	

SCHOOL DISTRICT NUMBER 2  
STATEMENT OF CHANGES IN NET POSITION  
FIDUCIARY FUND  
For the Year Ended June 30, 2014

	<u>Private Purpose Trust Fund- Extracurricular</u>
<b>ADDITIONS</b>	
Student extracurricular activities	<u>\$ 110,002</u>
Total additions	<u>110,002</u>
<b>DEDUCTIONS</b>	
Student extracurricular activities	<u>115,406</u>
Total deductions	<u>115,406</u>
Change in net position	(5,404)
Net position - beginning	<u>58,462</u>
Net position - ending	<u><u>\$ 53,058</u></u>

SCHOOL DISTRICT NUMBER 2  
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the government have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

The government's significant accounting policies are described below.

Reporting Entity

The government was established under Montana law to provide educational services below the college and university level to residents of the district. The government consists of a kindergarten through twelfth grade district which is managed by a central Board of Trustees, elected in a district wide election and by a central administration appointed by and responsible to the Board.

The County provides substantial services to the government; tax billing, cash collections, debt payments and warrant redemption. The County also maintains the government's cash and invests available funds at the direction of the government. The County Commissioners have a legal obligation to set levy amounts and to approve the budget adopted by the government. However, despite the degree of services provided, the government does not qualify as a component unit of the County.

These financial statements present, as a single reporting entity, all activities of the primary government. A primary government is defined as having a separately elected governing body, being legally separate, and fiscally independent.

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Fiduciary funds are excluded from the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include 1) charges for services which report fees and other charges provided by a given function or identifiable activity 2) operating grants and contributions and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. 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 as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

SCHOOL DISTRICT NUMBER 2  
NOTES TO BASIC FINANCIAL STATEMENTS

The government reports the following major governmental funds:

The general fund is used to account for all financial resources, except those required by law or administrative action to be accounted for in another fund. The general fund is always reported as a major fund in the governmental fund statements.

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specific purposes other than debt service or capital projects. The following special revenue funds are reported as major.

The transportation fund accounts for resources accumulated and payments made for the maintenance and operation of district owned school buses, contracts with private carriers for school bus service, individual transportation contracts, and any amount necessary for the purchase, rental, or insurance of yellow school buses or operation of the transportation program. The fund may be used only to support costs of home-to-school transportation.

The flexibility fund accounts for resources accumulated and payments made for the purpose of paying salaries, operating expenses, building expenses, and purchasing supplies and equipment.

Additionally, the government reports the following fund types:

The government has a private-purpose trust fund, the student extracurricular fund, which accounts for the extracurricular student activities.

Agency funds are custodial in nature and are used to account for assets that the government holds for others in an agency capacity.

#### Assets, Liabilities, Deferred Inflows and Net Position/Fund Balance

##### Cash and Investments

Cash and investments, except amounts in the extracurricular and flexible benefits funds, are held by the County Treasurer. The County Treasurer invests the District's cash at the direction of the government as required by state statute. Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or NCUA and the State Short Term Investment Pool (STIP). STIP is classified as a 2a7-like pool, and as such, uses amortized cost to report unit values.

Investments in the pool are reported at fair value. Fair value is determined annually, based on year-end market values. Short-term investments are reported at cost, which approximates fair value. Cash on hand, demand, savings and time deposits, STIP and short-term investments with original maturities of three months or less from the date of acquisition are considered cash equivalents.

##### Receivables

Most property taxes are levied in September of each fiscal year, based on assessments as of the prior January 1. Real property taxes are billed as of November 1 and are payable in two payments, November 30 and May 31. Unpaid taxes become delinquent on December 1 and June 1. Most personal property taxes are due and payable on January 1 and become delinquent February 1. Property taxes are maintained and collected by the County Treasurer. No allowance is made for uncollectible taxes as they are not considered significant.

##### Inventories and Prepaid Items

All inventories are valued at cost. Inventories are recorded as expenses when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

##### Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., sidewalks, and similar items) are reported in the government-wide financial statements. The government has elected not to report major infrastructure assets retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

SCHOOL DISTRICT NUMBER 2  
NOTES TO BASIC FINANCIAL STATEMENTS

Depreciation on capital assets is calculated on the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building and improvements	20-80
Machinery and equipment	5-15

Collections Not Capitalized

Certain collections of historic artifacts and works of art are not reported in the accompanying financial statements. These assets have not been capitalized because they meet all of the conditions that qualify them as collections that are not required to be capitalized. These conditions are the collections are held for public exhibition or education in the furtherance of public service, not held for financial gain; the collections are protected, kept unencumbered, cared for, and preserved; and any sale proceeds are expected to be used to acquire other items for the collections.

Compensated Absences

Liabilities associated with accumulated vacation and sick leave are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Classified employees (non-teaching) earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Accumulated vacation is restricted under state statute to a maximum accumulation of two times the amount earned annually. Vacation leave is absorbed by time off from work, or, with certain limitations, may be payable to the employee upon termination.

Sick leave is accumulated for classified employees at the rate of 12 days per year with no limit on the carry over amount. Sick/personal leave for certified personnel (teachers) is awarded at 20 days per year up to a cumulative maximum of 110 days. Upon retirement or resignation, classified employees are eligible for sick leave compensation at one fourth of the accumulated amount. Certified employees that retire and who have been with the district for a period greater than or equal to ten years are eligible for sick leave compensation at one half of the accumulated amount, paid at the current daily rate. Upon resignation, certified employees who have been with the district for greater than two years are eligible for one hundred percent of accumulated sick leave, up to 90 days, paid at \$18 per day.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. In the fund financial statements the face amount of debt issued is reported as other financing sources.

Deferred Inflows of Resources

In addition to liabilities, the statement of net 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. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

It is the government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Net Position

In the government-wide statements, equity is classified as net position and displayed in three components:

Net investment in capital assets - consists of capital assets (net of accumulated depreciation), plus capital-related deferred outflows of resources, less capital-related borrowings and deferred inflows of resources.

Restricted - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted - any portion of net position that does not meet the definition of "net investment in capital assets" or "restricted."

SCHOOL DISTRICT NUMBER 2  
NOTES TO BASIC FINANCIAL STATEMENTS

Fund Balance

In the fund statements, governmental fund equity is classified as fund balance. The following classifications describe the relative strength of the spending constraints:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed fund balance - amounts constrained to specific purposes by the government itself, using its highest level of decision-making authority (i.e., governing body). The government establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned fund balance - amounts the government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The governing body has by resolution authorized the clerk to assign fund balance. Assigned fund balance in the general fund represents year-end encumbrances.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the government considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the government considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing body has provided otherwise in its commitment or assignment actions.

Use of 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.

NOTE 2. DETAILED NOTES ON ALL FUNDS

Equity in Pooled Cash and Investments

As discussed in Note 1, the government's cash and investments, except amounts in the extracurricular and flexible benefits funds, are held by the County Treasurer. The government directs the investment of money pursuant to the provisions of state statute. The extracurricular and flexible benefits funds bank balances were entirely insured by the FDIC.

Montana law allows the local governing body to require security for the portion of deposits not guaranteed or insured. Deposit insurance is administered by the FDIC. The County Treasurer has the fiduciary responsibility to ensure that adequate collateral is pledged for all investments that are not fully covered by Federal Deposit Insurance. Montana code allows the County Treasurer to take collateral up to 50% of deposits if the institution in which the deposit is made has a net worth to total assets ratio of 6% or more and 100% if the ratio is less than 6%. Risk in the event of loss is unclear in state law, but may be the liability of the County government. Custodial credit risk, interest rate risk and concentration of credit risk classifications of the government's deposits and pooled investments can be obtained from the Carbon County Treasurer.

SCHOOL DISTRICT NUMBER 2  
NOTES TO BASIC FINANCIAL STATEMENTS

Capital Assets

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

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets, not being depreciated				
Land	\$ 903	\$ -	\$ -	\$ 903
Construction-in-progress	29,855	-	(29,855)	-
Total capital assets, not being depreciated	<u>30,758</u>	<u>-</u>	<u>(29,855)</u>	<u>903</u>
Capital assets, being depreciated				
Buildings/improvements	1,884,611	305,108	-	2,189,719
Infrastructure	21,114	-	-	21,114
Machinery and equipment	629,948	203,940	(65,065)	768,823
Total capital assets, being depreciated	<u>2,535,673</u>	<u>509,048</u>	<u>(65,065)</u>	<u>2,979,656</u>
Less accumulated depreciation for:				
Buildings/improvements	(847,831)	(56,417)	-	(904,248)
Infrastructure	(968)	(528)	-	(1,496)
Machinery and equipment	(355,565)	(64,842)	65,065	(355,342)
Total accumulated depreciation	<u>(1,204,364)</u>	<u>(121,787)</u>	<u>65,065</u>	<u>(1,261,086)</u>
Total capital assets, being depreciated, net	<u>1,331,309</u>	<u>387,261</u>	<u>-</u>	<u>1,718,570</u>
Capital assets, net	<u>\$ 1,362,067</u>	<u>\$ 387,261</u>	<u>\$ (29,855)</u>	<u>\$ 1,719,473</u>

Depreciation expense was charged as follows:

Instruction	\$ 38,571
Support services-students	1,215
Support services-instructional staff	2,397
Support services-general administration	2,053
Support services-administration	1,402
Support services-business	2,491
Operation and maintenance	14,058
Student transportation	30,083
Food services	3,086
Extracurricular	26,431
	<u>\$ 121,787</u>

Interfund Transfers

Interfund transfers during 2014 consisted of the following: the general fund transferred \$2,904 to the compensated absences fund to fund future compensated absences, \$100 was transferred from the general fund to the multi-district cooperative fund in accordance with the provisions of state law and the transportation fund transferred excess bentonite revenues in the amount of \$7,997 to the flexibility fund.

SCHOOL DISTRICT NUMBER 2  
NOTES TO BASIC FINANCIAL STATEMENTS

Long-Term Debt

The government borrowed \$196,960 to provide funds for an energy efficiency upgrade. The notes will be repaid by the flexibility fund. Notes payable currently outstanding are as follows:

	Original Amount	Term	Interest Rate	Balance June 30, 2014
Note payable-Board of Investments	\$ 116,960	15 yr	1.00%	\$ 116,960
Note payable-Bank of Bridger	80,000	5 yr	3.40%	80,000
				\$ 196,960

Annual debt service requirements to maturity for notes payable are as follows:

Year ending June 30,	Principal	Interest	Total
2015	\$ 23,635	\$ 2,228	\$ 25,863
2016	22,477	3,244	25,721
2017	23,066	2,658	25,724
2018	23,672	2,049	25,721
2019	24,283	1,424	25,707
2020-2024	38,959	3,123	42,082
2025-2029	40,868	1,132	42,000
	\$ 196,960	\$ 15,858	\$ 212,818

Long-term liability activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Notes payable	\$ -	\$ 196,960	\$ -	\$ 196,960	\$ 23,635
Compensated absences	43,801	7,890	-	51,691	7,521
	\$ 43,801	\$ 204,850	\$ -	\$ 248,651	\$ 31,156

Compensated absences are generally paid for from the fund in which the employee was paid.

NOTE 3. OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; professional liability (i.e., errors and omissions); workers compensation (i.e., employee injuries); medical insurance costs; and environmental damages. A variety of methods is used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for theft, damage or destruction of assets, professional liabilities and employee medical costs. The government participates in the Montana Schools Group's Workers' Compensation Risk Retention Program, a state-wide public risk pool currently operating as a common risk management and insurance program for the member school districts. The government 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. Given lack of coverage available, the government has no coverage for potential losses from environmental damages. Coverage limits and the deductibles on the commercial policies have remained relatively constant for the last several years. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Interlocal Cooperative

The government participates with other school districts located in the West Yellowstone/Carbon County Special Services Cooperative. The Cooperative provides special education services to its member schools. The government also participates in the Alliance for Curriculum Enhancement Consortium. The Consortium provides curriculum services to its member schools.

SCHOOL DISTRICT NUMBER 2  
NOTES TO BASIC FINANCIAL STATEMENTS

Commitments and Contingencies

At year-end, the government had commitments outstanding, in the form of purchase orders, of approximately \$54,928, primarily for supplies. The following schedule displays encumbrances by major funds and nonmajor funds in the aggregate.

	General	Flexibility	Non-major	Total Governmental Funds
Restricted:				
Instruction	\$ -	\$ -	\$ 1,300	\$ 1,300
Committed:				
Instruction	-	44,880	165	45,045
Assigned:				
Instruction	8,247	-	-	8,247
Support services:				
General administration	285	-	-	285
Operations and maintenance	51	-	-	51
	<u>\$ 8,583</u>	<u>\$ 44,880</u>	<u>\$ 1,465</u>	<u>\$ 54,928</u>

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any to be immaterial.

Retirement Plans

The government participates in two statewide mandatory cost-sharing multiple employer defined benefit retirement plans which cover all employees, except certain substitute teachers and part-time, non-teaching employees. The Teachers' Retirement System (TRS) covers teaching employees, including principals and superintendents. The Public Employees Retirement System (PERS) covers non-teaching employees. The plans are established under State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

The plans issue a publicly available financial report that include financial statements and required supplementary information. The reports may be obtained from the Public Employees' Retirement Board, 100 North Park, P.O. Box 200131, Helena, Montana 59620-0131, telephone (406) 444-3154.

Contribution rates for the plans are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll, were as follows:

	Employer	Employee	Total
TRS:			
Tier 1 member	8.470%	8.150%	16.620%
Tier 2 member	8.470%	8.150%	16.620%
PERS	7.800%	7.900%	15.700%

TRS:

A "tier 1 member" is a person who became a member before July 1, 2013 and who has not withdrawn his/her account balance. A "tier 2 member" is a person who became a member on or after July 1, 2013 or who, after withdrawing his/her account balance, became a member again on or after July 1, 2013. Effective July 1, 2013, the Tier 1 member supplemental contribution may be decreased, and a Tier 2 member may be required to contribute a supplemental contribution, under circumstances described in Section 19-20-608, MCA. Also, the employer supplemental contribution may be decreased under circumstances described in Section 19-20-609, MCA.

PERS:

On January 1 following an actuarial valuation, the employee contribution rate will be reduced to 6.9%, and the additional contributions by the employer (1%) and the State of Montana will terminate, if the actuarial valuation determines that these reductions and terminations would not cause the amortization period to exceed 25 years. Effective July 1, 2013, retired members who return to active service are subject to the above employee, employer, and state contributions. For retired members who return to work in a covered position, but who have not become active members, the employer and state shall contribute the amounts specified in Sections 19-3-316 and 319. (MCA 19-3-1113)

SCHOOL DISTRICT NUMBER 2  
NOTES TO BASIC FINANCIAL STATEMENTS

The State of Montana contributes .37% and 2.49% per year to the PERS and TRS plans, respectively, on behalf of the employer. The State of Montana on behalf TRS contribution has been recorded in the financial statements.

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

	2014	2013	2012
TRS	\$ 215,750	\$ 158,332	\$ 186,447
PERS	45,201	38,313	35,555
	\$ 260,951	\$ 196,645	\$ 222,002

Postemployment Benefits Other Than Pensions

*Plan Description.* The government provides postemployment health care benefits in accordance with Montana Code Annotated, Title 2, Chapter 18, Section, 704 to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions, and (2) surviving dependents of deceased employees. Retirement eligibility is determined based on the minimum of (1) reaching age 50 with at least 5 years of membership service or (2) reaching 25 years of membership at any age.

*Funding Policy.* The required contribution is based on pay-as-you-go financing requirements.

*Annual OPEB Cost and Net OPEB Obligation.* The government's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The government has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers with plans that have fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the government's net OPEB obligation to the plan:

Annual required contribution	\$ 46,433
Interest on net OPEB obligation	7,330
Adjustment to annual required contribution	(7,270)
Annual OPEB cost (expense)	46,493
Contributions made	(25,761)
Increase in net OPEB obligation	20,732
Net OPEB obligation - beginning of year	172,467
Net OPEB obligation - end of year	\$ 193,199

The government's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2014 and the preceding two years are as follows:

Year Ending June 30,	Annual OPEB Cost (AOC)	Percentage of Annual AOC Contributed	Net OPEB Obligation (NOO)
2012	\$ 77,280	0%	\$ 77,280
2013	75,746	0%	172,467
2014	46,493	0%	193,199

*Funded Status and Funding Progress.* As of July 1, 2013, the Plan was 0% funded. The actuarial accrued liability for benefits was \$225,721, and the actuarial value of assets is \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$225,721

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the

SCHOOL DISTRICT NUMBER 2  
NOTES TO BASIC FINANCIAL STATEMENTS

employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. A schedule of funding progress, which is required to be presented as required supplementary information following the notes to the financial statements, is included in the financial statements.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following simplifying assumptions were made:

*Assumptions about Employees and Members:* Based on the historical average retirement age of the covered group, active plan members were assumed to retire at age 65 or the first year thereafter in which the member would qualify for benefits. Marital status as of the calculation date was assumed to continue throughout retirement. Life expectancy was based on the RP2000 Healthy Combined Generational Table. The probability of remaining employed until the assumed retirement age and employees' expected future working lifetimes were developed using non-group-specific age-based turnover data from GASB Statement No. 45.

*Assumptions about Healthcare Costs:* The 2014 health insurance premiums for retirees were used to calculate the present value of total benefits to be paid. The expected rate of increase in health insurance premiums initially used a select rate of 2.01 percent, with reduction to the ultimate rate of 4.5 percent.

*Other Assumptions and Methods:* The inflation rate was assumed to be 4 percent (less than 65 years of age) and 3 percent (older than 65 years of age). Based on the historical and expected returns of the government's investments, the investment rate of return was assumed to be 4.25%. Estimated participation is based on the assumption that 45 percent of future retirees will elect medical coverage. The UAAL is amortized over a thirty-year period using a 4.25 interest rate and a 2.5 percent payroll growth rate.

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

Statement No. 68 - Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. Effective Date: The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014.

Statement No. 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68 Effective Date: The provisions of this Statement should be applied simultaneously with the provisions of Statement 68.

REQUIRED SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT NUMBER 2  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL  
General Fund  
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
<b>REVENUES</b>					
Property taxes	\$ 828,117	\$ 828,117	\$ 813,097	\$ -	\$ 813,097
Intergovernmental:					
State aid	852,144	852,144	852,144	-	852,144
State other	230,633	305,633	278,152	27,825	305,977
Interest	1,331	1,331	678	-	678
Miscellaneous	-	-	4,826	-	4,826
	<u>1,912,225</u>	<u>1,987,225</u>	<u>1,948,897</u>	<u>27,825</u>	<u>1,976,722</u>
<b>EXPENDITURES</b>					
Total expenditures	<u>1,909,321</u>	<u>1,984,321</u>	<u>1,963,302</u>	<u>42,333</u>	<u>2,005,635</u>
Excess (deficiency) of revenues over expenditures	<u>2,904</u>	<u>2,904</u>	<u>(14,405)</u>	<u>(14,508)</u>	<u>(28,913)</u>
<b>OTHER FINANCING USES</b>					
Transfers out	<u>(2,904)</u>	<u>(2,904)</u>	<u>(2,904)</u>	<u>-</u>	<u>(2,904)</u>
Total other financing uses	<u>(2,904)</u>	<u>(2,904)</u>	<u>(2,904)</u>	<u>-</u>	<u>(2,904)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(17,309)</u>	<u>(14,508)</u>	<u>(31,817)</u>
Fund balances - beginning			<u>99,258</u>	<u>23,091</u>	<u>122,349</u>
Fund balances - ending			<u>\$ 81,949</u>	<u>\$ 8,583</u>	<u>\$ 90,532</u>

SCHOOL DISTRICT NUMBER 2  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL  
Transportation Fund  
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
<b>REVENUES</b>					
Property taxes	\$ 142,128	\$ 142,128	\$ 139,666	\$ -	\$ 139,666
Intergovernmental:					
County	23,580	23,580	21,963	-	21,963
State other	28,007	40,007	34,398	-	34,398
Interest	150	150	472	-	472
<b>Total revenues</b>	<b>193,865</b>	<b>205,865</b>	<b>196,499</b>	<b>-</b>	<b>196,499</b>
<b>EXPENDITURES</b>					
Total expenditures	275,608	275,608	198,012	8,335	206,347
Excess (deficiency) of revenues over expenditures	(81,743)	(69,743)	(1,513)	(8,335)	(9,848)
<b>OTHER FINANCING USES</b>					
Transfers out	-	(12,000)	(7,997)	-	(7,997)
<b>Total other financing uses</b>	<b>-</b>	<b>(12,000)</b>	<b>(7,997)</b>	<b>-</b>	<b>(7,997)</b>
<b>Net change in fund balances</b>	<b>\$ (81,743)</b>	<b>\$ (81,743)</b>	<b>(9,510)</b>	<b>(8,335)</b>	<b>(17,845)</b>
Fund balances - beginning			101,744	8,335	110,079
Fund balances - ending			<b>\$ 92,234</b>	<b>\$ -</b>	<b>\$ 92,234</b>

SCHOOL DISTRICT NUMBER 2  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL  
Flexibility Fund  
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
<b>REVENUES</b>					
Intergovernmental:					
State other	\$ 3,139	\$ 3,139	\$ 65,856	\$ -	\$ 65,856
Interest	650	650	674	-	674
Total revenues	<u>3,789</u>	<u>3,789</u>	<u>66,530</u>	<u>-</u>	<u>66,530</u>
<b>EXPENDITURES</b>					
Total expenditures	<u>141,255</u>	<u>338,215</u>	<u>305,206</u>	<u>(44,880)</u>	<u>260,326</u>
Excess (deficiency) of revenues over expenditures	<u>(137,466)</u>	<u>(334,426)</u>	<u>(238,676)</u>	<u>44,880</u>	<u>(193,796)</u>
<b>OTHER FINANCING SOURCES</b>					
Long-term debt issued	-	196,960	196,960	-	196,960
Transfers in	-	12,000	7,997	-	7,997
Total other financing sources	<u>-</u>	<u>208,960</u>	<u>204,957</u>	<u>-</u>	<u>204,957</u>
Net change in fund balances	<u>\$ (137,466)</u>	<u>\$ (125,466)</u>	<u>(33,719)</u>	<u>44,880</u>	<u>11,161</u>
Fund balances - beginning			<u>137,466</u>	<u>-</u>	<u>137,466</u>
Fund balances - ending			<u>\$ 103,747</u>	<u>\$ 44,880</u>	<u>\$ 148,627</u>

SCHOOL DISTRICT NUMBER 2  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2014

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

State law requires budgets be prepared for certain funds - generally those supported by property tax revenues. Budgets are prepared on the modified accrual basis. State law requires only that a fund's total expenditures not exceed total budgeted expenditures. Budgets may be amended as defined by State law. The budgets for the general, transportation and flexibility funds were amended for unanticipated bentonite revenues and debt proceeds.

The general fund budget is based on the State of Montana's foundation program which is based primarily on enrollment. Budgets of other funds are based on expected revenues and expenditures. The Board of Trustees approves the original budget not later than August 25th.

State law permits the inclusion of obligations (encumbrances) for construction in progress and the purchase of personal property as expenditures for budget purposes. The budget to GAAP differences above consist of encumbrances for the current and prior years and the on-behalf TRS contribution.

SCHOOL DISTRICT NUMBER 2  
 SCHEDULE OF FUNDING PROGRESS-OTHER POST EMPLOYMENT BENEFITS  
 For the Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UALL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UALL as a Percentage of Covered Payroll [(b-a)/c]
6/30/2014	\$ -	\$ 225,721	\$ 225,721	-	\$ 1,553,208	0.145325674
6/30/2013	-	642,053	642,053	-	1,477,280	0.434618353
6/30/2012	-	630,879	630,879	-	1,555,885	0.405479197

OTHER SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT NUMBER 2  
EXTRACURRICULAR FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
For the Year Ended June 30, 2014

Activity	Balance July 1, 2013	Revenues	Expenditures	Transfers In (Out)	Balance June 30, 2014
Annual	\$ 5,279	\$ 1,573	\$ 2,803	\$ -	\$ 4,049
Band	630	1,736	720	320	1,966
Vending	394	98	-	-	492
Honor Band	247	2,074	2,250	225	296
Elem Student Council	155	215	272	560	658
Concessions-Equipment	356	-	-	(92)	264
JH Honor Society	115	494	382	560	787
Drama	762	120	387	-	495
Concessions	4,396	11,064	9,557	(649)	5,254
FCCLA	1,527	14,328	15,514	(266)	75
FFA	2,500	16,085	13,974	(75)	4,536
Home Economics	89	849	907	-	31
JH Pep Club	63	112	171	-	4
Library	826	1,107	1,462	-	471
National Honor Society	60	-	-	-	60
HS Pep Club	654	1,570	2,070	(139)	15
Shop	(34)	1,310	578	-	698
Student Council	723	1,155	1,243	-	635
Art Fund	1,188	1	9	(95)	1,085
Activity Account	1,835	5,460	5,886	-	1,409
Athletics	793	18,857	16,325	(852)	2,473
HS Cheerleading	217	457	600	-	74
BPA	4,075	3,587	3,326	81	4,417
Class of 2008	899	-	899	-	-
Class of 2009	435	-	435	-	-
Class of 2011	31	-	31	-	-
Class of 2013	833	-	371	-	462
Class of 2014	6	391	1,886	1,818	329
Class of 2015	-	29	-	-	29
Basketball	146	-	-	-	146
JMG	1,912	8,117	5,487	(94)	4,448
Bridger Learning Center	-	90	-	-	90
Elem Fundraising	22,147	6,713	19,799	-	9,061
Business Design	2,067	2,795	2,423	84	2,523
Programs and Presentations	899	1,240	-	-	2,139
Art Club Italy Trip	42	4,772	4,774	78	118
JH Volleyball	303	163	-	-	466
Track - High School	352	850	300	-	902
Track - Junior High	21	-	-	-	21
JH Field Trip	1,478	2,590	565	(1,464)	2,039
Weight Room	41	-	-	-	41
Total	<u>\$ 58,462</u>	<u>\$ 110,002</u>	<u>\$ 115,406</u>	<u>\$ -</u>	<u>\$ 53,058</u>

SCHOOL DISTRICT NUMBER 2  
SCHEDULE OF SCHOOL DISTRICT ENROLLMENT  
For the Year Ended June 30, 2014

	<u>Reported Enrollment</u>	<u>Enrollment per Records</u>	<u>Difference</u>
FALL ENROLLMENT - October 2013			
<u>Elementary District</u>			
Kindergarten	12	12	-
Grades one through six	105	105	-
Grades seven and eight	36	36	-
	<u>153</u>	<u>153</u>	<u>-</u>
 <u>High School District</u>			
Grades nine through twelve	<u>66</u>	<u>66</u>	<u>-</u>
 WINTER ENROLLMENT - December 2013			
<u>Elementary District</u>			
Kindergarten	12	12	-
Grades one through six	103	103	-
Grades seven and eight	36	36	-
	<u>151</u>	<u>151</u>	<u>-</u>
 <u>High School District</u>			
Grades nine through twelve	<u>66</u>	<u>66</u>	<u>-</u>
 SPRING ENROLLMENT - February 2014			
<u>Elementary District</u>			
Kindergarten	12	12	-
Grades one through six	102	102	-
Grades seven and eight	35	35	-
	<u>149</u>	<u>149</u>	<u>-</u>
 <u>High School District</u>			
Grades nine through twelve	<u>66</u>	<u>66</u>	<u>-</u>

# OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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## 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

To the Board of Trustees  
School District Number 2  
Bridger, Montana

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 Number 2, Bridger, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated September 26, 2014. The report on governmental activities was qualified because the government did not record its service credit and termination pay benefit liability and related expense.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the government'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 government's internal control. Accordingly, we do not express an opinion on the effectiveness of the government's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. (Findings 2014-1 through 2014-4)

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the government'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*.

### The Government's Response to Findings

The government's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The government'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

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 (CONTINUED)

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.

*O'neal & Associates, PC*

Billings, Montana  
September 26, 2014

SCHOOL DISTRICT NUMBER 2  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2014

2014-1. FINANCIAL STATEMENT PREPARATION

Criteria: We were engaged to assist in the preparation of the government's financial statements. The government ensures the quality of its financial statements by engaging a qualified audit firm with expertise in governmental audits and by reading a preliminary draft of the financial statements.

Condition: The government does not have specific controls in place to review the selection and application of accounting principles and resulting disclosures and presentations within the financial statements.

Cause: The government is a small organization with limited resources.

Effect: It is common within the governmental sector to rely the audit firm to prepare the financial statements; however, an audit firm cannot be considered part of the government's internal control by professional standards currently in effect. Since some presentations and disclosures may be material to the financial statements, this weakness in internal control would be classified as material.

Recommendation: The government should continue to read its draft financial statements and ensure the quality of the document and the preparer.

Response: As a small district we do not have the financial resources to hire an accountant to prepare financial statements for the district in addition to hiring auditors. At this time we will continue to avail ourselves of the auditors' service of preparing the financial statements in conjunction with the annual audit. Additionally the District Administrators and Board of Trustees will continue to read the prepared financial statements and ask for explanations or additional information when needed.

2014-2. SEGREGATION OF DUTIES

Criteria: Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction.

Condition: In many financial areas, including federal award programs, the government lacks segregation of duties.

Cause: The extent to which the government can segregate duties is limited based on the number of personnel, their skill set and work load, and organizational structure.

Effect: The risk of errors or irregularities occurring and not being detected in a timely manner increases when a lack of segregation of duties exists.

Recommendation: There are inherent inefficiencies with full segregation of duties and inherent risks with the lack of segregation of duties. The cost versus benefits for both should be considered. The government should continue to evaluate its segregation of duties and when possible assign tasks to strengthen controls.

Response: To strengthen our controls with the personnel available, we will continue to evaluate the segregation of duties and assign tasks to strengthen controls when possible. The Elementary and High School Administrative Assistants as well as the Board, Principal and Superintendent are asked to verify warrants, accounts, funds and documents submitted to the OPI for enrollment, transportation, and budgeting. All requisitions must first be approved by the Principal or Superintendent and all District Purchase Orders are approved by the Superintendent before payments are made. The Elementary Administrative Assistant verifies the warrants to the invoices before mailing. The Superintendent reviews spreadsheets prepared for each grant, compares the purchases to the grant budgets and authorizes the Clerk to order required payments.

2014-3. SERVICE CREDIT AND TERMINATION PAY BENEFIT LIABILITY NOT RECORDED

Criteria: U.S. generally accepted accounting principles require the service credit and termination pay benefit liability and related expense be recorded in the financial statements.

Condition: The government did not record the service credit and termination pay benefit liability and related expense (GASB Statement No. 27) in the financial statements.

Cause: The government did not engage an actuarial firm to assist in determining the service credit and termination pay benefit liability and related expense as of and for the year ended June 30, 2014.

Effect: The governmental activities liabilities are understated, net position is overstated and expenses would change.

Recommendation: Every three years, the government should engage an actuarial firm to determine the service credit and

SCHOOL DISTRICT NUMBER 2  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2014

termination benefit liability and related expense.

Response: An actuarial firm will be engaged to determine the service credit and termination benefit liability and related expenses for the District.

2014-4. CREDIT CARD CHARGES NOT SUPPORTED

Criteria: Effective internal control and district policy require credit card charges be supported by original invoices and/or other supporting documentation.

Condition: During our expenditure test work, we noted that travel and supply purchases were charged to credit cards and paid for without adequate supporting documentation.

Cause: Unknown.

Effect: Undocumented credit card charges increase the risk of fraud and may result in unallowed charges to a federal or state grant.

Recommendation: Credit charges should be supported with original invoices and/or other supporting documentation as required by district policy.

Response: As per District policy, the District Clerk will monitor the use of each credit card every month and report any problems or discrepancies directly to the Superintendent and the Board.

SCHOOL DISTRICT NUMBER 2  
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

<u>PRIOR YEAR FINANCIAL STATEMENT FINDINGS</u>	<u>STATUS</u>
2013-1 Financial Reporting	Continued Disclosure
2013-2 Segregation of Duties	Continued Disclosure
2013-3 Service Credit and Termination Pay Benefit Liability Not Recorded	Not Implemented