

**LINCOLN SCHOOL DISTRICT NO. 38**

**LEWIS & CLARK COUNTY  
LINCOLN, MONTANA**

**FINANCIAL AND COMPLIANCE REPORT**

**Fiscal year Ended June 30, 2014**

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

**PO BOX 1980  
Billings, Montana 59103**

Lincoln School District No. 38  
 Lewis & Clark County  
 Lincoln, Montana 59639

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Lincoln School District No. 38  
Lewis & Clark County  
Lincoln, Montana 59639

ORGANIZATION

BOARD OF TRUSTEES

Bill Cyr	Chair
Kathy Tams	Vice Chair
Bill Frisbee	Trustee
Michelle Kegel	Trustee
Bob Wood	Trustee

OFFICIALS

Kathy Heisler	Superintendent
Carol Williams	District Clerk
Marsha Davis	County Superintendent
Leo Gallagher	County Attorney

**MANAGEMENT DISCUSSION AND ANALYSIS  
LINCOLN SCHOOL DISTRICT #38**

The Business Manager/Clerk of the Lincoln School District has 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**

The district's general fund budget increased due to the passage of a mill levy for \$20,000, which will be used initially to improve the safety of our school. We continue to be faced with declining student enrollment each year.

General Fund:	2013	2014
Direct State Aid	\$ 583,827.54	\$ 586,264.86
Quality Educator	\$ 59,969.99	\$ 56,927.99
At Risk Student	\$ 11,551.28	\$ 10,796.55
Indian Education for All	\$ 3,325.20	\$ 3,100.80
American Indian Achievement Gap	\$ 200.00	\$ 200.00
Data for Achievement	\$ 0	\$ 1520.00

**2012-13 Miscellaneous Fund:**

Gear Up Grant	\$ 31,987.00
Capital Investment & Deferred Maint (Carried forward from 07-08)	\$ 4,384.45
Indian Education for All Carry forward 07-08	\$ 5,631.80
Gifted & Talented Grant	\$ 1,923.00
21 <sup>st</sup> Century Grant (w/Drummond School)	\$ 112,000.00
Graduation Matters	\$ 4,000.00
Server Upgrade (local grant)	\$ 4,350.00
Library Remodel (local grant)	\$ 7,998.90

Our Indian Education for All money continues to be used to educate our students about Native American Cultures.

In the Miscellaneous Fund we were able to continue our before/after school program, with the 21<sup>st</sup> Century Grant. The district was fortunate to be able to participate in the Gear Up Grant again this year, which provides funding to help our students prepare for college.

We were able to continue our Fresh Fruit and Vegetable Program, hopefully helping our students to learn good nutritional habits as they grow up. The district received \$3,521.47 to fund this educational program.

**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 of 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 resources measurement focus, and use the accrual basis of accounting. Activities that are fiduciary in nature are not included in these statements.

- A. The **Statement of Net Position** (page 12) shows the “assets” (what is owned), “liabilities” (what is owed) and the “net position” (the resources that would remain if all obligations were settled) of the school district. The statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in “fixed” or “capital” assets, such as 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 13) shows the amounts of program-specific and general school district revenues used to support the school districts various functions.

The Statement of Net Position and the Statement of Activities divide the activities of the school district into three categories:

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 – The school district has no business-type activities.

Component units – The district is one of the fiscal hosts for the Great Divide Education Services Special Education Cooperative. Although operated under a separate management board, the school district participates in an interlocal agreement with Great Divide Education Services, Powell County, that services the special needs of the children in Lincoln Schools that our school is unable to provide as a stand alone entity. The services provided are by professionally trained specialists and are scheduled on regularly scheduled dates, although when the need arises, more frequent appointments are made. Both these units are reported as component units on the district-wide reports.

#### **Reporting the District’s Most Significant Funds**

The fund statements provide detailed information about the funds used by the school district. State law and Generally Accepted Accounting Principals (GAAP) established the fund structure of school districts. State law generally requires school districts 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 combine the activities of less significant funds under a single category. Significance of funds is determined based on 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 and Statement of Revenues, Expenditures, and Changes in Fund Balance are shown for governmental funds, such as the general fund, special revenue funds for transportation and school food service, and debt service and capital outlay funds. These funds use the modified accrual basis of accounting and represent the majority of the district’s activities and programs.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows are shown for proprietary (business-type) funds, covering district activities that generally provide services on a cost-recovery basis between various funds of the district, such as purchasing operations. Proprietary funds use the accrual basis of accounting.

Fund statements include a reconciliation of the governmental fund statements to the district-wide statements provided by the Lewis & Clark County Treasurer’s office. Most significant differences result from the use of different presentation basis. The district-wide statements are presented using the accrual basis of accounting and the fund statements for governmental funds use the modified accrual basis. In addition, general capital assets and general long-term debt are reported in the district-wide statements but not in the fund statements.

#### **Reporting the District’s Trust and Fiduciary Responsibilities**

The district is the trustee, or fiduciary, for: Fund 281 Endowment fund, Fund 285 Scholarship fund, and the Lincoln Student Extracurricular Fund. This report includes the activities in a separate Statement of Fiduciary Net Position and Changes in Fiduciary Net Position (page 17) 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 pages 28 - 31 show how actual expenditures compared to the original and final budgeted expenditures for the general fund. Our district continues to battle with decreasing student enrollment, which has caused us to implement numerous cost cutting measures. We did manage to pass a \$20,000 mill levy to increase our general fund budget. At least initially the money will be used to improve the safety of our school. Once these projects are completed, the money can be used for instructional funding.

On the revenue side our district general fund budget increased by \$23,041.37. This was due to the passage of the \$20,000 mill levy and an increase in funding from the legislature. Our student enrollment continues to be a serious concern.

### THE DISTRICT AS A WHOLE

In this time where future budgets are at best uncertain, the district continues to carry forward excess reserves (\$33,799.81) in the general fund. We plan to use these excess reserves to help fund a future year declining budget.

#### 1. Changes in Net Position

The Net Position show the financial health of the school is in fine shape. See Statement of Net Position, page 12.

NET POSITION	Governmental Activities			
	2014	2013	CHANGE	% CHANGE
Current Assets	\$ 415,315	\$ 439,662	\$ (24,347)	-5.54%
Capital Assets, net	<u>908,805</u>	<u>955,975</u>	<u>(47,170)</u>	<u>-4.93%</u>
Total Assets	1,324,120	1,395,637	(71,517)	-5.12%
Current Liabilities	-	69,993	(69,993)	-100.00%
Long Term Liabilities	<u>211,768</u>	<u>158,154</u>	<u>53,614</u>	<u>33.90%</u>
Total Liabilities	211,768	228,147	(16,379)	-7.18%
Net Position:				
Net Investment in Capital Assets	908,805	950,108	(41,303)	-4.35%
Restricted	144,325	201,550	(57,225)	-28.39%
Unrestricted	<u>29,436</u>	<u>15,854</u>	<u>13,582</u>	<u>85.67%</u>
Total Net Position	1,082,566	1,167,512	(84,946)	-7.28%

## 2. General and Program Revenues

The General and Program Revenue is provided in the Statement of Activities, Page 13.

CHANGES IN NET POSITION	Governmental Activities			
	2014	2013	CHANGE	% CHANGE
Revenues				
Program Revenues:				
Charges for Services	9,325	14,175	(4,850)	-34.22%
Operating Grants	439,312	427,540	11,772	2.75%
General Revenues:				
District Levies	462,493	436,956	25,537	5.84%
State Equalization	586,265	583,828	2,437	0.42%
Other State Revenues	300,503	303,359	(2,856)	-0.94%
County	160,704	148,174	12,530	8.46%
Federal	2,374	-	2,374	
Interest	370	1,228	(858)	-69.87%
Other	8,476	1,169	7,307	625.06%
Total Revenues	1,969,822	1,916,429	53,393	2.79%
Program Expenses				
Instructional Services	1,239,695	1,148,953	90,742	7.90%
Support Services	11,902	2,356	9,546	405.18%
Educational Media Services	65,693	69,656	(3,963)	-5.69%
General Administrative Services	303,729	290,269	13,460	4.64%
Operation & Maintenance Services	152,581	157,082	(4,501)	-2.87%
Transportation Services	90,561	76,021	14,540	19.13%
School Food Services	91,143	92,005	(862)	-0.94%
Extracurricular	98,931	93,812	5,119	5.46%
Debt Service				
Other Current Charges	-	35,629	(35,629)	-100.00%
Interest and other charges	533		533	
Total Expenses	2,054,768	1,965,783	88,985	4.53%
Change in Net Position	(84,946)	(49,354)	(35,592)	

## 3. Spending Levels Compared to Resource Levels

The school district's spending for governmental activities compared to total revenue of the districts, including program and governmental revenues is shown on page 13. See the Statement of Activities, Page 13 and also the Statement of Revenues, Expenditures, and Changes in Fund Balances, Governmental Fund, Page 15.

## 4. Changes in Finances Caused by Changes in Programs

Federal and State Grants continue to be an important factor in the District's financial matters. The district continues to apply for the necessary grants to provide top level educational services.

## 5. Identifying and Resolving Financial Difficulties

With decreasing student enrollment, funding continues to be a challenge. The passage of our general fund mill levy certainly helped in that area.

Health insurance continues to be a major expense of the district, with the cost increasing about 6.8% from the prior year.

The school continued with the four day school week, which did help to save on transportation and utility costs.

The forecasts for future school funding paints a bleak picture. Student enrollment continues to drop. The district as a whole will continue to look at all cost saving measures, as we strive to limit taxes placed on our taxpayers at the district, county and state levels. With the declining enrollment, it is a constant challenge to provide top level educational services, while minimizing costs.

#### 6. Significant Events and Trends

As our district faces declining enrollment, decreased revenues and increased costs, strong financial management and controls will be necessary. It also has become more and more important to apply for and successfully receive grants for our students. This past year we were able to continue our 21st Century Grant, providing before and after school programs to all of our students. The district was also a recipient of the Gear Up Grant, which helped provide money for college preparedness for our students. The district also received several locally funded grants for a server upgrade and library remodel. We continue to work hard to compete for any grants that will help our educational programs in the future.

The district continues to look at all cost cutting measures, while still maintaining quality programs for all students.

### 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.

#### 1. What Does the School Do?

Lincoln Public Schools is a student-centered K-12 District. The Lincoln School provides educational opportunities, transportation, school provided breakfast and lunch, all to assist our students in developing the knowledge, skills and attitudes necessary to become productive citizens in life. We are the recipient of numerous federal and state grants that help financially to support our goal of educating our students.

#### 2. Where Do the Resources Come From?

This past year, 23.65% of the Lincoln School District Revenues came from District levies, 8.53% from Lewis & Clark County, 51% from the State of Montana, 15.90% from Federal Resources, and .92% from Miscellaneous (such as Interest, Charges for Services, etc.)

#### What Does It Cost?

Lincoln School District #38 is supported by the following Major Funds: The General Fund supports the majority of the costs of the school district and accounts for 70.03% of expenditures, (down 1.42% from 2012-13) 9.05% is the Retirement Fund and funds the retirement for the employer share of the employee's retirement, (up 1.39% from 2012-13) 14.76% is Miscellaneous Funds which is where all State and Federal Grants are accounted for, (up 1.23% from 2012-13), and 6.16% of the costs are from Other Government Funds which is the category for all other funds of the district (down 1.20% from 2012-13).

Of the total school expenditures, Lincoln Schools spent the following amount on the listed services for 2013-14:

Instructional Services	\$	1,181,576	
Support Services	\$	11,902	(hired a speech aide)
Education Media Services (Library)	\$	65,693	
General Administrative Services	\$	299,965	
Operation & Maintenance Services	\$	142,171	
Transportation Services	\$	90,561	
Extracurricular	\$	96,864	
School Food Services	\$	89,643	
Other Current Charges	\$	6,400	
<b>TOTAL</b>	<b>\$</b>	<b>1,984,775</b>	

The above reflects an overall expenditure increase from 2012-13 of \$72,523. This increase was due to the passage of a mill levy, changes in legislative funding, and increased grant awards.

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

The net amount of capital assets of the district is \$908,805.58. The breakdown is as follows:

Land and Land Improvements	\$	200,968.00
Building & Building Improvements	\$	1,512,948.08
Machine and Equipment	\$	147,855.02
Less Accumulated Depreciation		<u>(\$952,965.52)</u>
<b>TOTAL</b>	<b>\$</b>	<b>908,805.58</b>

The depreciation expense for 2013-14 was \$47,169.58.

Long term obligation is as follows:

Capital Lease	\$	0.00
Compensated Absences	\$	78,629.11
Other Post-Employment Benefits	\$	<u>143,716.11</u>
<b>TOTAL LONG TERM LIABILITY</b>	<b>\$</b>	<b>222,345.83</b>

The increase of 11.44% was due to an increase in post-employment benefits. The district paid off the capital lease on our copier and our compensated absence liability actually decreased a small amount, due to several long term employees who retired.

5. Fund Deficits

There are no fund balance deficits.

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

Declining enrollment and decreased funding are our major concerns at this time. The economy still continues to be slow. Some local employers have had to lay off employees, due to the continued slow business cycle. With the decreases in employment opportunity some residents have had to move elsewhere in search of continued employment.

Our student enrollment is predicted to continue to drop, causing our funding to continue to decrease. This will most likely necessitate a drop in our staffing levels in future years. As always, we will continue to apply for grants, look at all cost cutting measures and work to provide the best educational opportunities for our students.

**CONTACT FOR FURTHER INFORMATION**

For further information contact:

Carol Williams, Business Manager/Clerk  
Lincoln School District No. 38  
PO Box 39  
Lincoln, MT 59639  
(406) 362-4201

Or e-mail at:

[cwilliams@lincoln.k12.mt.us](mailto:cwilliams@lincoln.k12.mt.us)

INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Lincoln School District No. 38  
Lewis & Clark County  
Lincoln, Montana 59639

**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 Lincoln School District No. 38 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 Lincoln School District No. 38 as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3 - 9), the schedule of funding for other post-employment benefits other than pensions (page 27) and budgetary comparison information (pages 28 - 31) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

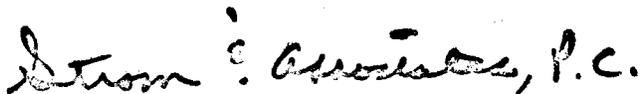
### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lincoln School District No. 38's basic financial statements. The accompanying schedule of revenues, expenses and balances student activity funds (pages 32 - 33) and schedule of reported enrollment (page 34) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedule of reported enrollment and schedule of revenues, expenses and balances student activity funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of reported enrollment and schedule of end of year revenues and expenses student activity funds 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 November 17, 2014 on our consideration of Lincoln School District No. 38 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 Lincoln School District No. 38 internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC  
Billings, Montana  
November 17, 2014

Lincoln School District No. 38  
 Lewis & Clark County  
 Lincoln, Montana 59639

STATEMENT OF NET POSITION  
 as of June 30, 2014

	<u>Governmental Activities</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 360,137
Taxes Receivable	37,163
Due From Other Governments	<u>18,015</u>
Total Current Assets	<u>415,315</u>
Noncurrent Assets:	
Capital Assets:	
Land	191,968
Net Depreciable Assets	<u>716,837</u>
Total Noncurrent Assets	<u>908,805</u>
 Total Assets	 <u>\$ 1,324,120</u>
LIABILITIES:	
Current Liabilities	
Advances from Grantors	\$ 19,552
Current Portions Compensated Absences	<u>10,234</u>
Total Current Liabilities	<u>29,786</u>
Noncurrent Liabilities:	
Long-Term Obligations	143,373
Compensated Absences	<u>68,395</u>
Total Noncurrent Liabilities	<u>211,768</u>
Total Liabilities	<u>241,554</u>
NET POSITION:	
Net investment in capital assets	908,805
Restricted	144,325
Unrestricted (Deficit)	<u>29,436</u>
Total Net Position	<u>1,082,566</u>
Total Liabilities and Net Position	<u>\$ 1,324,120</u>

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

STATEMENT OF ACTIVITIES  
 as of June 30, 2014

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position Primary Government
	Expenses	Charge for Services	Operating Grants and Contributions	Governmental Activities
<b>GOVERNMENT OPERATIONS</b>				
Instructional Services	\$ 1,239,695	\$ 2,425	\$ 337,268	\$ (900,002)
Support Services	11,902	-	7,800	(4,102)
Educational Media Services	65,693	-	17,280	(48,413)
General Administrative Services	303,729	-	7,760	(295,969)
Operation & Maintenance Services	152,581	-	-	(152,581)
Transportation Services	90,561	-	31,187	(59,374)
School Food Services	91,143	6,900	38,017	(46,226)
Extracurricular	98,931	-	-	(98,931)
Debt Service				
Interest and other charges	533	-	-	(533)
Total Governmental Activities	<u>2,054,768</u>	<u>9,325</u>	<u>439,312</u>	<u>(1,606,131)</u>
<b>GENERAL REVENUES</b>				
District Levies				462,493
State Equalization				586,265
Other State Revenues				300,503
County				160,704
Federal				2,374
Interest				370
Other				8,476
Total General Revenues				<u>1,521,185</u>
Change in Net Position				<u>(84,946)</u>
<b>Net Position</b>				
Beginning of the Year				<u>1,167,512</u>
End of the Year				<u>\$ 1,082,566</u>

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

BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 as of June 30, 2014

	MAJOR			Other Governmental Funds	Total Governmental Funds
	General	Retirement	Miscellaneous Programs		
<b>ASSETS:</b>					
Current Assets:					
Cash and Cash Equivalents	\$ 218,717	\$ 50,358	\$ 11,899	\$ 79,163	\$ 360,137
Taxes Receivable	32,721	-	-	4,442	37,163
Due From Other Governments	-	-	17,070	945	18,015
Total Assets	<u>\$ 251,438</u>	<u>\$ 50,358</u>	<u>\$ 28,969</u>	<u>\$ 84,550</u>	<u>\$ 415,315</u>
<b>LIABILITIES:</b>					
Current Liabilities					
Advances from Grantors	-	-	19,552	-	19,552
Total Liabilities	<u>-</u>	<u>-</u>	<u>19,552</u>	<u>-</u>	<u>19,552</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Property Taxes Receivable	32,721	-	-	4,442	37,163
Total Deferred Inflows of resources	<u>32,721</u>	<u>-</u>	<u>-</u>	<u>4,442</u>	<u>37,163</u>
<b>FUND BALANCE:</b>					
Fund Balances:					
Restricted	-	50,358	9,417	80,108	139,883
Unassigned:	218,717	-	-	-	218,717
Total Fund Balance	<u>218,717</u>	<u>50,358</u>	<u>9,417</u>	<u>80,108</u>	<u>358,600</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 251,438</u>	<u>\$ 50,358</u>	<u>\$ 28,969</u>	<u>\$ 84,550</u>	<u>\$ 415,315</u>

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 358,600
Governmental Capital Assets	908,805
Long-term Liabilities	
Long-Term Obligations	(143,373)
Compensated Absences	(78,629)
Unavailable Property Taxes Receivable	37,163
Net Position of Governmental Activities	<u>\$ 1,082,566</u>

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

STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 as of June 30, 2014

	MAJOR				Total Governmental Funds
	General	Retirement	Miscellaneous Programs	Other Governmental Funds	
<b>REVENUES:</b>					
District Levies	\$ 409,830	\$ 78	\$ -	\$ 57,146	\$ 467,054
Interest	280	-	-	90	370
Charges for Services	625	-	-	8,700	9,325
Other	-	-	8,476	-	8,476
County	-	160,704	-	7,618	168,322
State	986,244	-	7,693	12,913	1,006,850
Federal	-	-	276,136	37,850	313,986
<b>Total Revenues</b>	<b>1,396,979</b>	<b>160,782</b>	<b>292,305</b>	<b>124,317</b>	<b>1,974,383</b>
<b>EXPENDITURES:</b>					
<b>Current</b>					
Instructional Services	799,310	129,124	249,950	3,192	1,181,576
Support Services	2,813	1,289	7,800	-	11,902
Educational Media Services	56,533	2,969	6,191	-	65,693
General Administrative Services	260,083	28,166	11,716	-	299,965
Operation & Maintenance Services	136,711	5,460	-	-	142,171
Transportation Services	-	1,937	17,247	71,377	90,561
School Food Services	36,369	5,535	-	47,739	89,643
Extracurricular	91,700	5,164	-	-	96,864
Debt Service					
Principal	5,867	-	-	-	5,867
Interest and other charges	533	-	-	-	533
<b>Total Expenditures</b>	<b>1,389,919</b>	<b>179,644</b>	<b>292,904</b>	<b>122,308</b>	<b>1,984,775</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>7,060</b>	<b>(18,862)</b>	<b>(599)</b>	<b>2,009</b>	<b>(10,392)</b>
<b>OTHER FINANCING SOURCES/USES</b>					
Fund Transfers In	1,575	-	-	-	1,575
Fund Transfers (Out)	-	-	-	(1,575)	(1,575)
<b>Total Other financial Sources/Uses</b>	<b>1,575</b>	<b>-</b>	<b>-</b>	<b>(1,575)</b>	<b>-</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>8,635</b>	<b>(18,862)</b>	<b>(599)</b>	<b>434</b>	<b>(10,392)</b>
<b>FUND BALANCE:</b>					
Beginning of the Year	172,804	69,220	10,016	116,952	368,992
Prior Period Adjustments	37,278	-	-	(37,278)	-
<b>End of the Year</b>	<b>\$ 218,717</b>	<b>\$ 50,358</b>	<b>\$ 9,417</b>	<b>\$ 80,108</b>	<b>\$ 358,600</b>

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

Lincoln School District No. 38  
Lewis & Clark County  
Lincoln, Montana 59639

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
as of June 30, 2014

Net Changes in Fund Balance		\$	(10,392)
Revenues on the Statement of Activity not included in governmental funds statement:			
Increase (decrease) in taxes receivable			(4,561)
Expenses on the Statement of Activity not included in the governmental funds statement:			
Depreciation Expense	(47,170)		
(Increase) decrease in Other Post Employment Benefits	(29,333)		
(Increase) decrease in compensated absence liability	<u>643</u>		(75,860)
Expenditures reported in the governmental funds statement not included in the Statement of Activity			
Principal payments on bonds	<u>5,867</u>	<u>5,867</u>	
Change in net position reported on the Statement of Activity		\$	<u>(84,946)</u>

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

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

	Private Purpose Trust Funds	Agency Funds
<b>ASSETS:</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 94,881	\$ 204,815
Total Assets	<u>94,881</u>	<u>204,815</u>
<b>LIABILITIES:</b>		
Current Liabilities		
Warrants Payable	-	204,815
Total Liabilities	<u>-</u>	<u>204,815</u>
<b>NET POSITION:</b>		
Restricted for Endowment	4,768	
Restricted for Student Activities	90,113	
Total Net Position	<u>\$ 94,881</u>	

STATEMENT OF CHANGES IN FIDUCIARY NET  
 FIDUCIARY FUNDS  
 as of June 30, 2014

	Private Purpose Trust Funds
<b>ADDITIONS:</b>	
Revenues from Student Activities	\$ 79,237
Contributions to Endowment	6
Total Additions	<u>79,243</u>
<b>DEDUCTIONS:</b>	
Expenses of Student Activities	66,501
Total Deductions	<u>66,501</u>
CHANGE IN NET POSITION	12,742
<b>NET POSITION:</b>	
Beginning of the Year	82,139
End of the Year	<u>\$ 94,881</u>

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

LINCOLN SCHOOL DISTRICT NO. 38

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of School District No. 38 have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana, which conforms to generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

During fiscal year 2014 the district adopted the following

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

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

- GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. This statement revises and establishes new financial reporting requirement that provide employees with pension benefits. The statement is effective for fiscal year 2015. This statement will require the District to expand its pension foot note disclosures. The District plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.
- GASB Statement No. 69 – Government Combinations and Disposals of Government Operations. The statement is applicable for fiscal year 2014. The statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The District is not merging with another District or ceasing to exist. This statement has no effect on the financial statements.
- GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. This statement amends paragraph 137 of statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The District plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.

School District No. 38 provides education for kindergarten through twelfth grade. The board of trustees is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations.

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

1. b. BASIS OF PRESENTATION AND ACCOUNTING

1. b. 1 GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the District as a whole except for the fiduciary funds. The fiduciary funds are reported as a private purpose trust fund in the fund financial statements.

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

LINCOLN SCHOOL DISTRICT NO. 38

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

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

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

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

1. b. 2 FUND ACCOUNTING

Fund financial statements provide information on the districts major governmental funds and a combined column for all other non-major funds. The student activity fund and endowment fund are displayed as fiduciary funds. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the entity-wide statements.

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

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

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

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

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

The following funds are major funds of School District No. 38:

- General Fund – The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. On the GASB 34 financial statements the general fund also includes the activities of the i flexibility fund since the restrictions on those funds are similar to the general fund.
- Retirement Fund – This fund is used to account for financing the employer's contribution to the Teachers' Retirement System (TRS), the Public Employees' Retirement System (PERS), Unemployment Compensation, Social Security and Medicare benefits for district employees. County wide levies to this fund are to be based upon projected salaries for the fiscal year.
- Miscellaneous Fund – This fund is used to account for local, state or federal grants and reimbursements. Donations that allow the expenditure of both principal and interest for support of district programs are deposited in this fund.

1. b. 3 OTHER FUND TYPES

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

LINCOLN SCHOOL DISTRICT NO. 38

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

Agency Funds – The Agency Funds generally are used to account for assets that the School District holds on behalf of others as their agent in the payroll and claims clearing funds. Cash is held for warrants which were written but have not been paid by the County Treasurer.

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

1. c. 1 CASH AND INVESTMENTS

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

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

1. c. 2 TAXES

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

1. c. 3 INVENTORIES

Materials, supplies and food inventory at year end was not material so all inventory was included as expenditures at the time of purchase.

1. c. 4 CAPITAL ASSETS

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

Buildings	7 – 50 years
Improvements other than buildings	20 years
Machinery and Equipment	5 – 20 years

1. c. 5 VACATION AND SICK LEAVE

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

Certified Staff earn sixty-four hours yearly, which may accumulate up to 640 hours for use by the employee. Upon termination, a teacher is entitled to cash compensation for one-fourth of the sick leave accumulation, up to a maximum of 640 hours, computed on a daily rate based on the number of contracted calendar days plus PIR days at the time of termination. In addition, fifty-six hours of personal business leave hours are provided and up to 56 hours of unused personal leave will be transferred to accumulated sick leave hours.

LINCOLN SCHOOL DISTRICT NO. 38

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

Liabilities incurred because of unused vacation and sick leave accumulated by employees are reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the statement of activities. The amount expected to be paid within one year is \$ 10,234 and it is generally paid out of the general fund.

1.c.6 NET POSITION AND FUND BALANCE

Statement of Net Position include the following:

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

Governmental fund financial statements include the following fund balances:

- Restricted - Includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Unassigned - Amounts that are available for any purpose; these amounts are reported only in the general fund.

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

<u>Purpose</u>	<u>Restricted</u>
Instructional - Regular	\$ 9,917
Student Transportation	19,519
School Food	10,106
Third Party Grantor Restrictions	9,417
Employer Retirement Benefits	58,422
Future Technology	16,229
Future Capital Costs	<u>16,273</u>
Total	<u>\$ 139,883</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first.

1. d. OTHER

1. d. 1 USE OF ESTIMATES

The preparation of the 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. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2014, the summary of cash, cash equivalents is as follows:

<u>Account Type</u>	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and Cash Equivalents	\$ <u>360,137</u>	\$ <u>299,696</u>	\$ <u>659,833</u>

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

	<u>Amount</u>
Demand Accounts	\$ 90,113
County Investment Pool	<u>569,720</u>
Total	<u>\$ 659,833</u>

LINCOLN SCHOOL DISTRICT NO. 38

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

Cash resources of the District are held and managed by the Lewis & Clark County treasurer. They are combined with cash resources of other governmental entities within Lewis & Clark County to form a pool of cash and cash equivalents. Investments of pooled cash consist primarily of STIP and U.S. Government Securities and are carried at fair value.

The cash of the extracurricular funds is held separately by the school district, not at the county, and is covered by FDIC.

NOTE 3. TAXES RECEIVABLE

The assessed value of the roll as of January 1, 2013, upon which the levy for the 2013 fiscal year was based, was \$ 2,947,556. The tax rates assessed for the year ended June 30, 2014 to finance District operations and applicable taxes receivable follows:

<u>Elementary Fund</u>	<u>Mill Levies</u>	<u>Taxes Receivable</u>
General*	138.33	\$ 32,721
Transportation	19.14	4,442
Total	<u>157.47</u>	<u>\$ 37,163</u>

\* Denotes Major Funds

NOTE 4. DUE FROM OTHER GOVERNMENTS

<u>Elementary Fund</u>	<u>Amount</u>	<u>Due From</u>	<u>Reason</u>
School Food Services	167	State of Montana - OPI	State Food Services Match
Miscellaneous*	4,006	State of Montana - OPI	Title IV, Part B, 21st Century
Miscellaneous*	13,064	State of Montana - OPI	GEAR UP
Traffic Education	778	State of Montana - OPI	State Driver's Education Reimbursement
Total	<u>\$ 18,015</u>		

\* Denotes Major Funds

NOTE 5. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

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

<u>Governmental Activities:</u>	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments/ Transfers</u>	<u>Balance June 30, 2014</u>
<u>Non-Depreciable:</u>					
Land	\$ 191,968	\$ 0	\$ 0	\$ 0	\$ 191,968
<u>Depreciable:</u>					
Land Improvements	\$ 9,000	\$ 0	\$ 0	\$ 0	\$ 9,000
Buildings	1,512,948	0	0	0	1,512,948
Major Equipment	147,855	0	0	0	147,855
Total Depreciable	<u>\$ 1,669,803</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,669,803</u>
<u>Accumulated Depreciation:</u>					
Land Improvements	\$ (2,250)	\$ (450)	\$ 0	\$ 0	\$ (2,701)
Buildings	(843,306)	(35,555)	0	0	(878,861)
Major Equipment	(60,240)	(11,165)	0	0	(71,405)
Total Depreciation	<u>\$ (905,796)</u>	<u>\$ (47,170)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (952,966)</u>
Net Depreciable Assets	<u>764,007</u>	<u>(47,170)</u>	<u>0</u>	<u>0</u>	<u>716,837</u>
Net Governmental Capital Assets	<u>\$ 955,975</u>	<u>\$ (47,170)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 908,805</u>

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

<u>Function</u>	<u>Amount</u>
Instructional	\$ 27,259
School Administration	3,446
Operation & Maintenance	12,589
School Food	1,809
Extracurricular	2,067
Total Depreciation Expense	<u>\$ 47,170</u>

LINCOLN SCHOOL DISTRICT NO. 38

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

NOTE 6. RISK MANAGEMENT

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

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

NOTE 7 EMPLOYEE RETIREMENT SYSTEM

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

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

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

The PERS rates for employees was 6.9% and for new hires after July 1, 2011, 7.9%. The PERS rate for the State was set at .37%. For the defined contribution plan the rates are the same except only 4.19% of the employer amount is added to the employee account. Employees who elect the defined contribution plan are in control of their investments and the retirement is based upon the cash in their fund. The PERS rate for employers was 7.8%. The TRS rates for employees was 8.15% and the State was set at 2.49%. The TRS rate for employers was 8.47%. The State's contribution to the retirement system qualifies as an on-behalf payment and has not been reported in the District's financial statements.

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>
TRS	\$ 157,683	\$ 154,683	\$ 171,238
PERS	23,747	23,747	23,784
Total	<u>\$ 181,430</u>	<u>\$ 177,092</u>	<u>\$ 195,022</u>

LINCOLN SCHOOL DISTRICT NO. 38

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

NOTE 8. CURRENT LIABILITIES

8. a. Advances from Grantors

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
Miscellaneous *	\$ 1,000	Shop
	321	School Grounds Beatification
	4,573	Library
	3,586	Multi District
	3,282	Graduation Matters
	6,790	AYP
Total	<u>\$ 19,552</u>	

\* Denotes Major Funds

NOTE 9. CHANGES IN LONG-TERM DEBT

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

<u>Governmental Activities</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>New Debt</u> <u>and Other</u> <u>Additions</u>	<u>Principal</u> <u>Payments</u> <u>and Other</u> <u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due within</u> <u>One Year</u>
<u>Bonds and Notes Payable:</u>					
Capital Lease	\$ 5,867	\$ 0	\$ 5,867	\$ 0	\$ 0
<u>Other Liabilities:</u>					
Compensated Absences	\$ 79,272	\$ 0	\$ 643	\$ 78,629	\$ 10,234
Other Post-Employment Benefits (OPEB)	<u>114,040</u>	<u>29,333</u>	<u>0</u>	<u>143,373</u>	<u>0</u>
Total Governmental Activities - Long-Term Debt:	<u>\$ 199,179</u>	<u>\$ 29,333</u>	<u>\$ 6,510</u>	<u>\$ 222,002</u>	<u>\$ 10,234</u>

9. b. CAPITAL LEASES

A lease purchase agreement was entered into between Gagnon's Digital Imaging Technologies and School District No. 38 in June 2013. This lease-purchase agreement provided a method of financing a digital copier/printer for the District. The amount due on this lease purchase is reflected as a liability on the financial statements of the District in the Statement of Net Position. The amount shown in the Statement of Net Position for capitalized machinery and equipment is \$10,867.

The principal amount paid as of June 30, 2014 was \$5,867 and interest was \$533. The capital lease was paid off during fiscal year June 30, 2014.

NOTE 10. DEFERRED INFLOWS OF RESOURCES

10. a. PROPERTY TAXES

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
General*	\$ 32,721	Taxes Receivable
Transportation	<u>4,442</u>	Taxes Receivable
Total	<u>\$ 37,163</u>	

\* Denotes Major Funds

NOTE 11. TRANSFERS

<u>Fund - From</u>	<u>Amount</u>	<u>Fund - To</u>	<u>Reason</u>
Compensated Absences	\$ 1,575	General*	Maintain 30% cash balance in compensated absences fund.

\* Denotes Major Funds

LINCOLN SCHOOL DISTRICT NO. 38

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

NOTE 12. OTHER POST EMPLOYMENT BENEFITS

Plan Description - The District provides the same health care plan to all of its members. The implicit subsidy is \$4,306 per member and \$8,612 per member and spouse. The District had fewer than 100 plan participants and thus qualified to use an Alternative Measurement Method instead of an actuarial valuation to determine the OPEB liability. Valuations involve estimates of the reported amounts and assumptions about the probability of events far into the future and estimated amounts are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for the plan are based on types of benefits provided under the current plan. The valuation assumed that 46% of plan participants would elect to continue coverage after retirement.

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

Funding status and progress as of June 30, 2014 was as follows:

Actuarial Accrued Liability (AAL)	\$ 409,007
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>409,007</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 1,119,880
UAAL as a percentage of covered payroll	37%

Annual OPEB Cost and Net OPEB Obligations - The government's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the government's net OPEB obligation for the valuation performed at July 1, 2012.

Annual Required Contribution (ARC)	\$ 29,333
Interest on net OPEB obligation	0
Adjustment to ARC	<u>0</u>
Annual OPEB cost (expense)	9,333
Contribution made	<u>0</u>
Increase in net OPEB obligation	29,333
Net OPEB obligation - beginning of year	<u>114,040</u>
Net OPEB obligation - end of year	<u>\$ 143,373</u>

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

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

NOTE 13. BUS CONTRACTS

The Districts contracts for bus services for its student transportation needs. The contract is for 2 routes and the contractor provides buses, drivers, and maintenance of the buses for all student transportation needs. The contract is for fiscal year 2014 for a set number of miles with adjustments for fuel and mileage changes. During fiscal year ended the District paid the contractor \$74,189.

LINCOLN SCHOOL DISTRICT NO. 38

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

NOTE 14. COOPERATIVE

14 a. SPECIAL EDUCATION

The Lincoln School District is a member of the Great Divide Education Services Cooperative, a Special Education Cooperative. The financial records of the Cooperative are prepared and maintained by the Cooperative Clerk. The financial records of the Cooperative are separate from those of School District No. 38, and the financial statements of the Cooperative are not included in the School Districts' financial statements. The Cooperative's financial statements are audited separately from those of the District. All revenue received, including Federal, State, or other types of grant payments, and the financial support provided by each of the Cooperative's members are deposited into the Cooperative's funds, which are maintained in the custody of the Powell County Treasurer. The Superintendent of Public Instruction may directly deposit to the Cooperative the State and Federal portion of any participating member District's budgeted costs for contracted special education services. All fixed assets of the Cooperative are included in the Cooperative's financial statements.

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

NOTE 15. MULTIDISTRICT COOPERATIVE

The District has entered into an agreement with other participants in the Southwest Montana School Services (SWMSS) Multidistrict Cooperative. The SWMSS Multidistrict Cooperative provides coordinating and purchase services for professional development, computer hardware and software, supplies and anything else the SWMSS board determines is beneficial for the participating districts.

Section 20-3-363, MCA allows for the creation of a multidistrict cooperative between any school District and other public entity under Title 20, Chapter 9 Part 7, MCA. The parties in a multidistrict cooperative may mutually agree to perform any services, activities, and undertakings of the participants and provide for the joint funding and operation and maintenance of all participants in the agreement. Money may be transferred from any fund except for retirement fund, debt service fund and compensated absences fund.

SWMSS is the designated prime agency and is responsible for the financial administration of the multidistrict cooperative. During fiscal year ended June 30, 2014 the district transferred \$53,700.

LINCOLN SCHOOL DISTRICT NO. 38  
 SCHEDULE OF FUNDING PROGRESS  
 Other Post-Employment Benefits Other Than Pensions (OPEB)  
 Fiscal Year-Ended June 30, 2014

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll [(b-a) / c]</u>
<u>A re-evaluation was done in fiscal year ended June 30, 2013 – no prior year data reported since the re-evaluation was performed</u>						
<u>July 1, 2012</u>	<u>\$0</u>	<u>\$409,007</u>	<u>\$409,007</u>	<u>0%</u>	<u>\$1,119,880</u>	<u>37%</u>

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 (Budget and Actual)  
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS  
 as of June 30, 2014

	General			Flexibility Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>REVENUES:</b>						
District Levies	\$ 407,685	\$ 407,685	\$ 409,830	\$ -	\$ -	\$ -
Interest	620	620	228	-	-	52
Charges for Services	-	-	-	-	-	625
Other	422	422	-	-	-	-
County	-	-	-	-	-	-
State	981,313	981,313	981,313	4,931	4,931	4,931
<b>Total Revenues</b>	<u>1,390,040</u>	<u>1,390,040</u>	<u>1,391,371</u>	<u>4,931</u>	<u>4,931</u>	<u>5,608</u>
<b>EXPENDITURES:</b>						
<b>Current</b>						
Instructional Services			799,310			-
Support Services			2,813			-
Educational Media Services			56,533			-
General Administrative Services			260,083			-
Operation & Maintenance Services			136,711			-
Transportation Services			-			-
School Food Services			36,369			-
Extracurricular			91,700			-
Debt Service						-
Principal			5,867			-
Interest and other charges			533			-
<b>Total Expenditures</b>	<u>1,390,040</u>	<u>1,390,040</u>	<u>1,389,919</u>	<u>42,209</u>	<u>42,209</u>	<u>-</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>1,452</u>	<u>(37,278)</u>	<u>(37,278)</u>	<u>5,608</u>
<b>OTHER FINANCING SOURCES/USES</b>						
Fund Transfers In			1,575			-
<b>Total Other financial Sources/Uses</b>	<u>-</u>	<u>-</u>	<u>1,575</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGES IN FUND BALANCES</b>	<u>-</u>	<u>-</u>	<u>3,027</u>	<u>(37,278)</u>	<u>(37,278)</u>	<u>5,608</u>
<b>FUND BALANCE:</b>						
Beginning of the Year			172,804			37,278
End of the Year			<u>\$ 175,831</u>	<u>\$ (37,278)</u>	<u>\$ (37,278)</u>	<u>\$ 42,886</u>

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 (Budget and Actual)  
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS  
 as of June 30, 2014

	Retirement		
	Original Budget	Final Budget	Actual
REVENUES:			
District Levies	\$ -	\$ -	\$ 78
Interest	-	-	-
Charges for Services	-	-	-
Other	-	-	-
County	161,476	161,476	160,704
State	-	-	-
Total Revenues	<u>161,476</u>	<u>161,476</u>	<u>160,782</u>
EXPENDITURES:			
Current			
Instructional Services			129,124
Support Services			1,289
Educational Media Services			2,969
General Administrative Services			28,166
Operation & Maintenance Services			5,460
Transportation Services			1,937
School Food Services			5,535
Extracurricular			5,164
Debt Service			
Principal			-
Interest and other charges			-
Total Expenditures	<u>192,246</u>	<u>192,246</u>	<u>179,644</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(30,770)</u>	<u>(30,770)</u>	<u>(18,862)</u>
OTHER FINANCING SOURCES/USES			
Fund Transfers In			-
Total Other financial Sources/Uses	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	<u>(30,770)</u>	<u>(30,770)</u>	<u>(18,862)</u>
FUND BALANCE:			
Beginning of the Year			<u>69,220</u>
End of the Year	<u>\$ (30,770)</u>	<u>\$ (30,770)</u>	<u>\$ 50,358</u>

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

LINCOLN SCHOOL DISTRICT NO. 38

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

NOTE 1. BUDGETS

1. a. BUDGETS

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

1. a. 1 General Budget Policies:

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

1. a. 2 Budget Operation:

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

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

LINCOLN SCHOOL DISTRICT NO. 38

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

NOTE 2. COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE ALL SUB-FUNDS OF THE GENERAL FUND

	<u>Sub-fund</u> <u>General</u> <u>Fund</u>	<u>Sub-fund</u> <u>Flexibility</u> <u>Fund</u>	<u>Total</u> <u>General</u> <u>Fund</u>
REVENUES:			
District Levies	\$ 409,830	\$ -	\$ 409,830
Interest Earnings	228	52	280
Charge for Service	-	625	625
State Sources	<u>981,313</u>	<u>4,931</u>	<u>986,244</u>
Total Revenues	<u>1,391,371</u>	<u>5,608</u>	<u>1,396,979</u>
EXPENDITURES:			
Instructional Services	799,310	-	799,310
Support Services	2,813	-	2,813
Educational Media	56,533	-	56,533
General Administrative	260,083	-	260,083
Operation & Maintenance	136,711	-	136,711
School Food	36,369	-	36,369
Extracurricular	<u>91,700</u>	<u>-</u>	<u>91,700</u>
Total Expenditures	<u>1,389,919</u>	<u>-</u>	<u>1,389,919</u>
Fund Transfer In	<u>1,575</u>	<u>-</u>	<u>1,575</u>
Net Changes In Fund Balance	<u>3,027</u>	<u>5,608</u>	<u>8,635</u>
FUND BALANCE:			
Beginning of the Year	<u>172,804</u>	<u>37,278</u>	<u>210,082</u>
Ending of the Year	<u>\$ 175,831</u>	<u>\$ 42,886</u>	<u>\$ 218,717</u>

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

On the Statement of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual) All Budgeted Major Governmental Funds the general fund and flexibility fund are shown because they are reported as major funds and have legally adopted budgets.

LINCOLN SCHOOL DISTRICT NO. 38

SCHEDULE OF REVENUES, EXPENSES AND BALANCES EXPENDABLE TRUST  
 - STUDENT ACTIVITY FUNDS  
 Fiscal Year-Ended June 30, 2014

Activity Account Name	Beginning	Revenues	Expenses	Transfers	Ending
	Balance 7/1/2013				Balance 6/30/2014
1ST GRADE	2,034	66	159	110	2,051
2ND GRADE	1,598	65	172	110	1,601
3RD GRADE	1,413	64	211	60	1,326
4TH GRADE	2,070	65	150	59	2,044
5TH GRADE	1,238	64	2	59	1,359
6TH GRADE	916	500	212	59	1,263
ARTS/CRAFTS	1,790	931	7	-	2,714
ATHLETICS	5,427	11,055	10,682	48	5,848
BBB ACTIVITIES	246	-	-	-	246
BOX TOPS FOR EDUCATION	551	1	-	-	552
CLASS OF 2013 - SENIORS	-	-	(48)	(48)	-
CLASS OF 2014 - SENIORS PAST	6,160	10,738	16,982	84	-
CLASS OF 2015 - SENIORS	7,969	8,002	6,808	2,078	11,241
CLASS OF 2016 - JUNIORS	2,630	1,964	674	-	3,920
CLASS OF 2017 - SOPHOMORES	3,294	644	265	-	3,673
CLASS OF 2018 - FRESHMAN	2,327	1,487	568	-	3,246
CLASS OF 2019 - 8TH GRADE	1,177	3,889	1,262	136	3,940
CLASS OF 2020 -7TH GRADE	929	64	-	59	1,052
CLASS OF 2021 -6TH GRADE	772	64	-	59	895
CLASS OF 2022 5TH GRADE	671	64	-	59	794
CLASS OF 2023 -4TH GRADE	606	64	-	59	729
CLASS OF 2024 - 3RD GRADE	401	63	-	110	574
CLASS OF 2025-2ND GRADE	199	73	-	110	382
CLASS OF 2026-1ST GRADE	-	-	-	110	110
COMPUTER LAB	34	-	-	-	34
CONCESSIONS	2,033	7,490	3,920	(3,717)	1,886
CROSS COUNTRY	372	1	-	-	373
DONATIONS	387	-	-	-	387
DRAMA	288	-	-	-	288
EDUCATIONAL FIELD TRIP	1,396	673	933	-	1,136
EDUCATIONAL TOURS (EUROPE)	1,975	2	-	951	2,928
ELEMENTARY COOKBOOKS	245	-	-	(100)	145
ELEMENTARY SALES	-	4,908	3,873	(1,035)	-
FIELD TRIP DONATIONS	1,880	2	90	-	1,792
FOOTBALL ACTIVITIES	1,874	502	1,056	-	1,320
FOREIGN LANGUAGE	27	-	-	-	27
GBB ACTIVITIES	836	1	-	-	837
GIRLS STATE	1,002	1	-	-	1,003
GUIDANCE	328	-	-	-	328
JEAN FUND	1,160	827	499	-	1,488
JH VOLLEYBALL	222	-	-	-	222
JUNIOR HIGH BOYS BASKETBALL	86	-	-	-	86
JUNIOR HIGH FOOTBALL	434	1	-	-	435
JUNIOR HIGH GIRLS BASKETBALL	86	-	-	-	86
JUNIOR HIGH TRACK	121	-	-	-	121
KG	1,414	64	17	110	1,571
LANGUAGE AND LIFESKILLS	-	5	-	-	5
LIBRARY A & E	2,855	1,034	747	-	3,142
MEDIA COMMUNICATION FUND	920	2,370	2,800	-	490
MISSOULA CHILDREN THEATRE	-	600	600	-	-
MONTANA HISTORY	166	-	-	-	166
MUSIC	1,719	4,937	5,788	63	931
NATIONAL HONOR SOCIETY	343	1	-	-	344
OUTDOOR CLUB	2,357	3	-	-	2,360

LINCOLN SCHOOL DISTRICT NO. 38

SCHEDULE OF REVENUES, EXPENSES AND BALANCES EXPENDABLE TRUST  
 - STUDENT ACTIVITY FUNDS (continued)  
 Fiscal Year-Ended June 30, 2014

PE DEPARTMENT	468	1	-	-	469
POP SALES	1,192	481	487	-	1,186
PUBLIC DONATIONS	501	1	-	-	502
SCIENCE	141	34	-	-	175
SHOP	3,198	5,675	2,848	-	6,025
SHOP BOT	297	50	-	-	347
SKILLS (VOE-ED, IA)	101	-	-	-	101
SPECIAL ED	133	-	29	-	104
SPIRIT CLUB	62	379	93	-	348
STUDENT COUNCIL	92	96	40	-	148
TECHNOLOGY	465	4,865	-	-	5,330
TRACK	1,344	1,152	1,466	-	1,030
VB ACTIVITY	398	630	630	-	398
WEIGHTS	6	-	-	-	6
YEARBOOK/PHOTOGRAPHY	<u>1</u>	<u>2,524</u>	<u>2,479</u>	<u>407</u>	<u>453</u>
Total	\$ <u>77,377</u>	\$ <u>79,237</u>	\$ <u>66,501</u>	\$ <u>-</u>	\$ <u>90,11</u>

LINCOLN SCHOOL DISTRICT NO. 38

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

FALL ENROLLMENT - OCTOBER, 2013

Elementary			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	7	7	0
Grade 1 - 6	41	41	0
Grade 7 - 8	24	24	0
Total	<u>72</u>	<u>72</u>	<u>0</u>

High School			
	<u>Reported</u>	<u>Reported</u>	<u>Variance</u>
Grade 9 - 12	<u>52</u>	<u>52</u>	<u>0</u>
Part-time Students			
Less than 181 hours	1	1	0
Less than 359 hours	1	1	0
Less than 539 hours	1	1	0
Less than 719 hours	0	0	0
Total Part-time	<u>3</u>	<u>3</u>	<u>0</u>
19 year olds	<u>1</u>	<u>1</u>	<u>0</u>

WINTER ENROLLMENT - DECEMBER, 2013

Elementary			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	7	7	0
Grade 1 - 6	40	40	0
Grade 7 - 8	24	24	0
Total	<u>71</u>	<u>71</u>	<u>0</u>

High School			
	<u>Reported</u>	<u>Reported</u>	<u>Variance</u>
Grade 9 - 12	<u>53</u>	<u>53</u>	<u>0</u>
Part-time Students			
Less than 181 hours	1	1	0
Less than 359 hours	1	1	0
Less than 539 hours	2	2	0
Less than 719 hours	0	0	0
Total Part-time	<u>4</u>	<u>4</u>	<u>0</u>
19 year olds	<u>1</u>	<u>1</u>	<u>0</u>

SPRING ENROLLMENT - FEBRUARY, 2014

Elementary			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	7	7	0
Grade 1 - 6	39	39	0
Grade 7 - 8	24	24	0
Total	<u>70</u>	<u>70</u>	<u>0</u>

High School			
	<u>Reported</u>	<u>Reported</u>	<u>Variance</u>
Grade 9 - 12	<u>49</u>	<u>49</u>	<u>0</u>
Part-time Students			
Less than 181 hours	0	0	0
Less than 359 hours	1	1	0
Less than 539 hours	0	0	0
Less than 719 hours	0	0	0
Total Part-time	<u>1</u>	<u>1</u>	<u>0</u>
19 year olds	<u>0</u>	<u>0</u>	<u>0</u>

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

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Lincoln School District No. 38  
Lewis & Clark County  
Lincoln, Montana 59639

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lincoln School District No. 38 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Lincoln School District No. 38's basic financial statements and have issued our report thereon dated November 17, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Lincoln School District No. 38's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control over financial reporting 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 Lincoln School District No. 38's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

*Strom & Associates, P.C.*

STROM & ASSOCIATES, PC  
Billings, Montana  
November 17, 2014

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

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SCHEDULE OF FINDINGS AND RESPONSES

There were no findings or recommendations in the prior audit report and none for the fiscal year ended June 30, 2014.