

LEWISTOWN SCHOOL DISTRICT NO. 1

**FERGUS COUNTY
LEWISTOWN, MONTANA**

FINANCIAL AND COMPLIANCE REPORT

Fiscal year Ended June 30, 2016

Strom & Associates, P. C.

**PO BOX 1980
Billings, Montana 59103**



LEWISTOWN SCHOOL DISTRICT NO. 1
FERGUS COUNTY
LEWISTOWN, MT 59457

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LEWISTOWN SCHOOL DISTRICT NO. 1
FERGUS COUNTY
LEWISTOWN, MT 59457

ORGANIZATION

BOARD OF TRUSTEES

Phil Koterba	Chair
CJ Bailey	Vice Chair
Kris Birdwell	Trustee
Troy Kelsey	Trustee
Shelley Poss	Trustee
Jennifer Thompson	Trustee
Monte Weedon	Trustee

OFFICIALS

Jason Butcher	Superintendent
Rebekah Rhoades	District Clerk
Rhonda Long	County Superintendent
Kent Sipe	County Attorney

**Lewistown Public Schools
Management Discussion and Analysis (MD&A)
For The Year Ended June 30, 2016**

The Business Manager of the Lewistown Public Schools 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 fiscal year ended June 30, 2016.

Using This Financial Report

The general format of the report is required by Statement No. 34 of the Governmental Accounting Standards Board (GASB). Thus is born the GASB 34 requirement.

Reporting the School District as a Whole

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

- A. The Statement of Net Position shows “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. 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 shows the amounts of program-specific and general school district revenue used to support the school district’s 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 – school operations included in this category include IMC, Central Supply Store, and Central Transportation.

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 Procedures (GAAP) established the fund structure of school districts. State law generally requires school districts to segregate money generated for certain 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 the proportional size of the funds, the relative importance of the activities of the funds to the school district’s operations, and the existence of legal budget requirements. Internal Service funds are never reported as major funds, but are combined and presented in a separate set of financial statements.

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

Fund statements include a reconciliation of the governmental fund statements to the district-wide statements. 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 endowments (including Eveline Eccles and Alweis Scholarships) and the student extracurricular fund.

This report includes the activities in a separate Statement of Fiduciary Net Position and Changes in Fiduciary Net Position because the district cannot use these assets to fund its operation.

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

Budget-to-Actual Comparisons

As previous audits have shown, the district had not been reconciling its records with the information provided by the County Treasurer. Those records were reconciled in FY2008, and in the course of that process, several errors were found. Those errors necessitated prior period revenue and expenditure adjustments. The district amended its budgets where possible to make the best use of these adjustments.

Outside of these adjustments, there were no significant variances from our initial revenue and expenditure estimates.

THE DISTRICT AS A WHOLE

Net Position serves over time as a useful indicator of a school district's financial position. In the Lewis-town Public Schools, assets exceeded liabilities by \$1,975,717 as of June 30, 2016. This number is drastically lower than in years past due to the addition of the Net Pension liability in FY2015 that is now required to be reported on the School District's books. The amount of this new liability from TRS and PERS was \$8,449,220 in FY15 and \$9,232,140 in FY16. For comparison sake, if this liability were not required to be reported, approximately 44% of the district's net position reflects its investment in capital assets (e.g. land, land improvements, buildings and improvements, and machinery and equipment), which is the nearly the same percentage as FY2014 and FY2015.

**Lewistown Public Schools
Condensed Statement of Net Position**

Governmental Activities

	<u>FY2015</u>	<u>FY2016</u>
Current and other assets	6,597,790	5,971,044
Capital assets	<u>8,236,458</u>	<u>8,885,941</u>
Total Assets	14,834,248	14,856,985
Current liabilities	302,616	2,222,128
Non-current liabilities	<u>12,187,324</u>	<u>11,110,934</u>
Total Liabilities	12,489,940	13,333,062
Invested in capital assets, Net of debt	4,583,772	4,972,344
Restricted	6,678,111	6,292,894
Unrestricted	<u>(9,435,326)</u>	<u>(9,289,521)</u>
Total Net Position	1,826,557	1,975,717

**Lewistown Public Schools
Changes in Net Position**

Governmental Activities

GENERAL REVENUES

	<u>FY2015</u>	<u>FY2016</u>
District Levy	3,363,576	3,541,312
State Equalization	3,338,041	3,441,432
Other State Revenue	2,624,983	2,697,562
County	1,017,033	1,232,331
Federal	0	0
Investment Earning	57,399	45,500
Gain on Asset	9,098	0
Other	<u>138,024</u>	<u>102,561</u>
Total General Revenue	10,548,154	13,550,910

GOVERNMENT OPERATIONS

Instruction (includes OPEB)	7,098,477	7,056,028
Support	544,427	516,313
Media	497,178	450,815
Administration	1,919,555	2,070,999
O & M	1,658,863	1,719,589
Transportation	807,326	770,489
Extracurricular	218,993	281,748
School Food	696,213	735,017
Other Current Charges	32,042	37,334
Interest and Other Charges	550	550
Depreciation – unallocated	<u>14,240</u>	<u>53,704</u>
Total Operations	\$13,550,864	13,692,586

Capital Assets

As of June 30, 2016, the District had invested over \$6 million in capital assets including land and land improvements, buildings and improvements, and machinery and equipment. General fixed assets are reported at historical cost. Historical cost was established at the initial booking of fixed assets by determining actual costs or estimating using standard costing procedure. The District's fixed asset policy is set to include items of \$5,000 and a useful life in excess of one year. The following schedule presents capital balances with accumulated depreciation as of June 30th.

	<u>FY2015</u>	<u>FY2016</u>
Land and Improvements	1,801,513	1,810,313
Accumulated Depreciation	(830,245)	(882,676)
	971,268	927,637
Buildings and Improvements	11,309,206	11,994,689
Construction in Progress	32,468	220,269
Accumulated Depreciation	(6,454,625)	(6,716,302)
	4,887,049	5,498,656
Machinery and Equipment	3,363,120	3,405,631
Accumulated Depreciation	(2,550,414)	2,699,129
	812,706	706,502

The District's Future

State law enables districts to use three-year average enrollment when calculating budgets, which has helped the District in the past. Over the past few years, enrollment seems to have leveled off. However, there is growing need for services for special needs students and that population continues to grow. The current Lewistown Collective Bargaining Agreement extends through FY18, and includes a 2% (FY17) and 2% (FY18) raise for all employees. We had several retirements in 2014, 2015, and 2016 causing the demographics of the District to change slightly. Future retirements may still have an effect on the budgets and the dynamics of the District.

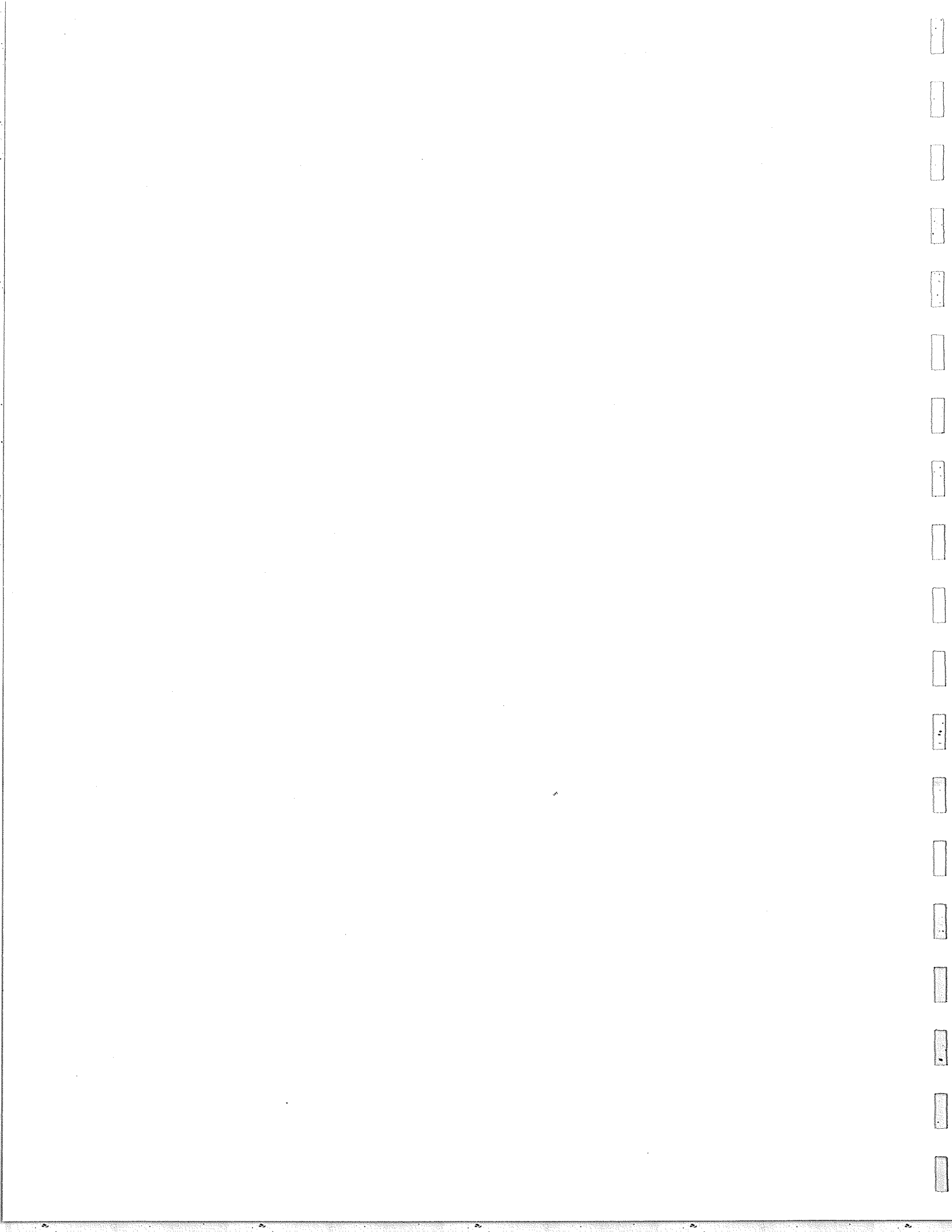
The district also faces other challenges and decisions including:

- The Lewistown Board of Trustees requested both an Elementary and High School Building Reserve Fund Levy in May 2016. It was feasible to request an Elementary General Fund Levy, but the Board chose not to due to the desperate need of the Building Reserve Levies. Failed attempts in the past to pass levies have caused the Board to be very conscientious in what they ask of taxpayers. Given the community's reluctance to approve higher taxes, the Board must weigh the merits of pursuing future levy requests.
- The District estimates that general building repairs and maintenance in excess of \$10 million will be necessary over the next several years. As mentioned above, both Levies passed in 2016, helping to support the needs of upkeep of the District's facilities.
- The ever-increasing use of technology in the classrooms has put a financial dilemma upon the District. Currently, both the Elementary and High School have permanent levies in place. The Elementary yearly levy is \$61,498 and the High School's is \$54,165, not enough to keep all technology within the District up-to-date. Due to changes in state law, if additional funds are requested of voters, the levy may not exceed 10 years. The Board will need to determine if non-permanent Technology Levy request will need to be presented to voters in the future.

In the end, all of the District's finances boil down to how effectively we are educating our children. We must continue to keep our focus on our students' education and allocate our resources in the manner that best serves them.

Contact for Additional Information

If you have questions about this report or need additional information, contact the Business Manager at the Lewistown Public Schools, 215 7th Avenue South, Lewistown, MT 59457, (406)-535-8777 x116.



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Lewistown School District No. 1
Fergus County
Lewistown, MT 59457

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 the Lewistown School District No. 1 (School District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP); 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 GAAP 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 the Lewistown School District No. 1 as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information (RSI)

Accounting principles generally accepted in the United States of America requires that the management's discussion and analysis (pages 3 - 7), and the schedule of funding for other post-employment benefits other than pensions (page 40), and schedule of proportionate share of net pension liability (page 41), and Schedule of Contributions to Montana Retirement Systems (page 42), and budgetary comparison information (pages 43 - 46) 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 the Lewistown School District No. 1's basic financial statements. The accompanying schedule of revenues, expenses and balances of student activity funds (pages 47) and schedule of reported enrollment (pages 48) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards (pages 49 - 50) is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The accompanying schedule of revenues, expenses and balances of student activity funds, schedule of reported enrollment, and the schedule of expenditures of federal awards 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 GAAP. In our opinion, the accompanying schedule of revenues, expenses and balances of student activity funds, schedule of reported enrollment, and the schedule of expenditures of federal awards 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 October 28, 2016 on our consideration of the Lewistown School District No. 1 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 Lewistown School District No. 1 internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC
Billings, Montana
October 28, 2016

STATEMENT OF NET POSITION
 June 30, 2016

	Governmental Activities
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 5,752,996
Taxes receivable	113,807
Due from other governments	58,387
Inventories	42,779
Prepaid expenses	3,076
Total current assets	<u>5,971,045</u>
Noncurrent assets:	
Restricted cash and cash equivalents	1,826,347
Capital assets:	
Land	590,530
Construction in progress	147,071
Net depreciable assets	<u>6,321,993</u>
Total noncurrent assets	<u>8,885,940</u>
Total assets	<u>14,856,985</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Employer pension plan activities	<u>1,052,941</u>
Total deferred outflows of resources	<u>1,052,941</u>
Total assets and deferred outflows of resources	<u>15,909,926</u>
LIABILITIES:	
Current liabilities:	
Unearned revenue	13,934
Current portions long-term obligations	51,000
Current portions compensated absences	69,944
Current portion long-term capital obligations	<u>2,087,250</u>
Total current liabilities	<u>2,222,128</u>
Noncurrent liabilities:	
Long-term obligations	10,519,250
Compensated absences	<u>590,496</u>
Total noncurrent liabilities	<u>11,109,746</u>
Total liabilities	<u>13,331,874</u>
DEFERRED INFLOWS OF RESOURCES:	
Employer pension plan	<u>601,147</u>
Total deferred inflows of resources	<u>601,147</u>
NET POSITION:	
Net investment in capital assets	4,972,344
Restricted	6,284,846
Unrestricted (Deficit)	<u>(9,280,284)</u>
Total net position	<u>1,976,905</u>
Total liabilities, deferred inflows and net position	<u>\$ 15,909,926</u>

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

STATEMENT OF ACTIVITIES
 For the year ended June 30, 2016

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
				Primary Government
	Expenses	Charge for Services	Operating Grants and Contributions	Governmental Activities
GOVERNMENT OPERATIONS:				
Instructional services	\$ 7,054,839	\$ 42,299	\$ 1,363,783	\$ (5,648,757)
Support services	516,313	-	96,735	(419,579)
Educational media services	450,815	-	51,421	(399,394)
General administrative services	2,070,999	135,921	45,240	(1,889,839)
Operation & maintenance services	1,719,589	20,089	30,327	(1,669,174)
Transportation services	770,489	-	165,565	(604,924)
School food services	735,017	271,170	267,663	(196,183)
Extracurricular	281,748	-	-	(281,748)
Other current charges	37,334	-	-	(37,334)
Debt service:				
Interest and other charges	550	-	-	(550)
Unallocated depreciation expense *	53,704	-	-	(53,704)
Total Governmental Activities	13,691,397	469,479	2,020,734	(11,201,184)
GENERAL REVENUES:				
District levies				3,541,312
State Equalization				3,441,432
Other State Revenues				2,697,562
County				1,232,331
Interest				45,500
Other				102,561
Gain loss on Sale of Assets				290,835
Total General Revenues				11,351,533
Change in Net Position				150,348
NET POSITION:				
Beginning of the Year				1,826,557
End of the Year				\$ 1,976,905

* Excludes depreciation included in direct expenses of the various functions

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

BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2016

	MAJOR					
	General	School Food Services (Elem.)	Debt Service (Elem.)	Building Reserve (HS)	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Current assets:						
Cash and cash equivalents	\$ 1,415,357	\$ 1,328	\$ 58,239	\$ 866,056	\$ 3,403,968	\$ 5,744,947
Taxes receivable	87,058	-	5,074	508	21,167	113,807
Due from other governments	-	754	-	-	57,633	58,387
Inventories	-	42,779	-	-	-	42,779
Prepaid expenses	-	-	-	-	3,076	3,076
Noncurrent assets:						
Restricted cash and cash equivalents	-	-	1,826,347	-	-	1,826,347
Total assets	<u>1,502,415</u>	<u>44,860</u>	<u>1,889,660</u>	<u>866,564</u>	<u>3,485,843</u>	<u>7,789,343</u>
DEFERRED OUTFLOWS OF RESOURCES:						
Total deferred outflows of resources	-	-	-	-	-	-
Total assets and deferred outflows of resources	<u>1,502,415</u>	<u>44,860</u>	<u>1,889,660</u>	<u>866,564</u>	<u>3,485,843</u>	<u>7,789,343</u>
LIABILITIES:						
Current liabilities:						
Unearned revenue	-	13,934	-	-	-	13,934
Total liabilities	-	<u>13,934</u>	-	-	-	<u>13,934</u>
DEFERRED INFLOWS OF RESOURCES:						
Unavailable property taxes receivable	87,058	-	5,074	508	21,167	113,807
Total deferred inflows of resources	<u>87,058</u>	-	<u>5,074</u>	<u>508</u>	<u>21,167</u>	<u>113,807</u>
FUND BALANCE (DEFICITS):						
Nonspendable	-	42,779	-	-	3,076	45,854
Restricted	-	-	1,884,586	866,056	3,461,601	6,212,242
Unassigned	1,415,357	(11,852)	-	-	-	1,403,505
Total fund balance	<u>1,415,357</u>	<u>30,926</u>	<u>1,884,586</u>	<u>866,056</u>	<u>3,464,676</u>	<u>7,661,601</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 1,502,415</u>	<u>\$ 44,860</u>	<u>\$ 1,889,660</u>	<u>\$ 866,564</u>	<u>\$ 3,485,843</u>	<u>\$ 7,789,343</u>

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 7,661,601
Internal Service Fund Net Position	8,049
Governmental Capital Assets	7,059,594
Employer pension plan activities	1,052,941
Current portion long-term capital obligations	(2,087,250)
Long-term Liabilities	
Long-Term Obligations	(10,570,250)
Compensated Absences	(660,440)
Employer pension plan	(601,147)
Unavailable property taxes receivable	113,807
Net Position of Governmental Activities	<u>\$ 1,976,905</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
For the year ended June 30, 2016

	MAJOR					
	General	School Food Services (Elem.)	Debt Service (Elem.)	Building Reserve (HS)	Other Governmental Funds	Total Governmental Funds
REVENUES:						
District levies	\$ 2,717,740	\$ -	\$ 159,094	\$ 5,480	\$ 660,422	\$ 3,542,737
Interest	12,224	5	4,399	6,980	21,892	45,500
Charges for services	-	271,170	-	-	178,220	449,390
Other	2,077	100	-	-	120,473	122,650
County	-	-	-	-	1,315,113	1,315,113
State	6,547,497	754	59,128	-	379,493	6,986,871
Federal	-	266,909	-	-	534,899	801,809
Total revenues	<u>9,279,537</u>	<u>538,939</u>	<u>222,621</u>	<u>12,460</u>	<u>3,210,512</u>	<u>13,264,069</u>
EXPENDITURES:						
Current:						
Instructional services	5,220,018	-	-	-	1,617,768	6,837,786
Support services	241,527	-	-	-	286,117	527,643
Educational media services	339,958	-	-	-	104,073	444,031
General administrative services	1,494,503	11,079	-	-	547,989	2,053,570
Operation & maintenance services	1,225,115	-	-	-	215,925	1,441,041
Transportation services	35,112	-	-	-	593,096	628,208
School food services	162,480	534,395	-	-	38,751	735,626
Extracurricular	245,854	-	-	-	34,502	280,356
Other current charges	-	-	-	-	29,719	29,719
Debt service:						
Interest and other charges	-	-	550	-	-	550
Capital outlay	16,598	-	-	147,071	818,185	981,854
Total expenditures	<u>8,981,165</u>	<u>545,473</u>	<u>550</u>	<u>147,071</u>	<u>4,286,125</u>	<u>13,960,383</u>
Excess (deficiency) of revenues over expenditures	<u>298,373</u>	<u>(6,535)</u>	<u>222,071</u>	<u>(134,611)</u>	<u>(1,075,612)</u>	<u>(696,314)</u>
OTHER FINANCING SOURCES/USES:						
Sale of capital assets	-	-	-	-	339,387	339,387
Fund transfers in	-	-	-	-	261,281	261,281
Fund transfers (out)	(261,281)	-	-	-	-	(261,281)
Total other financial sources/uses	<u>(261,281)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>600,668</u>	<u>339,387</u>
Net changes in fund balances	37,092	(6,535)	222,071	(134,611)	(474,944)	(356,927)
FUND BALANCE:						
Beginning of the year	<u>1,378,265</u>	<u>37,461</u>	<u>1,662,515</u>	<u>1,000,667</u>	<u>3,939,620</u>	<u>8,018,528</u>
End of the year	<u>1,415,357</u>	<u>30,926</u>	<u>1,884,586</u>	<u>866,056</u>	<u>3,464,676</u>	<u>7,661,601</u>

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

Lewistown School District Number 1
Fergus County
Lewistown, Montana 59457

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, 2016

Net Changes in Fund Balance	\$	(356,927)	
Change in net position from internal service funds		(8,898)	
Revenues on the Statement of Activities not included in governmental funds statement:			
Increase (decrease) in taxes receivable		(1,425)	
State Pension Aid		288,265	
Revenues reported in the governmental funds statement not included in the Statement of Activities			
Sale of Fixed Assets	<u>339,387</u>	(339,387)	
Expenses on the Statement of Activities not included in the governmental funds statement:			
Depreciation Expense	(544,730)		
Actuarial Pension Expense	(113,790)		
(Increase) decrease in Other Post Employment Benefits	(69,299)		
(Increase) decrease in compensated absence liability	<u>23,850</u>	(703,969)	
Expenditures reported in the governmental funds statement not included in the Statement of Activities			
Capital outlays	981,854		
Gain loss on sale of assets	<u>290,835</u>	<u>1,272,689</u>	
Change in net position reported on the Statement of Activities		\$	<u>150,348</u>

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

Lewistown School District Number 1
Fergus County
Lewistown, Montana 59457

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2016

	<u>Governmental</u> <u>Activities - Internal</u> <u>Service</u>
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 8,049
Total current assets	8,049
Total assets	<u>8,049</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Total assets and deferred outflows of resources	<u>8,049</u>
LIABILITIES:	
Total liabilities	<u>-</u>
DEFERRED INFLOWS OF RESOURCES:	
Total deferred inflows of resources	<u>-</u>
NET POSITION:	
Unrestricted (Deficit)	8,049
Total net position	8,049
Total liabilities, deferred inflows and net position	<u>\$ 8,049</u>

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

Lewistown School District Number 1
Fergus County
Lewistown, Montana 59457

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the year ended June 30, 2016

	<u>Governmental Activities - Internal Service</u>
OPERATING REVENUES:	
Charges for services	<u>137,724</u>
Total operating revenues	<u>137,724</u>
OPERATING EXPENSES:	
Purchased Professional Services	<u>146,622</u>
Total operating expense	<u>146,622</u>
Operating income (loss)	<u>(8,898)</u>
Change in net position	(8,898)
NET POSITION:	
Beginning of the Year	<u>16,947</u>
End of the Year	<u>\$ 8,049</u>

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

Lewistown School District Number 1
 Fergus County
 Lewistown, Montana 59457

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2016

		<u>Governmental</u>
		<u>Activities - Internal</u>
		<u>Service</u>
		<u>Self Insurance -</u>
		<u>Health</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$	137,724
Claims paid		<u>(146,622)</u>
Net cash provided (used) by operating activities		<u>(8,898)</u>
Net increase (decrease) in cash and cash equivalents		<u>(8,898)</u>
BALANCE:		
Beginning of the year		<u>16,947</u>
End of the year	\$	<u>8,049</u>
RECONCILIATION OF OPERATING INCOME (LOSS)		
TO NET CASH PROVIDED (USED) BY OPERATING		
ACTIVITIES:		
Operating income (loss)	\$	<u>(8,898)</u>
Adjustments to reconcile operating income to net cash		
provided (used) by operating activities:		
Total Adjustments		<u>-</u>
Net cash provided (used) by operating activities	\$	<u>(8,898)</u>

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

STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 June 30, 2016

	Private Purpose Trust Funds	Agency Funds
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 347,949	\$ 928,996
Accounts receivable - net	8,005	-
Total Assets	<u>355,954</u>	<u>928,996</u>
LIABILITIES:		
Current liabilities:		
Warrants payable	-	928,996
Total Liabilities	<u>-</u>	<u>928,996</u>
NET POSITION:		
Held in trust for endowment	111,251	
Held in trust for student activities	244,703	
Total Net Position	<u>\$ 355,954</u>	

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 For the year ended June 30, 2016

	Private Purpose Trust Funds
ADDITIONS:	
Revenues from student activities	\$ 391,907
Investment and royalty earnings	1,009
Total Additions	<u>392,915</u>
DEDUCTIONS:	
Expenses of student activities	368,734
Total Deductions	<u>368,734</u>
Change in net position	24,181
NET POSITION:	
Beginning of the year	331,773
End of the year	<u>\$ 355,954</u>

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

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of the Lewistown School District No. 1 (School District) have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana, which conforms to generally accepted accounting principles (GAAP). The School District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

During fiscal year 2016 the School District adopted the following:

- GASB Statement No. 72 – Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The School District has implemented this statement in fiscal year 2016.
- GASB Statement No. 73 – Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. This statement provides guidance on non-employer entity pension plans. This statement appears to be applicable to the State of Montana and has no effect on the School District.
- GASB Statement No. 77 – Tax Abatement Disclosures. This Statement requires governments that enter into tax abatement agreements to disclose the agreements. This statement is applicable for periods beginning after December 15, 2015. The School District has implemented this statement in fiscal year 2016, and had no tax abatements during this timeframe.
- GASB Statement No. 78 – Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This statement is applicable for periods beginning after December 15, 2015. The School District has implemented this statement in fiscal year 2016 and determined it has no effect on its financial reporting.
- GASB Statement No. 79 – Certain External Investment Pools and Pool Participants. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This statement is applicable for periods beginning after December 15, 2015. This change is required of the State of Montana. Beginning in FY 2016, the State will report STIP investments on a Net Asset Value (NAV) basis in its financial statements. The School District has determined this to be a note disclosure change and trivial net asset value adjustment at year-end for any STIP investments held at year-end by the School District.
- GASB Statement No. 80 – Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The School District has reviewed this Statement and they have no not-for profit corporations and determined it does not apply.
- GASB Statement No. 81 – Irrevocable Split-Interest Agreements. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. In FY 2016, the School District reviewed this Statement and determined they have no irrevocable split-interest agreements.

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

- GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. The School District plans to implement when they update their OPEB numbers at the next evaluation date or by FY 2018, whichever, comes first.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended June 30, 2016

- GASB Statement No. 82 – Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. The School District will implement this statement upon the State of Montana implementing.

The School District consists of two legally separate entities, an elementary district which provides education for kindergarten through eighth grade and a high school district which provides education for ninth through twelfth grade. For financial reporting purposes the two school districts are combined because they are controlled by the same central board of trustees and managed by the same administration. 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. GAAP requires only one general fund for each reporting entity so the elementary and high school general funds are combined in the accompanying financial statements.

The Lewistown School District No. 1 was incorporated under the laws of the State of Montana and as required by GAAP, the financial statements of the reporting entity include those of the Lewistown School District No. 1 (the primary government) and any component units. The criteria for including organizations as component units within the School District's reporting entity is set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) "Codification of Government Accounting and Financial Reporting Standards." The basic criteria include appointing a voting majority of an organization's governing body, as well as the School District's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the School District. Based on those criteria the School District has no component units.

1. b. BASIS OF PRESENTATION AND ACCOUNTING

1. b. 1. GOVERNMENT-WIDE STATEMENTS

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

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

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

The statement of activities reports the direct expenses of a given function offset by program revenues directly connected with the functional program. Direct expenses are those that are specifically associated with a function. Program revenues include:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function.
- Operating grants that are restricted to a particular functional.

Property taxes, investment earnings, state equalization payments, and other revenue sources not properly included with program revenue are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-supporting or drawing from general revenues.

1. b. 2. FUND ACCOUNTING

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

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

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 statements of these funds present net increases and decreases in current assets. Revenues are recorded when they are both measurable and available. Available means collectible within the current period, anything collected after June 30 is generally not material. Unavailable income is 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. Capital assets are functional expenditures in governmental funds.

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

Proprietary, trust, and agency fund financial statements use the economic resources measurement focus and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the dental self insurance health insurance internal service fund is charges to employees and the School District services. Operating expenses for the internal service fund include the cost of dental care and services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

GASB Statement No. 34 requires the general fund be reported as a major fund and that only one general fund be reported so the elementary and high school general funds have been combined as one major fund. Other individual governmental funds should be reported in separate columns as major funds based on these criteria:

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

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

The School District reports the following major governmental funds:

- General Fund – The General Fund is the general operating fund of the School District and accounts for all revenues and expenditures of the School District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. In the governmental fund financial statements, the general fund also includes the activities of the elementary and high school metal mines tax reserve funds and the elementary and high school flexibility funds since the restrictions on those funds are similar to the general fund.
- Elementary School Food Fund – This fund is used to account for school food service activities, mainly breakfast and lunch programs. Revenue to this fund comes from fees charged to eligible participants, state, and federal grants.
- Elementary Debt Service Fund – This fund is used to account for the financing needs of the School District to pay interest and principal on outstanding bonds and special improvement district (SID) assessments.
- High school Building Reserve Fund – This fund is used to account for financing voter approved building or construction projects funded with School District mill levies. This includes raising money for the future construction, equipping, or enlarging of school buildings and for the purpose of purchasing land needed for school purposes in the School District.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended June 30, 2016

1. b. 3. OTHER FUND TYPES

Internal Service Funds – Accounts for the financing of goods or services provided by one department to other departments of the School District, or to other governments, on a cost reimbursement basis. The fund includes a dental self-insurance health insurance fund. Because all of the services predominately benefit governmental functions, they are included with governmental activities in the government-wide financial statements.

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

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

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

1. c. 1 CASH AND INVESTMENTS

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

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

For purposes of the Statement of Cash flows, the School District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Restricted cash accounts of the debt service Fund are restricted for specific use as required by the bond indenture agreement covenants established with the issuance and sale of the QZAB bonds representing a liability on the government wide financial statements. This restricted cash accounts will be used to repay QZAB debt in subsequent years.

1. c. 2. TAXES

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

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

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

1. c. 3. INVENTORIES

Food and supplies are carried in an inventory account at average cost and are subsequently charged to expenditures when consumed.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

1. c. 4. CAPITAL ASSETS

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

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings	7 – 50 years
Improvements other than buildings	20 years
Machinery and Equipment	5 – 25 years

1.c. 5. DEFERRED OUTFLOWS/ INFLOWS OF RESOURCES

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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

Pension Liability-- Deferred outflow/inflow

The School District recognizes a net pension liability for each qualified pension plan in which it participates. Changes in the net pension liability during the fiscal year are recorded as pension expense, or as deferred inflows of resources, or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience, are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense.

Property Taxes – Deferred inflows

The School District reports deferred inflows under the modified accrual basis of accounting in the governmental funds for property taxes. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. In the governmental fund balance sheet, they are reported as unavailable from property taxes receivable.

1. c. 6. VACATION AND SICK LEAVE

Classified School District employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. Classified School District employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave at the current rate of pay. Classified School District employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of unused sick leave. However, upon termination, only 25% of accumulated sick leave is paid at the current rate of pay. Classified employees with 8 or more consecutive years of employment with the School District will be paid 30% of their accumulated sick leave.

Certified School District employees shall accrue 10 days of discretionary leave at the beginning of each year. Unused discretionary leave will be accumulated to 160 days per employee. After eight consecutive years of employment with the School District certified employees who terminate employment shall be paid a lump of 30% of their accumulated discretionary leave at their current rate of pay.

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 \$ 69,944 and it is generally paid out of the general fund.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

1. c. 7. NET POSITION AND FUND BALANCE

Statement of Net Position include the following:

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

Governmental fund financial statements include the following fund balances:

- Non-spendable – Includes amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – Includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Unassigned – Amounts that are available for any purpose; these amounts are reported only in the general fund or funds that have negative fund balances.

As of June 30, 2016, fund balance components other than unassigned fund balance consist of the following:

<u>Purpose</u>	<u>Non-spendable</u>	<u>Restricted</u>
Instructional and Support Services	\$ 0	\$ 80,045
Operations and Maintenance	0	18,703
Student Transportation	0	219,396
Extracurricular	0	0
School Food	42,779	0
Third Party Grantor Restrictions	3,075	769,325
Employer Retirement Benefits	0	268,569
Future Technology	0	194,395
Future Capital Costs	0	2,777,223
Debt Service	0	1,884,586
Total	<u>\$ 45,854</u>	<u>\$ 6,212,242</u>

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

1. d. OTHER

1. d. 1. USE OF ESTIMATES

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

1. d. 2. COUNTY PROVIDED SERVICES

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

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2016, the summary of cash, cash equivalents for governmental and fiduciary funds is as follows:

<u>Account Type</u>	<u>Governmental</u> <u>Activities</u>	<u>Fiduciary</u> <u>Funds</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 5,752,995	\$ 1,276,944	\$ 7,029,939
Restricted Assets	1,826,347	0	1,826,347
Total	<u>\$ 7,579,342</u>	<u>\$ 1,276,944</u>	<u>\$ 8,856,286</u>

The carrying amount of cash on hand, deposits and investments at June 30, 2016, is as follows:

	<u>Amount</u>
Demand Accounts	\$ 252,751
Fiscal Agent QZAB	1,826,347
County Investment Pool	<u>6,777,188</u>
Total	<u>\$ 8,856,286</u>

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

Custodial credit risk-deposits: The cash of the extracurricular funds is held separately by the School District, not at Fergus County and the deposits may be subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2016, the deposits in the extracurricular fund were covered by FDIC insurance.

Custodial Credit Risk – QZAB Fiscal Agent: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. As of June 30, 2016, the School District's investment was exposed to custodial credit risk as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Investment Maturities - Book Value</u>				<u>Credit</u> <u>Quality</u> <u>Rating</u>
		<u>Less than</u> <u>1 Year</u>	<u>1-5 years</u>	<u>6-10</u> <u>Years</u>	<u>10 or</u> <u>more</u> <u>years</u>	
Certificates of Deposit	<u>\$ 1,826,347</u>	<u>\$ 1,826,347</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>N/A</u>
Total Book Value						<u>\$ 1,826,347</u>

2. c. RESTRICTED ASSETS

The \$1,826,347 of QZAB restricted cash is held by a fiscal agent until the bonds become due on June 15, 2017.

NOTE 3. TAXES RECEIVABLE

The School District is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The assessed value of the roll as of January 1, 2015, upon which the levy for the 2016 fiscal year was based, was \$12,182,943 for the Elementary School District and \$13,156,299 for the High School District. The tax rates assessed for the year ended June 30, 2016 to finance School District operations and applicable taxes receivable for the elementary and high schools follows:

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

<u>Elementary Fund</u>	<u>Mill Levies</u>	<u>Taxes Receivable</u>
General*	138.24	\$ 55,659
Transportation	15.82	6,589
Bus Depreciation	0	6
Tuition	3.11	1,206
Technology	5.05	2,054
Debt Service	12.98	5,074
Building Reserve	0	550
<u>High School Fund</u>		
General*	74.91	31,399
Transportation	11.01	4,300
Bus Depreciation	3.27	1,265
Tuition	3.17	1,233
Adult Education	5.25	2,245
Technology	4.12	1,719
Building Reserve	0	508
Total	<u>276.93</u>	<u>\$ 113,807</u>

* Denotes Major Funds

NOTE 4. DUE FROM OTHER GOVERNMENTS

Due from other governments represent amounts due to the School District for costs incurred but not reimbursed by third party grantors. The amounts reported and the organization due from are noted below:

<u>Elementary Fund</u>	<u>Amount</u>	<u>Due From</u>	<u>Reason</u>
School Food*	\$ 754	State of MT	Matching funds
Miscellaneous	42,790	State of MT	Title I school-wide
<u>High School Fund</u>			
Miscellaneous	750	State of MT	Carl Perkins
Miscellaneous	4,823	State of MT	ABLE
Traffic Education	9,270	State of MT	Per pupil reimbursement
Total	<u>\$ 58,387</u>		

* Denotes Major Funds

NOTE 5. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

5. a. At June 30, 2016, the schedule of changes in general capital assets follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments/</u> <u>Transfers</u>	<u>Balance</u> <u>June 30, 2016</u>
<u>Non-depreciable:</u>					
Land	\$ 590,530	\$ 0	\$ 0	\$ 0	\$ 590,530
Construction in progress	32,467	147,071	0	(32,467)	147,071
Total Non-depreciable	<u>\$ 622,997</u>	<u>\$ 147,071</u>	<u>\$ 0</u>	<u>\$ (32,467)</u>	<u>\$ 737,601</u>
<u>Depreciable:</u>					
Buildings	\$ 11,309,206	\$ 748,015	\$ (95,000)	\$ 32,467	\$ 11,994,688
Improvements other than buildings	1,210,982	8,800	0	0	1,219,782
Machinery and equipment	3,363,121	77,968	(35,458)	0	3,405,631
Total Depreciable	<u>\$ 15,883,309</u>	<u>\$ 834,783</u>	<u>\$ (130,458)</u>	<u>\$ 32,467</u>	<u>\$ 16,620,101</u>
<u>Accumulated Depreciation:</u>					
Buildings	\$ (6,454,625)	\$ (309,177)	\$ 47,500	\$ 0	\$ (6,716,302)
Improvements other than buildings	(830,245)	(52,431)	0	0	(882,676)
Machinery and equipment	(2,550,414)	(183,122)	34,406	0	(2,699,130)
Total Depreciation	<u>\$ (9,835,284)</u>	<u>\$ (544,730)</u>	<u>\$ 81,906</u>	<u>\$ 0</u>	<u>\$ (10,298,108)</u>
Net Depreciable Assets	<u>6,048,025</u>	<u>290,053</u>	<u>(48,552)</u>	<u>32,467</u>	<u>6,321,993</u>
Net General Capital Assets	<u>\$ 6,671,022</u>	<u>\$ 437,124</u>	<u>\$ (48,552)</u>	<u>\$ 0</u>	<u>\$ 7,059,594</u>

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

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

<u>Function</u>	<u>Amount</u>
Instructional	\$ 24,063
Media	2,800
School Administration	5,710
Operation & Maintenance	305,131
Transportation	143,029
School Food	3,375
Extracurricular	6,917
Unallocated	53,705
Total Depreciation Expense	<u>\$ 544,730</u>

NOTE 6. CHANGES IN LONG-TERM DEBT

6. a. At June 30, 2016, the schedule of changes in general long-term debt follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>July 1, 2015</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, 2016</u>	<u>Due within</u> <u>One Year</u>
<u>Bonds and Notes Payable:</u>					
QZAB Bonds	\$ 2,087,250	\$ 0	\$ 0	\$ 2,087,250	\$ 2,087,250
Total Bonds and Notes Payable	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>Other Liabilities:</u>					
Compensated Absences	\$ 684,290	\$ 0	\$ (23,851)	\$ 660,439	\$ 69,944
Retirement Incentive	94,849	74,151	(62,000)	107,000	51,000
Accrued Pension	8,449,221	782,919	0	9,232,140	0
Other Post-Employment Benefits (OPEB)	1,161,811	69,299	0	1,231,110	0
Total Other Liabilities	<u>\$ 10,390,171</u>	<u>\$ 926,369</u>	<u>\$ (85,851)</u>	<u>\$ 11,230,689</u>	<u>\$ 120,944</u>
Total Governmental Activities - Long-Term Debt:	<u>\$ 12,477,421</u>	<u>\$ 926,369</u>	<u>\$ (85,851)</u>	<u>\$ 13,317,939</u>	<u>\$ 2,208,194</u>

6. b. QZAB BONDS

The elementary school district issued QZAB bonds in fiscal year 2009 for the repair of the middle school roof and replacement of a heating and ventilation system in elementary school buildings. QZAB bonds are direct obligations and pledge the full faith and credit of the School District. These bonds all mature in 8 years. The elementary district will make payments into a sinking fund with the U.S. Bank of \$260,906. Interest is earned on the sinking fund at 0.2%, which is the same interest rate as the bonds. Therefore, when the bonds mature in 8 years, the sinking fund will have the total payment. The amount outstanding is the total value of the bonds sold. The cash in the sinking fund is shown in the total cash held by the District. Interest earned on the sinking funds is added to the total available to pay for the bonds when they come due. Cash in the sinking fund at June 30, 2016 is \$1,826,347. These bonds were issued for the terms and payment schedules indicated in the following schedule:

<u>Description</u>	<u>Issue Date</u>	<u>Interest</u> <u>Rate</u>	<u>Length of</u> <u>Loan</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Outstanding</u> <u>June 30,</u> <u>2016</u>
QZAB Bonds	June 2009	0.2%	8 years	June 2017	<u>\$ 2,087,250</u>	<u>\$ 2,087,250</u>

Debt service requirements to maturity for principal and interest for all bonded long term obligations are as follows:

For the year ended 6/30:	<u>Elementary</u>
	<u>Principal</u> <u>Interest</u>
2017	<u>\$ 257,255</u> <u>\$ 3,653</u>

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

6. c. RETIREMENT INCENTIVE

The School District offered certified teachers a one-time incentive to retire as of June 30, 2015 and 2016. The incentive offered \$500 per month for each teacher, who accepted the offer, for a period of 36 months for a total liability of \$18,000 per teacher. The changes in the retirement incentive liability are noted below.

<u>Description</u>	<u>Issue Date</u>	<u>Length of Loan</u>	<u>Maturity Date</u>	<u>Amount</u>	<u>Outstanding</u>
				<u>Issued</u>	<u>June 30, 2016</u>
Retirement Incentive	Sept 2014	3 years	8/15/2017	\$ 84,000	\$ 7,000
Retirement Incentive	Sept 2015	3 years	8/15/2018	48,000	28,000
Retirement Incentive	Sept 2016	3 years	8/15/2019	72,000	72,000
				<u>\$ 204,000</u>	<u>\$ 107,000</u>

Debt service requirements to maturity for principal on the retirement incentive long term obligations are as follows:

For the year ended 6/30:	<u>Elementary</u>	<u>High School</u>
	<u>Principal</u>	<u>Principal</u>
2017	\$ 44,000	\$ 7,000
2018	27,000	1,000
2019	24,000	0
2020	4,000	0
Totals	<u>\$ 99,000</u>	<u>\$ 8,000</u>

NOTE 7. DEFERRED INFLOWS OF RESOURCES

7. a. PROPERTY TAXES

<u>Elementary Fund</u>	<u>Amount</u>	<u>Reason</u>
General*	\$ 55,659	Taxes Receivable
Transportation	6,589	Taxes Receivable
Bus Depreciation	6	Taxes Receivable
Tuition	1,206	Taxes Receivable
Technology	2,054	Taxes Receivable
Debt Service*	5,074	Taxes Receivable
Building Reserve	550	Taxes Receivable
<u>High School Fund</u>		
General*	31,399	Taxes Receivable
Transportation	4,300	Taxes Receivable
Bus Depreciation	1,265	Taxes Receivable
Tuition	1,233	Taxes Receivable
Adult Education	2,245	Taxes Receivable
Technology	1,719	Taxes Receivable
Building Reserve*	508	Taxes Receivable
Total	<u>\$ 113,807</u>	

* Denotes Major Funds

NOTE 8. UNEARNED INCOME

The amount displayed on the financial statements as unearned income, \$13,934, relates to students who have prepaid lunches.

NOTE 9. DEFICIT FUND BALANCES

Deficit fund balance result from commitments exceeding the resources. The following is a listing of deficit fund balances.

<u>Elementary Fund</u>	<u>Amount</u>	<u>How School District plans to correct</u>
School Food *	\$ (11,852)	Increase rates for meals.

* Denotes Major Funds

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016NOTE 10. INTERFUND OPERATING TRANSFERS IN/OUT

<u>Elementary Fund - In</u>	<u>Amount</u>	<u>Elementary Fund - Out</u>	<u>Purpose of Transfer</u>
Inter-Local Agreement	\$ 58,027	General*	General services
Inter-Local Agreement	39,056	General*	Operations & maintenance services
<u>High School Fund - In</u>		<u>High School Fund - Out</u>	
Inter-Local Agreement	102,509	General*	General services
Inter-Local Agreement	8,187	General*	Curriculum services
Inter-Local Agreement	53,501	General*	Operations & maintenance services
Total	<u>\$ 261,280</u>		

* Denotes Major Funds

NOTE 11. OTHER POST EMPLOYMENT BENEFITS

Plan Description - The School District provides the same health care plan to all of its members. The School District had more than 100 plan participants and thus hired 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 45% of plan participants would elect to continue coverage after retirement. Funding Policy - The government pays OPEB liabilities on a pay as you go basis. The trust fund for future liabilities has not been established. Funding status and progress as of July 1, 2014 was as follows:

Actuarial Accrued Liability (AAL)	\$ 2,880,854
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>2,880,854</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 6,601,580
UAAL as a percentage of covered payroll	43.6%

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, 2014.

Annual Required Contribution (ARC)	\$ 248,907
Interest on net OPEB obligation	0
Adjustment to ARC	<u>0</u>
Annual OPEB cost (expense)	248,907
Contribution made	<u>(179,608)</u>
Increase in net OPEB obligation	69,299
Net OPEB obligation - beginning of year	<u>1,161,811</u>
Net OPEB obligation - end of year	<u>\$ 1,231,110</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)			4.25%
Average Salary Increase			2.5%
Health care cost rate trend	Year	% Increase	
	2017	7.0%	
	2018	6.5%	
	2019	6.0%	
	2020	5.5%	
	2021 and after	4.5%	

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

NOTE 12. OTHER COMMITMENTS

12. a. 1. ENCUMBRANCES

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

<u>High School Fund</u>	<u>Amount</u>
Building Reserve *	<u>\$ 73,198</u>
* Denotes Major Funds	

12. a. 2. CONSTRUCTION OR SIMILAR COMMITMENTS

The District has a signed contract with a construction company to complete a boiler over haul in fiscal year 2017 for \$220,269.

NOTE 13. RISK MANAGEMENT

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

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

NOTE 14. 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, stand-alone financial statements, actuarial valuations, experience studies and plan audited financial statements. Those reports may be obtained from the following:

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

Public Employees Retirement System
P.O. Box 200131
100 N. Park Avenue Suite 200
Helena, MT 59620-0131
Phone: 406-444-3154
www.mpera.mt.gov

14. a. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES OF RETIREMENT SYSTEMS

The Montana Public Employee Retirement Administration (MPERA) and the Teachers' Retirement System (TRS) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, Pension Expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA and TRS. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

Investments are reported at fair value. MPERA and TRS adhere to all applicable Governmental Accounting Standards Board (GASB) statements.

14. b. PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS)

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan covers the State, local governments, certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the *defined contribution* and *defined benefit* retirement plans.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature.

14. b. 1. SUMMARY OF BENEFITS

Eligibility for benefit (Service retirement):

Hired prior to July 1, 2011: Age 60, 5 years of membership service; Age 65, regardless of membership service; or any age, 30 years of membership service.

Hired on or after July 1, 2011: Age 65, 5 years of membership service; Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011: Age 50, 5 years of membership service; or any age, 25 years of membership service.

Hired on or after July 1, 2011: Age 55, 5 years of membership service.

Vesting: 5 years of membership service

Member's highest average compensation (HAC):

Hired prior to July 1, 2011: highest average compensation during any consecutive 36 months;

Hired on or after July 1, 2011: highest average compensation during any consecutive 60 months;

Compensation Cap:

Hired on or after July 1, 2013: — 110% annual cap on compensation considered as part of a member's highest average compensation.

Monthly benefit formula:

Members hired prior to July 1, 2011: Less than 25 years of membership service 1.785% of HAC per year of service credit; 25 years of membership service or more 2% of HAC per year of service credit.

Members hired on or after July 1, 2011: Less than 10 years of membership service 1.5% of HAC per year of service credit; 10 years or more, but less than 30 years of membership service 1.785% of HAC per year of service credit; 30 years or more of membership service 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA):

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
 - (a) 1.5% for each year PERS is funded at or above 90%;
 - (b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - (c) 0% whenever the amortization period for PERS is 40 years or more.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

14. b. 2. OVERVIEW OF CONTRIBUTIONS

Rates are specified by state law for periodic member and employer contributions and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The State legislature has the authority to establish and amend contribution rates to the plan. Member and employer contribution rates are shown in the table below.

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
2. Employer contributions to the system:
 - a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERSDBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.
 - b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
 - c. The portion of employer contributions allocated to the PCR are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
3. Non Employer Contributions:
 - a. Special Funding
 - i. The State contributes 0.1% of members' compensation on behalf of local government entities.
 - ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
 - b. Not Special Funding
 - i. The State contributes a portion of Coal Severance Tax income and earnings from the Coal Trust Permanent Trust fund.

Fiscal Year	Member		State & Universities Employer	Local Government		School Districts	
	Hired <07/01/11	Hired >07/01/11		Employer	State	Employer	State
2016	7.900%	7.900%	8.370%	8.270%	0.100%	8.000%	0.370%
2015	7.900%	7.900%	8.270%	8.170%	0.100%	7.900%	0.370%
2014	7.900%	7.900%	8.170%	8.070%	0.100%	7.800%	0.370%
2012-2013	6.900%	7.900%	7.170%	7.070%	0.100%	6.800%	0.370%
2010-2011	6.900%		7.170%	7.070%	0.100%	6.800%	0.370%
2008-2009	6.900%		7.035%	6.935%	0.100%	6.800%	0.235%
2000-2007	6.900%		6.900%	6.800%	0.100%	6.800%	0.100%

14. b. 3. ACTUARIAL ASSUMPTIONS

The Total Pension Liability as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2014, with update procedures to roll forward the Total Pension Liability to June 30, 2015. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

General Wage Growth*	4.00%
*includes Inflation at	3.00%
Merit Increases	0% to 6%
Investment Return (net of admin expenses)	7.75%
Admin Expense as % of Payroll	0.27%
Postretirement Benefit Increases	
3% for members hired prior to July 1, 2007	
1.5% for members hired between July 1, 2007 and June 30, 2013	
Members hired on or after July 1, 2013:	
• 1.5% for each year PERS is funded at or above 90%	
• 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and	
• 0% whenever the amortization period for PERS is 40 years or more	

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

14. b. 4. DISCOUNT RATE

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non- employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

14. b. 5. TARGET ALLOCATIONS

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015, is summarized in the above table.

14. c. TEACHERS' RETIREMENT SYSTEM (TRS)

Teachers' Retirement System (TRS or the System) is a mandatory-participation multiple-employer cost-sharing defined-benefit public pension plan that provides retirement services to individuals employed as teachers, administrators, and in other professional and skilled positions employed in public education in Montana.

The TRS Board is the governing body of the System and the TRS staff administers the system in conformity with the laws set forth in Title 19, chapter 20 of the Montana Code Annotated, and administrative rules set forth in Title 2, chapter 44 of the Administrative Rules of Montana.

14. c. 1. SUMMARY OF BENEFITS

Through June 30, 2013, all members enrolled in TRS participated in a single-tiered plan ("Tier One"). Employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to creditable service years divided by 60 times the average final compensation. Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Beginning July 1, 2013, new members in TRS participate in a second benefit tier ("Tier Two"), which differs from Tier One as follows:

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended June 30, 2016

- Tier Two uses a 5-year average final compensation (as opposed to 3-year AFC in Tier One)
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One)
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One)
- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation - $1.85\% \times \text{AFC} \times \text{years of creditable service}$ - for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than $1.6667 \times \text{AFC} \times \text{years of creditable service}$)

A guaranteed annual benefit adjustment (GABA) is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABA calculated prior to July 1, 2013, was 1.5% of the benefit payable as of January 1st. Effective July 1, 2013, the GABA to be calculated for Tier One and Tier Two members each year may vary from 0.5% to 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation.

14. c. 2. OVERVIEW OF CONTRIBUTIONS

The System receives a portion of the total required statutory contributions directly from the State for all employers. The employers are considered to be in a special funding situation as defined by GASB 68 and the State is treated as a non-employer contributing entity in TRS. The System receives 2.49% of reportable compensation from the State's general fund for School Districts and

Other Employers. The System also receives 0.11% of reportable compensation from the State's general fund for all TRS Employers including State Agency and University System Employers. Finally, the State is also required to contribute \$25 million in perpetuity payable July 1st of each year.

School District and Other Employers

	Members	Employers	General fund	Total employee and employer
Prior to July 1, 2007	7.15%	7.47%	0.11%	14.73%
July 1, 2007 to June 30, 2009	7.15%	7.47%	2.11%	16.73%
July 1, 2009 to June 30, 2013	7.15%	7.47%	2.49%	17.11%
July 1, 2013 to June 30, 2014	8.15%	8.47%	2.49%	19.11%
July 1, 2014 to June 30, 2015	8.15%	8.57%	2.49%	19.21%
July 1, 2015 to June 30, 2016	8.15%	8.67%	2.49%	19.31%
July 1, 2016 to June 30, 2017	8.15%	8.77%	2.49%	19.41%
July 1, 2017 to June 30, 2018	8.15%	8.87%	2.49%	19.51%
July 1, 2018 to June 30, 2019	8.15%	8.97%	2.49%	19.61%
July 1, 2019 to June 30, 2020	8.15%	9.07%	2.49%	19.71%
July 1, 2020 to June 30, 2021	8.15%	9.17%	2.49%	19.81%
July 1, 2021 to June 30, 2022	8.15%	9.27%	2.49%	19.91%
July 1, 2022 to June 30, 2023	8.15%	9.37%	2.49%	20.01%
July 1, 2023 to June 30, 2024	8.15%	9.47%	2.49%	20.11%

14. c. 3. ACTUARIAL ASSUMPTIONS

The Total Pension Liability as of June 30, 2015, is based on the results of an actuarial valuation date of July 1, 2015. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2015 valuation were based on the results of the last actuarial experience study, dated May 1, 2014. Among those assumptions were the following:

Total Wage Increases*	4% - 8.51% for Non-University members and 5.00% for University members
Investment Return	7.75%
Price Inflation	3.25%

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended June 30, 2016

Postretirement Benefit Increases

Tier One Members: If the retiree has received benefits for at least 3 years, the retirement allowance will be increased by 1.5% on January 1st.

Tier Two Members: the retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the System to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.

- Mortality among contributing members, service retired members, and beneficiaries
 - For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
 - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members
 - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
 - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

*Total Wage Increases include 4.00% general wage increase assumption.

14. c. 4. DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. In addition to the contributions the State general fund will contribute \$25 million annually to the System payable July 1st of each year. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2119. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

14. c. 5. TARGET ALLOCATIONS

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return*
Broad US Equity	36.00%	4.80%	1.73%
Broad International Equity	18.00%	6.05%	1.09%
Private Equity	12.00%	8.50%	1.02%
Intermediate Bonds	23.40%	1.50%	0.35%
Core Real Estate	4.00%	4.50%	0.18%
High Yield Bonds	2.60%	3.25%	0.08%
Non-Core Real Estate	4.00%	7.50%	0.30%
	100%		4.75%
		Inflation	3.25%
		Expected arithmetic nominal return	8.00%

* The long-term expected nominal rate of return above of 8.00% differs from the total TRS long-term rate of return assumption of 7.75%. The assumed rate is comprised of a 3.25% inflation rate and a real long-term expected rate of return of 4.5%

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared every four years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015, is summarized in the above table.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended June 30, 2016

14. d. SENSITIVITY ANALYSIS

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
PERS			
Net Pension Liability	\$ 2,155,216,222	\$ 1,397,872,046	\$ 758,312,456
Employer's proportion of Net Pension Liability	\$ 2,984,190	\$ 1,935,544	\$ 1,049,987
TRS			
Net Pension Liability	\$ 2,257,357,650	\$ 1,643,005,761	\$ 1,126,063,873
Employer's proportion of Net Pension Liability	\$ 10,024,935	\$ 7,296,596	\$ 5,000,854

14. e. NET PENSION LIABILITY

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the PERS and TRS. Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions.

In accordance with Statement 68, PERS and TRS have special funding situations in which the State of Montana is legally responsible for making contributions directly to PERS and TRS on behalf of the employers. Due to the existence of this special funding situation, local governments and school districts are required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer.

The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Tax Severance fund and interest to the PERS. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer.

PERS	Net Pension Liability		Percent of	Percent of	Change in
	as of 6/30/16	as of 6/30/15	Collective NPL as of 6/30/16	Collective NPL as of 6/30/15	Percent of Collective NPL
Employer Proportionate Share	\$ 1,935,544	\$ 1,736,425	0.138464%	0.139359%	(0.000895)%
State of Montana Proportionate Share associated with Employer	90,951	81,172	0.006506%	0.006515%	(0.000009)%
Total	\$ 2,026,495	\$ 1,817,597	0.144970%	0.145874%	(0.000904)%
TRS					
TRS	Net Pension Liability		Percent of	Percent of	Change in
	as of 6/30/16	as of 6/30/15	Collective NPL as of 6/30/16	Collective NPL as of 6/30/15	Percent of Collective NPL
Employer Proportionate Share	\$ 7,296,596	\$ 6,715,796	0.4441%	0.4362%	0.0079%
State of Montana Proportionate Share associated with Employer	4,891,615	4,599,979	0.2977%	0.2989%	(0.0012)%
Total	\$ 12,188,211	\$ 11,315,775	0.7418%	0.7351%	0.0067%

At June 30, 2016, the employer recorded a liability of \$1,935,544 and \$7,296,596 for PERS and TRS, respectively, for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2015. Therefore, no update procedures were used to roll forward the total pension liability to the measurement date. The employer's proportion of the Net Pension Liability was based on the employer's contributions received by PERS and TRS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERS and TRS participating employers. At June 30, 2016, the employer's proportion was 0.138464 percent and 0.4441 percent for PERS and TRS, respectively.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

Changes in actuarial assumptions and methods: Any changes can be obtained from PERS or TRS as in the first part of this note.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective Net Pension Liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

14. f. PENSION EXPENSE

PERS	Pension Expense as of 6/30/16
Employer's Proportionate Share	\$ 119,872
State of Montana Proportionate Share associated with the Employer	<u>5,651</u>
Total	<u>\$ 125,524</u>
TRS	Pension Expense as of 6/30/16
Employer's Proportionate Share	\$ 484,629
State of Montana Proportionate Share associated with the Employer	<u>236,163</u>
Total	<u>\$ 720,792</u>

At June 30, 2016, the employer recognized a Pension Expense of \$125,524 and \$720,792 for its proportionate share of the PERS and TRS Pension Expense, respectively. The employer also recognized grant revenue of \$52,102 and \$236,163 for the support provided by the State of Montana for its proportionate share of the Pension Expense that is associated with the employer for PERS and TRS, respectively.

14. g. DEFERRED INFLOWS AND OUTFLOWS

At June 30, 2016, the employer reported its proportionate share of PERS and TRS deferred outflows of resources and deferred inflows of resources related to PERS and TRS from the following sources:

	PERS Deferred Outflows of Resources	PERS Deferred Inflows of Resources	TRS Deferred Outflows of Resources	TRS Deferred Inflows of Resources
Differences between actual and expected experience	\$ 0	\$ 11,710	\$ 76,924	\$ 0
Changes in assumptions	0	0	103,259	15,410
Difference between projected and actual earnings on pension plan investments	0	163,864	0	391,821
Changes in proportion differences between employer contributions and proportionate share of contributions	0	18,343	128,907	0
#Contributions paid subsequent to the measurement date - FY 2016 Contributions	<u>\$ 142,521</u>	<u>\$ 0</u>	<u>\$ 601,312</u>	<u>\$ 0</u>
Total	<u>\$ 142,521</u>	<u>\$ 193,917</u>	<u>\$ 910,420</u>	<u>\$ 407,231</u>

#Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

Year ended June 30:	PERS Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	TRS Deferred Outflows of Resources	TRS Deferred Inflows of Resources	TRS Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	\$ (79,355)	\$ 140,393	\$ 169,443	\$ (29,050)
2018	\$ (79,355)	\$ 140,418	\$ 169,443	\$ (29,025)
2019	\$ (77,826)	\$ 28,296	\$ 168,857	\$ (140,561)
2020	\$ 42,618	\$ 100,513	\$ 0	\$ 100,513
2021	\$ 0	\$ 0	\$ 0	\$ 0
Thereafter	\$ 0	\$ 0	\$ 0	\$ 0

14. h. PENSION AMOUNTS TOTAL FOR EMPLOYER – EMPLOYER'S PROPORTION OF PERS AND TRS PENSION AMOUNTS

	The employer's proportionate share associated with PERS	The employer's proportionate share associated with TRS	The employer's Total Pension Amounts
Total Pension Liability	\$ 8,960,852	\$ 23,767,414	\$ 32,728,266
Fiduciary Net Position	\$ 7,025,308	\$ 16,470,818	\$ 23,496,126
Net Pension Liability	\$ 1,935,544	\$ 7,296,596	\$ 9,232,140
Deferred Outflows of Resources	\$ 142,521	\$ 910,420	\$ 1,052,941
Deferred Inflows of Resources	\$ 193,917	\$ 407,231	\$ 601,148
Pension Expense	\$ 125,524	\$ 720,792	\$ 846,316

NOTE 15. COOPERATIVE

15. a. SPECIAL EDUCATION

The Lewistown School District No. 1 is a member of the Central Montana Learning Resource Center Cooperative, a Special Education Cooperative. The financial records of the Cooperative are prepared and maintained by the Cooperative Clerk. The financial records of the Cooperative are separate from those of Lewistown School District No. 1, and the financial statements of the Cooperative are not included in the School Districts' financial statements. The Cooperative's financial statements are audited separately from those of the School District. All revenue received, including Federal, State, or other types of grant payments, and the financial support provided by each of the Cooperative's members are deposited into the Cooperative's funds, which are maintained in the custody of the Fergus County Treasurer. The Superintendent of Public Instruction may directly deposit to the Cooperative the State and Federal portion of any participating member School District's budgeted costs for contracted special education services. All capital assets of the Cooperative are included in the Cooperative's financial statements.

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

NOTE 16. JOINT VENTURE AGREEMENTS

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

16 a. MULTIDISTRICT COOPERATIVE

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.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

16. a. 1. TECHNICAL SUPPORT

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

Fergus High School is the designated prime agency and is responsible for the financial administration of the multidistrict cooperative. The activity of the multidistrict cooperative is accounted for in fund 82 of the Fergus High School. During fiscal year ended June 30, 2016 Fergus High School received \$127,370 for its share of the annual technical support fee.

16. a. 2. INTERLOCAL AGREEMENT FUND

The School District has entered into an agreement with Lewistown Elementary and Lewistown High School, for the purpose of jointly purchasing/paying for salaries, technology, curriculum, utilities and supplies for the participating districts. Lewistown High School is the designated prime agency and is responsible for the financial administration of the multidistrict cooperative. The activity of the multidistrict cooperative is accounted for in fund 82 of the Lewistown High School. During fiscal year ended June 30, 2016 Lewistown Elementary general fund and Lewistown High School general fund transferred \$97,083 and \$163,661, respectively into the high school's Inter-local agreement fund.

NOTE 17. RECREATIONAL FACILITIES AND EQUIPMENT

The School District and the City of Lewistown entered into an agreement whereby the School District would use the Lewistown Civic Center for activities such as basketball, volleyball, softball, soccer, floor hockey, superstars, badminton, snowshoeing, roller skating, cross country skiing, and table tennis. The School District Costs to include an initial payment of \$5,057. The School District also pays the city for a school resource officer. Fees for this service were \$48,699 in the fiscal year ended June 30, 2016.

NOTE 18. EVELYN ECCLES FOUNDATION

At the end of each school year, Trustees may "select from the graduating class a student or students, male or female, who have best demonstrated his/her ability to conduct scientific research of any kind or character which looks to the advancement of the best interests of society" and provide a loan from the fund to aid in their securing higher education.

If a student is selected, the Trustees will determine the amount of the loan, "In amounts sufficient to materially aid and enable students to attend an Institution of higher learning." A no-Interest promissory note (signed by student and parent as cosigner) will be executed which shall become due and payable at such time as may be arranged, but not in excess of ten years after the loan agreement has been made. The objective of the foundation is to create a revolving fund to be constantly available.

Students selected may receive a \$2,000 loan for each four years with a payback of \$125 per month for 64 months beginning four years from execution of the notes.

At June 30, 2016 there was one student with an outstanding loan balance that was being paying back on a monthly basis. The receivable balance of \$8,005 is reported in the fiduciary endowment funds.

LEWISTOWN SCHOOL DISTRICT NO. 1

SCHEDULE OF FUNDING PROGRESS
Other Post-Employment Benefits Other Than Pensions (OPEB)
For the year ended June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b)-(a))/(c)
<u>7/1/2010*</u>	<u>\$ -</u>	<u>\$ 3,783,331</u>	<u>\$ 3,783,331</u>	<u>0%</u>	<u>\$ N/A</u>	<u>N/A</u>
<u>7/1/2011*</u>	<u>\$ -</u>	<u>\$ 3,995,369</u>	<u>\$ 3,995,369</u>	<u>0%</u>	<u>\$ N/A</u>	<u>N/A</u>
<u>7/1/2012*</u>	<u>\$ -</u>	<u>\$ 4,182,059</u>	<u>\$ 4,182,059</u>	<u>0%</u>	<u>\$ N/A</u>	<u>N/A</u>
<u>7/1/2013**</u>	<u>\$ -</u>	<u>\$ 4,196,710</u>	<u>\$ 4,196,710</u>	<u>0%</u>	<u>\$ 7,517,359</u>	<u>55.8%</u>
<u>7/1/2014**</u>	<u>\$ -</u>	<u>\$ 4,352,207</u>	<u>\$ 4,352,207</u>	<u>0%</u>	<u>\$ 7,517,359</u>	<u>57.9%</u>
<u>7/1/2015**</u>	<u>\$ -</u>	<u>\$ 4,553,594</u>	<u>\$ 4,553,594</u>	<u>0%</u>	<u>\$ 7,517,359</u>	<u>60.6%</u>
<u>7/1/2016***</u>	<u>\$ -</u>	<u>\$ 2,880,854</u>	<u>\$ 2,880,854</u>	<u>0%</u>	<u>\$ 6,601,580</u>	<u>43.6%</u>

*Assumptions are based on 2008 data.

**Assumptions are based on the actuarial values as of July 1, 2012.

***Assumptions as based on the actuarial values as of July 1, 2015

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

LEWISTOWN SCHOOL DISTRICT NO. 1

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
For the year ended June 30, 2016

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Year ended June 30:	Employer's proportion of the net pension liability	Employer's proportionate share of the net pension liability associated with the Employer (a)	State of Montana's proportionate share of the net pension liability associated with the Employer (b)	Total (a)+(b)=(c)	Employer's covered- employee payroll (d)	Employer's proportionate share of the net pension liability as a percentage of its covered- employee payroll (a)/(d)	Plan fiduciary net position as a percentage of the total pension liability
2015	0.139359%	\$ 1,736,425	\$ 81,172	\$ 1,817,596	\$ 1,632,145	106.39%	79.9%
2016	0.138464%	\$ 1,935,544	\$ 90,951	\$ 2,026,495	\$ 1,751,664	110.50%	78.4%

TEACHERS RETIREMENT SYSTEM

Year ended June 30:	Employer's proportion of the net pension liability	Employer's proportionate share of the net pension liability associated with the Employer (a)	State of Montana's proportionate share of the net pension liability associated with the Employer (b)	Total (a)+(b)=(c)	Employer's covered- employee payroll (d)	Employer's proportionate share of the net pension liability as a percentage of its covered- employee payroll (a)/(d)	Plan fiduciary net position as a percentage of the total pension liability
2015	0.4362%	\$ 6,715,796	\$ 4,599,979	\$ 11,312,886	\$ 5,537,456	121%	70.36%
2016	0.4441%	\$ 7,296,596	\$ 4,891,615	\$ 12,188,211	\$ 5,651,304	129.11%	69.30%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

LEWISTOWN SCHOOL DISTRICT NO. 1

SCHEDULE OF CONTRIBUTIONS TO MONTANA RETIREMENT SYSTEMS
For the year ended June 30, 2016

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Year ended June 30:	Contractually required contributions (a)	Contributions in relation to the contractually required contributions (b)	Contribution deficiency (excess) (a)-(b)=(c)	Employer's covered- employee payroll (d)	Contributions as a percentage of covered- employee payroll (a)/(d)
2015	\$ 128,653	\$ 128,653	\$ 0	\$ 1,632,145	7.882%
2016	\$ 142,521	\$ 142,521	\$ 0	\$ 1,751,664	8.136%

TEACHERS RETIREMENT SYSTEM

Year ended June 30:	Contractually required contributions (a)	Contributions in relation to the contractually required contributions (b)	Contribution deficiency (excess) (a)-(b)=(c)	Employer's covered- employee payroll (d)	Contributions as a percentage of covered- employee payroll (a)/(d)
2015	\$ 520,550	\$ 520,550	\$ 0	\$ 5,537,456	9.401%
2016	\$ 601,312	\$ 601,312	\$ 0	\$ 5,651,304	10.64%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
(Budget and Actual)
ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
For the year ended June 30, 2016

	General (EL)			General (HS)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
District levies	\$ 1,683,969	\$ 1,683,969	\$ 1,710,557	\$ 985,564	\$ 985,564	\$ 1,007,183
Interest	6,553	6,553	5,133	3,427	3,427	2,538
Other	-	-	-	-	-	-
State	4,309,171	4,309,171	4,309,171	2,186,157	2,186,157	2,195,095
Total revenues	<u>5,999,693</u>	<u>5,999,693</u>	<u>6,024,861</u>	<u>3,175,148</u>	<u>3,175,148</u>	<u>3,204,816</u>
EXPENDITURES:						
Current:						
Instructional services			3,739,770			1,421,582
Support services			147,382			94,145
Educational media services			237,690			102,268
General administrative services			911,732			582,771
Operation & maintenance services			672,820			552,296
Transportation services			3,462			31,650
School food services			130,837			31,643
Extracurricular			58,916			186,938
Capital outlay			-			16,598
Total expenditures	<u>5,999,693</u>	<u>5,999,693</u>	<u>5,902,610</u>	<u>3,175,148</u>	<u>3,175,148</u>	<u>3,019,889</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>122,251</u>	<u>-</u>	<u>-</u>	<u>184,927</u>
OTHER FINANCING SOURCES/USES:						
Fund transfers (out)			(97,083)			(164,197)
Total other financial sources/uses	<u>-</u>	<u>-</u>	<u>(97,083)</u>	<u>-</u>	<u>-</u>	<u>(164,197)</u>
Net changes in fund balances	<u>-</u>	<u>-</u>	<u>25,168</u>	<u>-</u>	<u>-</u>	<u>20,730</u>
FUND BALANCE:						
Beginning of the year			477,830			318,003
End of the year			<u>\$ 502,998</u>			<u>\$ 338,732</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
For the year ended June 30, 2016

	Flexibility Fund (Elem.)			Flexibility Fund (HS)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
District levies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	-	-	1,466	-	-	1,110
Other	-	-	877	-	-	1,200
State	31,231	31,231	31,231	12,000	12,000	12,000
Total revenues	31,231	31,231	33,574	12,000	12,000	14,310
EXPENDITURES:						
Current:						
Instructional services			48,166			10,500
Support services			-			-
Educational media services			-			-
General administrative services			-			-
Operation & maintenance services			-			-
Transportation services			-			-
School food services			-			-
Extracurricular			-			-
Capital outlay			-			-
Total expenditures	200,170	200,170	48,166	169,448	169,448	10,500
Excess (deficiency) of revenues over expenditures	(168,939)	(168,939)	(14,593)	(157,448)	(157,448)	3,810
OTHER FINANCING SOURCES/USES:						
Fund transfers (out)			-			-
Total other financial sources/uses	-	-	-	-	-	-
Net changes in fund balances	(168,939)	(168,939)	(14,593)	(157,448)	(157,448)	3,810
FUND BALANCE:						
Beginning of the year			168,939			157,448
End of the year			\$ 154,346			\$ 161,259

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

NOTES TO THE BUDGET VS ACTUAL SCHEDULE
For the year ended June 30, 2016NOTE 1. BUDGETS

1. a. BUDGETS

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

1. a. 1 GENERAL BUDGET POLICIES:

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

1. a. 2 BUDGET OPERATION:

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

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

NOTE 2. BUDGET AMENDMENT

The District approved a budget amendment due to unanticipated enrollment increases under the provisions of 20-9-161(1), MCA for the high school general fund. The budget amendment was for \$8,938 and the State will provide the additional funds.

The District approved a budget amendment as a result of unforeseen circumstances under the provisions of 20-9-161(6), MCA for the high school retirement fund. The budget amendment was for \$85,000 and the retirement fund reserves will provide the additional funds.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE BUDGET VS ACTUAL SCHEDULE (continued)

For the year-ended June 30, 2016

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

	<u>Sub-fund</u>	<u>Sub-fund</u>	<u>Sub-fund</u>	<u>Sub-fund</u>	<u>Sub-fund</u>	<u>Sub-fund</u>	<u>Total</u>
	<u>General</u>	<u>General</u>			<u>Metal</u>	<u>Metal</u>	
	<u>Fund</u>	<u>Fund</u>	<u>Flexibility</u>	<u>Flexibility</u>	<u>Mines Tax</u>	<u>Mines Tax</u>	<u>General</u>
	<u>(EL)</u>	<u>(HS)</u>	<u>Fund(EL)</u>	<u>Fund(HS)</u>	<u>Reserve</u>	<u>Reserve</u>	<u>Fund</u>
REVENUES:							
District levies	\$ 1,710,557	\$ 1,007,183	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,717,740
Interest earnings	5,133	2,538	1,466	1,110	805	1,172	12,224
Other	0	0	877	1,200	0	0	2,077
State sources	4,309,171	2,195,095	31,231	12,000	0	0	6,547,497
Total revenues	<u>\$ 6,024,861</u>	<u>\$ 3,204,816</u>	<u>\$ 33,574</u>	<u>\$ 14,310</u>	<u>\$ 805</u>	<u>\$ 1,172</u>	<u>\$ 9,279,537</u>
EXPENDITURES:							
Instructional services	3,739,770	1,421,582	48,166	10,500	0	0	5,220,018
Support services	147,382	94,145	0	0	0	0	241,527
Educational media	237,690	102,268	0	0	0	0	339,958
General administrative	911,732	582,771	0	0	0	0	1,494,503
Operation & maintenance	672,820	552,296	0	0	0	0	1,225,115
Transportation	3,462	31,650	0	0	0	0	35,112
School food	130,837	31,643	0	0	0	0	162,480
Extracurricular	58,916	186,938	0	0	0	0	245,854
Capital	0	16,598	0	0	0	0	16,598
Total expenditures	<u>\$ 5,902,610</u>	<u>\$ 3,019,889</u>	<u>\$ 48,166</u>	<u>\$ 10,500</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,981,165</u>
Excess(Deficiency) of rev.							
Over Exp.	122,251	184,927	(14,593)	3,810	805	1,172	298,373
Fund Transfer (Out)	<u>(97,083)</u>	<u>(164,197)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(261,281)</u>
Net changes in fund balance	25,168	20,730	(14,593)	3,810	805	1,172	37,092
FUND BALANCE:							
Beginning of the Year	477,830	318,003	168,939	157,448	88,347	167,698	1,378,265
Prior period adjustment							
Ending of the Year (GAAP)	<u>502,988</u>	<u>338,732</u>	<u>154,346</u>	<u>161,259</u>	<u>89,152</u>	<u>168,869</u>	<u>\$ 1,415,347</u>
Current year encumbrances							
Ending of the Year (Budget)	<u>\$ 502,988</u>	<u>\$ 338,732</u>	<u>\$ 154,346</u>	<u>\$ 161,259</u>	<u>\$ 89,182</u>	<u>\$ 168,869</u>	

In the reconciliation the elementary and high school general funds, elementary and high school flexibility funds, and elementary and high school metal mines tax reserve funds 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 elementary and high school flexibility funds and elementary and high school metal mines tax reserve funds are maintained as special revenue funds for accounting purposes, however, for external financial reporting they are added to the general fund because they have unassigned fund balance like the general fund.

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

LEWISTOWN SCHOOL DISTRICT NO. 1

SCHEDULE OF REVENUES, EXPENSES AND BALANCES EXPENDABLE TRUST –
STUDENT ACTIVITY FUNDS
For the year ended June 30, 2016

Activity Account Name	Beginning Balance 7/1/2015	Revenues	Expenses	Transfers	Ending Balance 6/30/2016
ANNUAL	8,937	8,567	16,788	-	716
AP TESTING	2,349	4,231	3,655	-	2,925
BAND	934	216	978	-	172
EASTERN MT JAZZ FESTIVAL	13	-	-	-	13
BPA	1,779	1,496	2,907	-	368
CT MT MENTORS	265	-	-	-	265
CHEERLEADERS	11,127	9,341	10,307	-	10,162
NHS/CLAWS	27	585	978	500	134
EAGLE RENAISSANCE	2,845	840	1,382	-	2,304
FCLUB	4	605	772	2,433	2,271
FFA	7,369	29,704	30,021	-	7,052
FCCLA	6,007	32,470	24,073	1,483	15,887
FLY FISHING	921	864	567	-	1,218
SPANISH CLUB	1,616	3,786	2,674	-	2,727
HOW CLUB	1,262	-	-	-	1,262
VICA/SKILLS USA	836	401	1,757	1,149	629
KEY CLUB	1,792	2,818	589	-	4,021
ART CLUB	1,407	134	306	-	1,235
SCIENCE CLUB	8,149	3,501	6,212	-	5,437
SKI CLUB	5,645	4,642	3,833	-	6,453
STUDENT COUNCIL	923	6,713	8,548	1,615	703
THESPIANS	1,892	-	158	-	1,735
TROPHY	2,281	-	-	-	2,281
VOCAL MUSIC	1,494	130	-	-	1,624
DIST. 8 MUSCH FESTIVAL	5,869	6,276	8,838	-	3,307
WEIGHT CLUB	2,302	0	1,036	-	1,265
AP GOVT	160	-	-	-	160
CAREER FAIR	2,500	3,971	2,621	-	3,850
EAGLE WEAR	-	3,721	1,755	(1,758)	208
CLASS OF 2016	4,901	0	1,787	(3,114)	0
CLASS OF 2017	186	8,252	5,778	691	3,351
CLASS OF 2018	22	-	27	249	245
CLASS OF 2019	-	-	-	368	368
CLASS OF 2020	-	-	-	250	250
SCHOOL SPONSORED X-CURR	34,970	178,111	155,807	(3,866)	53,408
GIRLS SOFTBALL/BOYS CROSS COUNTRY	26,724	32,673	32,177	-	27,220
GENERAL ACTIVITIES	56,108	16,894	12,058	-	60,943
LC SERVICE COUNCIL	1,209	454	503	-	1,160
BUILDERS CLUB	142	-	465	465	142
CHEERLEADERS	448	906	-	-	1,354
CONSUMER TECH	509	3,327	3,158	-	678
FACS	517	2,811	2,252	-	1,075
BC, SC STORE	1,516	3,905	4,299	(465)	657
MUSIC	2,452	768	596	-	2,624
PHOTO CLUB	4,106	2,965	4,092	-	2,979
SERVICE LEARNING	456	124	294	-	285
SKI CLUB	933	10,114	9,765	35	1,317
STUDENT COUNCIL	196	548	394	-	350
NEWS	170	-	-	-	170
GIS CLUB	530	15	232	-	313
COMPUTER SERV LEARNING	129	-	-	-	129
FIELD TRIP SKI DAY	857	-	-	-	858
ROBOTICS CLUB	439	-	-	-	439
SCIENCE OLYMPIAD	-	1,955	1,580	-	375
EXPEDITION YELLOWSTONE	3,000	4,053	3,389	(35)	3,629
Total	221,224	392,888	369,409	=	244,703

LEWISTOWN SCHOOL DISTRICT NO. 1

SCHEDULE OF REPORTED ENROLLMENT

For the year ended June 30, 2016

	<u>FALL ENROLLMENT -</u> <u>OCTOBER, 2015</u>			<u>SPRING ENROLLMENT -</u> <u>FEBRUARY, 2016</u>		
Elementary	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	111	111	0	112	112	0
Grade 1 - 6	522	522	0	533	533	0
Grade 7 - 8	191	191	0	188	188	0
Total	<u>824</u>	<u>824</u>	<u>0</u>	<u>833</u>	<u>833</u>	<u>0</u>
Part-time Students						
Less than 181 hours	0	0	0	0	0	0
Less than 359 hours	0	0	0	0	0	0
Less than 539 hours	0	0	0	0	0	0
Less than 719 hours	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Part-time	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
High School						
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>367</u>	<u>367</u>	<u>0</u>	<u>360</u>	<u>360</u>	<u>0</u>
Part-time Students						
Less than 181 hours	0	0	0	0	0	0
Less than 359 hours	1	1	0	1	1	0
Less than 539 hours	1	1	0	0	0	0
Less than 719 hours	<u>1</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>0</u>
Total Part-time	<u>3</u>	<u>3</u>	<u>0</u>	<u>2</u>	<u>2</u>	<u>0</u>
19 year olds included	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Youth Challenge included	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

Lewistown School District Number 1
 Fergus County
 Lewistown, Montana 59457

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2016

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Amount Passed to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
PASSED THROUGH MONTANA OFFICE OF PUBLIC INSTRUCTION:				
National School Lunch Program (fn1)	10.555	N/A		\$ 266,909
National School Lunch Program (Donated Food) (fn2)	10.555	N/A		41,512
Total Child Nutrition Cluster				<u>308,421</u>
Total U.S. Department of Agriculture				<u>\$ 308,421</u>
U.S. DEPARTMENT OF EDUCATION				
PASSED THROUGH CENTRAL MT LEARNING RESOURCE CENTER COOPERATIVE:				
Special Education Grants to States	84.027	N/A		58,359
PASSED THROUGH MONTANA OFFICE OF PUBLIC INSTRUCTION:				
Adult Education - Basic Grants to States	84.002	014-0259-56-16		34,908
Title I Grants to Local Education Agencies	84.010	014-0258-32-16		395,212
Career and Technical Education - Basic Grants to States (Carl Perkins)	84.048	014-0259-81-16		20,000
Gaining Early Awareness and Readiness for Undergraduate Programs (Gear Up)	84.334	014-0259-84.16		483
Total U.S. Department of Education				<u>\$ 508,962</u>
Total Federal Financial Assistance				<u>\$ 817,383</u>

The accompanying notes to the SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS are an integral part of this schedule.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2016

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Lewistown School District No. 1 under programs of the federal government for the fiscal year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of the Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Lewistown School District No. 1, it is not intended to and does not present the financial position, changes in net position or cash flows of Lewistown School District No. 1.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting as used in the governmental financial statements. Such expenditures are recognized following, as applicable, either the cost principles in Office of Management and Budget Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available

NOTE 3. INDIRECT COST RATE

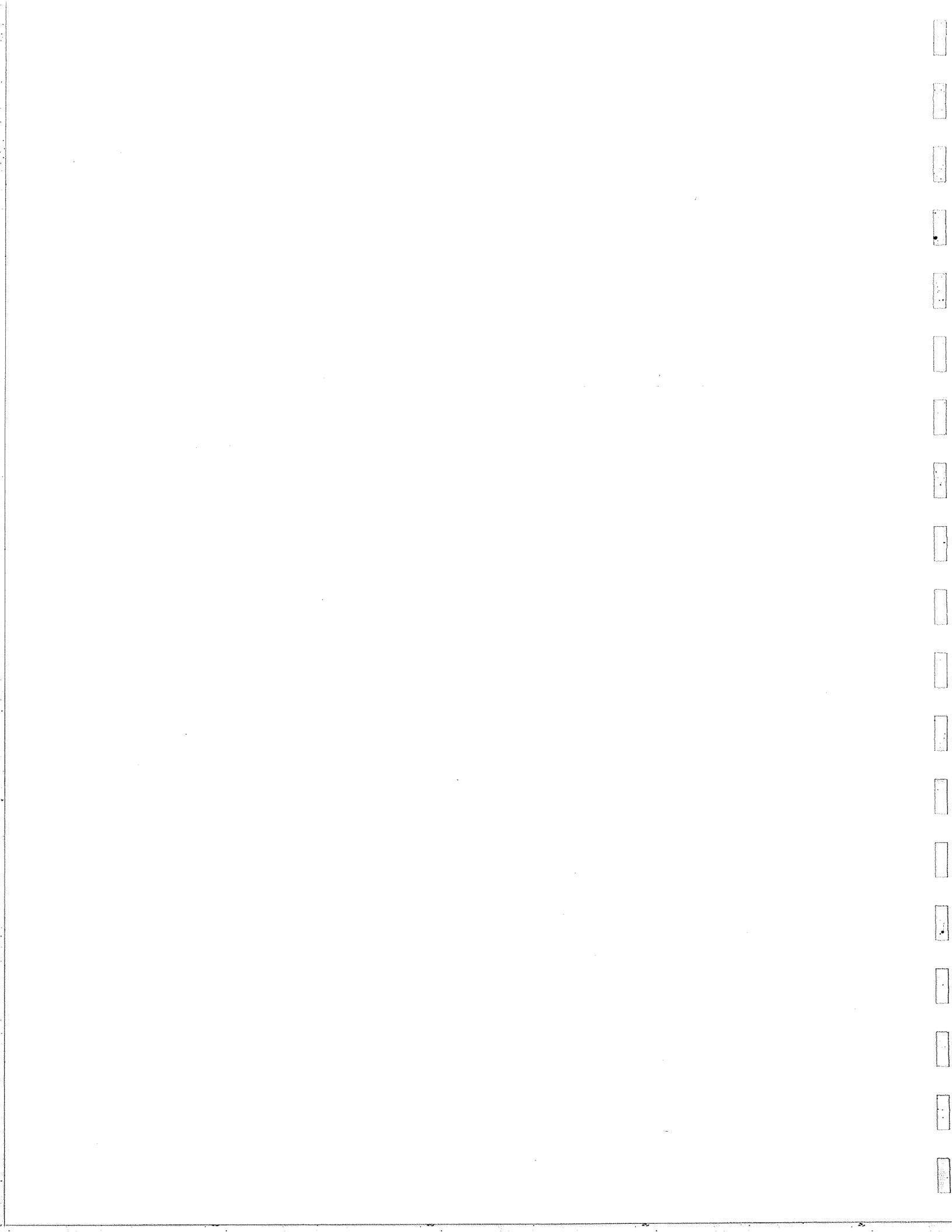
Lewistown School District No. 1 has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4. FOOTNOTES

Fn1 – No separate funds or accounts maintained, the School District assumes first in first out for program money.

Fn2 – The value of commodities (revenues, expenses or inventory) are not displayed in the basic financial statements.

N/A – Not applicable/ available.



STROM & ASSOCIATES, P.C.

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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
Lewistown School District No. 1
Fergus County
Lewistown, MT 59457

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 Lewistown School District No. 1 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Lewistown School District No. 1's basic financial statements and have issued our report thereon dated October 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lewistown School District No. 1'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 School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as items 2016-001 and 2016-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lewistown School District No. 1'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*.

Lewistown School District No. 1's Response to Findings

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

Purpose of this Report

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

Strom & Associates, P.C.

STROM & ASSOCIATES, PC

Billings, Montana

October 28, 2016

STROM & ASSOCIATES, P.C.

Certified Public Accountants

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
Uniform Guidance

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Lewistown School District No. 1
Fergus County
Lewistown, MT 59457

Report on Compliance for Each Major Federal Program

We have audited Lewistown School District No. 1's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Lewistown School District No. 1's major federal programs for the year ended June 30, 2016. Lewistown School District No. 1's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Lewistown School District No. 1's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lewistown School District No. 1's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Lewistown School District No. 1's compliance.

Opinion on Each Major Federal Program

In our opinion, Lewistown School District No. 1's, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Lewistown School District No. 1, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lewistown School District No. 1's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lewistown School District No. 1's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Strom & Associates, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
October 28, 2016

LEWISTOWN SCHOOL DISTRICT NO. 1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2016

A. SUMMARY OF AUDITOR'S RESULTS .

Financial Statements:

1. The auditor, Strom & Associates, PC, has issued an unmodified opinion on Lewistown School District No. 1's financial statements as of and for the year ended June 30, 2016.
2. Our audit did not identify any material weaknesses relating to internal controls over financial reporting and its operation.
3. Our audit identified significant deficiencies in internal controls over financial reporting and its operation.
3. Our audit did not identify any noncompliance which was material to the financial statements.

Federal Awards:

4. Our audit did not identify any material weaknesses relating to internal controls over federal programs.
5. Our audit did not identify any significant deficiencies in internal controls over federal programs.
5. The auditor, Strom & Associates, PC, has issued an unmodified opinion on Lewistown School District No. 1's compliance with major federal awards programs as of and for the year ended June 30, 2016.
6. The audit disclosed no audit findings which are required to be reported under section 200.516 of Uniform Guidance.
7. The major program for Lewistown School District No. 1 for the year ended June 30, 2016 was

CFDA Number	Name of Federal Program or Cluster
84.010	Title I Grants to Local Education Agencies
8. The threshold used to distinguish between Type A and Type B programs was \$750,000. Lewistown School District No. 1 has no Type A programs.
9. This School District does qualify as a low risk audit client.

B. Findings relating to the financial statements which are required to be reported in accordance with "Governmental Auditing Standards."

The following is the status of prior year findings and updated for the fiscal year ended June 30, 2016.

Prior year findings/status:

001-2015 STUDENT ACTIVITY INTERNAL CONTROL:

Partially resolved as noted below.

002-2015 SICK LEAVE LIABILITY COMPLIANCE:

Repeat finding as noted below.

Current year findings:

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

For the year ended June 30, 2016

001-2016 – COMPENSATED ABSENCES:

Criteria: 1979 Attorney General Opinion – Volume Number 38 – Opinion Number 20 states
“HELD: 1. Non-teaching employees of school districts and post secondary vocational technical centers are entitled to vacation and sick leave benefits under Title 2, Chapter 18, Part 6, MCA.
2. Title 2, Chapter 18, Part 6, MCA, establishes maximum and minimum benefits which may not be varied through collective bargaining or other negotiation.”

MCA 2-18-618. Sick leave. (1) A permanent full-time employee earns sick leave credits from the first day of employment. For calculating sick leave credits, 2,080 hours (52 weeks x 40 hours) equals... (6) Except as otherwise provided in 2-18-1311, an employee who terminates employment with the agency is entitled to a lump-sum payment equal to one-fourth of the pay attributed to the accumulated sick leave.

Condition: Starting in fiscal year 2015 non-teaching employees with eight or more years of service are allowed to receive 30% of the accumulated sick leave balances upon separation from service.

Effect: Non-compliance with MCA 2-18-618.

Context: The school district adopted policy for the lump-sum payment upon termination for classified employees that states “...Upon termination a classified employee that has worked the qualifying period and has less than 8 consecutive years of service in the District will be paid a lump sum payment equal to twenty-five percent (25%) of accumulated sick leave. A classified employee with 8 or more consecutive years of service in the District will be paid a lump sum payment equal to thirty percent (30%) of accumulated sick leave.

Cause: The school district was unaware the provision of MCA 2-18-618 were a maximum and a minimum.

Recommendation: We recommend the School District comply with Montana Code Annotated.

Auditee Response: DISTRICT RESOLUTION: Per legal advice to the School District, the policy allowing for 30% payout was changed as of July 1, 2017. The policy allows those hired prior to June 30, 2016 to continue to receive the 30% sick leave payout if they have been employed by the District for at least 8 years. Anyone hired after July 1, 2016, no matter the length of employment, will be eligible to receive only the 25% payout per MCA. Our legal advisors have stated that it would be detrimental to the District to remove the benefit at this time for those employees hired prior to July 1, 2016, as a complaint to Wage and Hour is more likely to occur.

LEWISTOWN SCHOOL DISTRICT NO. 1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

For the year ended June 30, 2016

002-2016 – STUDENT ACTIVITIES:

Criteria: Government auditing standards require internal controls to be in place which allow employees to prevent or detect misstatements on a timely basis. Proper documentation of receipts is necessary for monitoring internal controls.

Condition: Controls over student activity receipts are not operating effectively.

Effect: Lack of documentation or properly filled receipts impedes employee's ability to prevent or detect failures in internal control on a timely basis.

Context: During testing of student activity receipts we found the following:
1) Of 44 receipts reviewed, nine were found to not include the payor name noted on the receipt,
2) Of 44 receipts reviewed, eleven were found to not include what club the money was to be credited too.
3) Review of the receipt book for activity tickets did not show what receipts were deposited with each deposit.

Cause: Documentation was not properly included with some high school student activity receipts.

Recommendation: We recommend the following:
1) All receipts should include the name of the payor of who turned in the money to the custodian of the student activity funds.
2) All receipts should include documentation of the activity fund that the money is to be deposited.
3) All activity ticket receipts need to be documented on the deposit of which receipts numbers are being deposited.
4)

Auditee Response: 1. Of 44 receipts reviewed, nine were found to not include the payor name noted on the receipt. Recommend all receipts include the name of the payor of who turned in the money to the custodian of the student activity funds.
DISTRICT RESOLUTION: All receipts will include the name of the payor that turned in the money to the custodian of the student activities account.
2. Of 44 receipts reviewed, eleven were found to not include what club the money was to be credited to. Recommend all receipts include documentation of the activity fund that the money is to be deposited.
DISTRICT RESOLUTION: Receipts will include the name of the activity fund that the money is to be deposited into.
3. Review of the receipt book for activity tickets did not show what receipts were deposited with each deposit.
Recommend all activity ticket receipts be documented on the deposit of which receipts numbers are being deposited.
DISTRICT RESOLUTION: The Student Athletic Secretary will include documentation of which activity ticket/participation fee receipts are included in each deposit.

C. Findings and questioned costs for Federal awards, as defined in section 200.516 of Uniform Guidance.

The audit disclosed no findings or questioned costs relating to federal awards as defined in section 200.516 of Uniform Guidance in the prior audit report or for the fiscal year ended June 30, 2016.

