

LEWISTOWN SCHOOL DISTRICT NO. 1

**FERGUS COUNTY
LEWISTOWN, MONTANA**

FINANCIAL AND COMPLIANCE REPORT

Fiscal year Ended June 30, 2012

Strom & Associates, P. C.

**PO BOX 1980
Billings, Montana 59103**

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

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

ORGANIZATION

BOARD OF TRUSTEES

Stan Monger	Chairman
Jeremy Bristol	Vice Chairman
Tom Balek	Trustee
Joe Irish	Trustee
Lisa Pierce	Trustee
Barbara Thomas	Trustee
Monte Weeden	Trustee

OFFICIALS

Jason A. Butcher	Superintendent
Rebekah Rhoades	District Clerk
Rhonda Long	County Superintendent
Thomas Meissner	County Attorney

**Lewistown Public Schools
Management Discussion and Analysis (MD&A)
For The Year Ended June 30, 2012**

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, 2012.

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 Assets shows "assets" (what is owned), "liabilities" (what is owed), and the "net assets" (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 Assets 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 Assets and Changes in Fiduciary Net Assets 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 assets serve over time as a useful indicator of a school district's financial position. In the Lewistown Public Schools, assets exceeded liabilities by \$11,541,019 as of June 30, 2012. This amount represents an increase of \$139,424—roughly 1%—from June 30, 2011. Approximately 42% of the district's net assets reflect its investment in capital assets (e.g. land, land improvements, buildings and improvements, and machinery and equipment).

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

Governmental Activities FY 2012	
Current and other assets	8,326,033
Capital assets	<u>6,964,360</u>
Total Assets	15,290,393

Current liabilities	161,098
Non-current liabilities	<u>3,588,277</u>
Total Liabilities	3,749,375

Invested in capital assets,	
Net of debt	6,080,782
Restricted	920,058
Unrestricted	<u>4,540,179</u>
Total Net Assets	11,541,019

**Lewistown Public Schools
Changes in Net Assets**

Governmental Activities FY 2012
GENERAL REVENUES

District Levy	3,705,934
State Equalization	3,269,356
Other State Revenue	2,614,670
County	938,673
Federal	3,834
Investment Earning	66,377
Other	<u>126,908</u>
Total General Revenue	\$10,725,752

GOVERNMENT OPERATIONS

Instruction	6,366,291
Support	485,972
Media	495,871
Administration	1,718,540
O & M	1,702,992
Transportation	853,590
Extracurricular	297,508
School Food	650,138
Other Current Charges	18,143
OPEB	294,526
Depreciation-unallocated	<u>1,185</u>
Total Operations	\$12,884,755

Capital Assets

As of June 30, 2012, 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 30, 2012.

Land and Improvements	1,494,118
Accumulated Depreciation	(688,611)
	805,507
Buildings and Improvements	10,838,007
Construction in Progress	158,759
Accumulated Depreciation	(5,639,002)
	5,357,764
Machinery and Equipment	2,993,668
Accumulated Depreciation	(2,192,579)
	801,089

The District's Future

Although state law enables districts to use three-year average enrollment when calculating budgets, the District will continue to feel the effects of lower student population even though enrollment seems to have leveled off. There is growing need for services for special students as that population continues to grow. The Lewistown Collective Bargaining Agreement extends through FY12, and includes 0% raises for all employees. The demographics of the District may change as we see the average age for staff continue to increase. Future retirements could 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 chose not to take a request for increased operating funds to the voters due to failed attempts in the past. 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. The overwhelming failure of a 0% interest bond election to build a new middle school in September 2010 indicates that the community will take a conservative approach to these needed repairs.
- The Lewistown Airport Board recently renewed the District's year-to-year lease for the bus barn property. However, the Airport Board has clearly indicated that the District should make plans for relocating its bus barn operations. To this end, the District levied \$250,000 in 2009, 2010, 2011, and 2012 in an attempt to begin saving for the possibility of moving the bus barn operations.
- The Legislature meets in 2013. Education funding is usually the last item to be decided on in their discussions, making it difficult to budget for the 2013-2014 school year.

In the end, all of the District's finances boil down to how effectively we are educating our children. There are many ways to measure our progress, and none of them are perfect. Nonetheless, our District continues to struggle to meet adequate yearly progress as required by the federal government. As a result, 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.

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lewistown School District No. 1's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Lewistown School District No. 1 as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2012, on our consideration of Lewistown School District No. 1's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who consider it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiry, the financial statements, and other knowledge we obtained during our audit of the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise School District No. 1's basic financial statements. The accompanying schedule of revenues, expenditures, and encumbrances – budget and actual page 25 required by U.S. generally accepted accounting principles, the accompanying Schedule of Expenditures of federal Awards pages 30 - 31 required by U.S. Office of Management and Budget (OMB) Circular A-133, "Audits of State, Local Governments, and Non-Profit organizations," and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of revenues, expenditures, and encumbrances - budget and actual and other schedules are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Strom & Associates, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
November 6, 2012

Lewistown School District No. 1
Fergus County
Lewistown, Montana

STATEMENT OF NET ASSETS
as of June 30, 2012

Governmental Activities
2012

ASSETS:

Current Assets:	
Cash & Investments	7,770,964
Taxes Receivable	265,112
Due From Other Governments	233,330
Other Current Assets	9,651
Inventory	44,338
Prepaid Expenses	<u>2,637</u>
Total Current Assets	<u>8,326,033</u>
Non-current Assets:	
Land/Construction in Progress	603,534
Other Capital Assets(Net)	<u>6,360,826</u>
Total Non-current Assets	<u>6,964,360</u>
Total Assets	<u>15,290,393</u>

LIABILITIES

Current Liabilities:	
Other Current Liabilities	62,491
Deferred Revenue	14,931
Compensated Absences	<u>83,676</u>
Total Current Liabilities	<u>161,098</u>
Non-current Liabilities:	
Compensated Absences	617,449
Bonds Payable	2,087,250
Other Post Employment Benefits	<u>883,578</u>
Total Non-current Liabilities	<u>3,588,277</u>
Total Liabilities	<u>3,749,375</u>

NET ASSETS:

Invested in Capital Assets, Net of Debt	6,080,782
Restricted	920,058
Unrestricted	<u>4,540,179</u>
Total Net Assets	<u>11,541,019</u>

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

Lewistown School District No. 1
 Fergus County
 Lewistown, Montana

STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2012

	Program Revenue			Net (Expense) Revenue 2012
	Charges for Services	Operating Grants		
Expenses				
GOVERNMENT OPERATIONS				
Instruction	6,366,291	112,770	955,890	(5,297,630)
Support	485,972	125,333	409	(360,229)
Media	495,871	59	52,686	(443,125)
Administration:	1,718,540	4,385	0	(1,714,155)
O & M	1,702,992	11,791	0	(1,691,201)
Transportation	853,590	0	228,812	(624,778)
Extracurricular	297,508	0	0	(297,508)
School Food	650,138	345,152	248,360	(56,627)
Other Current Charges	18,143	0	0	(18,143)
Other Post Employment Benefits	294,526	0	0	(294,526)
Depreciation-unallocated	<u>1,185</u>	0	0	<u>(1,185)</u>
Totals	<u>12,884,755</u>	<u>599,490</u>	<u>1,486,158</u>	<u>(10,799,108)</u>
GENERAL REVENUES				
District Levy				3,705,934
State Equalization				3,269,356
Other State Revenue				2,614,670
County				938,673
Federal				3,834
Investment Earnings				66,377
Gain on Asset				208,278
Other				<u>126,908</u>
Total General Revenues				<u>10,934,029</u>
CHANGE IN NET ASSETS				134,922
NET ASSETS				
Beginning of the Year				<u>11,406,098</u>
End of the Year				<u>11,541,019</u>

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

Lewistown School District No. 1
Fergus County
Lewistown, Montana

BALANCE SHEET
GOVERNMENTAL FUNDS
as of June 30, 2012

	MAJOR			Other	
	General	TRANS EL	DEBT SRV EL	Government	Total
	Fund	Fund	Fund	Funds	
ASSETS:					
Cash and Investments	1,097,383	830,970	920,058	4,922,553	7,770,964
Taxes Receivable	181,103	31,770	9,559	42,680	265,112
Due From Other Governments	0	0	0	233,330	233,330
Other Current Assets	0	0	0	9,651	9,651
Inventories	0	0	0	44,338	44,338
Prepaid Expenses	0	0	0	2,637	2,637
Total Assets	<u>1,278,486</u>	<u>862,740</u>	<u>929,617</u>	<u>5,255,190</u>	<u>8,326,033</u>
LIABILITIES:					
Deferred Revenue	<u>181,103</u>	<u>31,770</u>	<u>9,559</u>	<u>57,611</u>	<u>280,043</u>
Total Liabilities	<u>181,103</u>	<u>31,770</u>	<u>9,559</u>	<u>57,611</u>	<u>280,043</u>
FUND BALANCE:					
Fund Balances:					
Nonspendable	0	0	0	44,338	44,338
Restricted	0	0	920,058	0	920,058
Committed	279,466	830,970	0	5,153,241	6,263,677
Unassigned	<u>817,917</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>817,917</u>
Total Fund Balance	<u>1,097,383</u>	<u>830,970</u>	<u>920,058</u>	<u>5,197,580</u>	<u>8,045,991</u>
Total Liabilities and Fund Balance	<u>1,278,486</u>	<u>862,740</u>	<u>929,617</u>	<u>5,255,190</u>	<u>8,326,033</u>

RECONCILIATION TO THE STATEMENT OF NET ASSETS

Total fund balance reported above	8,045,991
Add capital assets not reported above	15,484,552
Less accumulated depreciation	<u>(8,520,192)</u> 6,964,360
Less liabilities not reported above:	
Compensated absences	(701,125)
Bonds Payable	(2,087,250)
Retirement Incentive Payable	(62,491)
Other Post Employment Benefits	<u>(883,578)</u> (3,734,444)
Deferred revenues for taxes receivable recognized as revenue in the government-wide statement of net assets	<u>265,112</u>
Net Assets	<u>11,541,019</u>

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

Lewistown School District No. 1
Fergus County
Lewistown, Montana

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	MAJOR			Other	
	General	TRANS EL	DEBT SRV EL	Government	
	Fund	Fund	Fund	Funds	Total
REVENUES:					
District Levies	2,587,614	443,710	135,612	624,968	3,791,904
Interest	11,820	7,100	5,476	41,982	66,377
Other	449	0	0	126,459	126,908
County	0	78,429	0	974,649	1,053,079
State	6,066,356	88,416	137,580	123,519	6,415,871
Federal	3,834	0	0	839,907	843,742
Charges for Services	0	0	0	599,490	599,490
Total Revenues	<u>8,670,073</u>	<u>617,655</u>	<u>278,668</u>	<u>3,330,974</u>	<u>12,897,370</u>
EXPENDITURES:					
Instructional Services	4,990,179	0	0	1,282,862	6,273,041
Support Services	312,072	0	0	160,364	472,437
Educational Media Services	292,422	0	0	200,002	492,425
General Administrative Services	1,248,334	50,193	0	331,804	1,630,331
Operation & Maintenance Services	1,293,885	7,285	500	145,626	1,447,296
Transportation Services	59,136	392,513	0	257,816	709,464
Extracurricular	235,181	0	0	28,916	264,097
School Food Services	82,253	0	0	558,943	641,196
Other Current Charges	0	0	0	32,100	32,100
Total Current Outlays	8,513,461	449,991	500	2,998,435	11,962,387
Capital Outlay	<u>212,465</u>	<u>19,859</u>	<u>0</u>	<u>501,152</u>	<u>733,475</u>
Total Expenditures	<u>8,725,925</u>	<u>469,850</u>	<u>500</u>	<u>3,499,587</u>	<u>12,695,862</u>
EXCESS (DEFICIENCY) OF REVENUES					
OVER EXPENDITURES	(55,852)	147,805	278,168	(168,613)	201,508
OTHER FINANCING SOURCES/USES					
Sale of Fixed Assets	0	6,948	0	199,829	206,778
Fund Transfers In	0	0	0	224	224
Fund Transfers (Out)	0	0	0	(224)	(224)
NET CHANGES IN FUND BALANCES	(55,852)	154,753	278,168	31,217	408,286
FUND BALANCE:					
Beginning of the Year	<u>1,153,235</u>	<u>676,217</u>	<u>641,890</u>	<u>5,166,363</u>	<u>7,637,705</u>
End of the Year	<u>1,097,383</u>	<u>830,970</u>	<u>920,058</u>	<u>5,197,580</u>	<u>8,045,991</u>

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

Lewistown School District No. 1
Fergus County
Lewistown, Montana

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, 2012

Excess of revenues over expenditures as reported in the governmental funds statement		408,286
Revenues on the Statement of Activity not included in governmental funds statement:		
Gain on Asset	1,500	
Increase (decrease) in taxes receivable	<u>(85,971)</u>	(84,471)
Expenses on the Statement of Activity not included in the governmental funds statement:		
Depreciation Expense	(567,090)	
Other Post Employment Benefits	(294,526)	
Retirement Incentive Incurred	(8,491)	
(Increase) decrease in compensated absence liability	<u>(101,761)</u>	(971,868)
Expenditures reported in the governmental funds statement not included in the Statement of Activity		
Capital outlays	733,475	
Payment on Retirement Incentive	<u>49,500</u>	<u>782,975</u>
Change in net assets reported on the Statement of Activity		<u>134,922</u>

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

Lewistown School District No. 1
Fergus County
Lewistown, Montana

STATEMENT OF FIDUCIARY NET ASSETS AND STATEMENT OF
CHANGES IN FIDUCIARY NET ASSETS
As of June 30, 2012

	Private Purpose Trust Funds
Assets	
Cash	288,917
Other Assets	<u>15,050</u>
Total Assets	<u>303,967</u>
Liabilities	
Other Current Liability	<u>9,651</u>
Total Liabilities	9,651
Net Assets	
Held in Trust for Endowment	108,788
Held in Trust for Student Activities	<u>185,528</u>
Total Net Assets	<u>294,316</u>

CHANGES IN FIDUCIARY NET ASSETS

Additions	
Contributions to Endowment	790
Revenue from Student Activities	<u>485,336</u>
Total Additions	<u>486,125</u>
Deductions	
Regular Education Expenses	50
Expenses of Student Activities	<u>476,139</u>
Total Deductions	<u>476,189</u>
Changes in Net Assets Held in Trust	9,936
Net Assets, Beginning of the Year	<u>284,379</u>
Net Assets, Ending of the Year	<u>294,316</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.a REPORTING ENTITY

The basic financial statements of School District No. 1 have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana, which conforms to generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The District does not apply FASB or APB opinions issued after November 30, 1989. The more significant School District accounting policies are described below.

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

1.b BASIS OF PRESENTATION AND ACCOUNTING

1.b.1 GOVERNMENT-WIDE STATEMENTS

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

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

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. Expenses which are not directly related to a function, indirect expenses, are not charges to a function. Program revenues include (1) charges for services such as school lunch fees and facility rental fees and (2) operating grants that are restricted to a particular functional program. Property taxes, state equalization payments, and other revenue sources not properly included with program revenue are reported as general revenues.

1.b.2 FUND ACCOUNTING

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balance are included on the balance sheet. Operating statement of these funds present net increases and decreases in current assets. Revenues are recorded when they are both measurable and available. Available means collectible within the current period anything collected after June 30 are generally not material. Deferred revenues are recorded in governmental funds for delinquent taxes at year end. Expenditures are recorded when the related fund liability is incurred except 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 earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received they are recorded as deferred revenues until earned.

GASB Statement No. 34 requires that 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. All other governmental funds that exceed 10% of total governmental fund assets, liabilities, revenues, or expenditures are reported as major funds. The following funds are major funds of School District No. 1:

General Fund – The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

Elementary Debt Service Fund – This fund is used to account for the accumulation of funds set aside for the payment of G.O. Bond Debt.

Elementary Transportation Fund – This fund is used to account for the accumulation of funds set aside for payment of student transportation costs to and from school. County wide levies to this fund are to be based upon projected transportation costs for the fiscal year.

1.b3 Other Fund Types:

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

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

1.c1 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 school districts to invest public money not necessary for immediate use in United States government treasury bills, notes, bonds; certain United States treasury obligations; United States government security money market fund if investments consist of those listed above; time or savings deposits with a bank, savings and loan association, or credit union which is FDIC, FSLIC, or NCUA insured and are located in the state; or in repurchase agreements as authorized by MCA, or Montana Board of Investments Short Term Investment Pool (STIP). Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. Investments are recorded at fair market value.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.c2 Taxes:

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

1.c3 Inventories:

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

1.c4 Capital Assets:

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

Buildings	7 - 50 years
Improvements other than buildings	20 - 25 years
Machinery and Equipment	5 - 25 years

1.c5 Vacation and sick leave:

School District employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. School District classified and administrative employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave at the current rate of pay. School District employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of unused sick leave for classified employees. However, upon termination, only 25% of accumulated sick leave is paid. Certified staff also receive 25% of accumulated sick leave, but are limited to 160 days accumulation and must be an employee of the District for at least 8 years before any payout is received.

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 \$83,676 and it is generally paid out of the general fund. The accrued liability for sick and vacation leave at June 30, 2012 was \$701,125.

1.c6 Net Assets and Fund Balance

Statement of Net Assets include the following net assets: Investments in Capital Assets, Net of Related Debt - The component of net assets 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. Unrestricted - The difference between the assets and liabilities that is not reported in Net Assets invested in Capital Assets.

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. Committed - Amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint. The governments highest level of decision-making authority, the board of trustees, must approve all committed expenditures. Unassigned - Amounts that are available for any purpose; these amounts are reported only in the general fund.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As of June 30, 2012, fund balance components other than unassigned fund balance consist of the following:

<u>Fund Type</u>	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>
General Fund	\$ 0	\$ 0	\$ 279,466
Debt Service Fund	0	920,058	0
Capital Project Funds	0	0	1,305,393
Special Revenue Funds	<u>44,338</u>	<u>0</u>	<u>4,678,818</u>
Grand Total	<u>\$ 44,338</u>	<u>\$ 920,058</u>	<u>\$ 6,263,677</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for committed or unassigned fund balances are available, the District considers amounts to have been spent first out of committed and then unassigned funds as needed, unless the board of trustees has provided otherwise.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash resources of the District are held and managed by the Fergus County treasurer. 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 agreements, money markets, and STIP and are carried at fair value. At June 30, 2012 the carrying amount of deposits was \$7,827,553. This includes \$745,580 in agency funds and \$93,738 in endowment funds. An additional \$782,729 is held separately from the County in a bond sinking fund. These funds are being held by the bank to pay the QZAB bonds discussed in note 8.a.

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

NOTE 3. TAXES

3.a MILL LEVIES

The assessed value of the roll as of January 1, 2011, upon which the levy for the 2012 fiscal year was based, was \$11,988,769 for the elementary district and \$12,970,211 for the high school district. The tax rates assessed for the year ended June 30, 2012 to finance District operations were for the elementary and high school districts as follows:

<u>Fund</u>	<u>Elementary</u>	<u>High School</u>	<u>Total</u>
General	133.58	73.79	207.37
Transportation	36.60	16.79	53.39
Tuition	0	.27	.27
Adult Education	0	6.55	6.55
Technology	5.13	4.18	9.31
Debt Service	11.46	0	11.46
Building Reserve	<u>8.17</u>	<u>7.56</u>	<u>15.73</u>
Grand Total	<u>194.94</u>	<u>109.14</u>	<u>304.08</u>

3.b DUE FROM OTHER GOVERNMENTS

<u>School / Fund</u>	<u>Amount</u>	<u>Due From / Reason</u>
Elementary - Miscellaneous	\$ 204,007	Federal Govt. - Title I Part A
Elementary - Miscellaneous	4,000	State of MT - Quality Schools Grant
High School - Miscellaneous	16,398	Federal Govt. - Carl Perkins
High School - Traffic Education	<u>8,925</u>	State of MT - Per Pupil Reimbursement
District Total	<u>\$ 233,330</u>	

NOTES TO THE FINANCIAL STATEMENTS (continued)

3.c TAXES RECEIVABLE

<u>Fund</u>	<u>Elementary</u>	<u>High School</u>	<u>Total</u>
General	\$ 115,615	\$ 65,488	\$ 181,103
Transportation	31,770	14,838	46,608
Bus Depreciation	264	138	402
Tuition	5	186	191
Adult Education	0	5,356	5,356
Technology	4,445	3,692	8,137
Debt Service	9,559	6	9,565
Building Reserve	<u>7,079</u>	<u>6,671</u>	<u>13,750</u>
Grand Total	<u>\$ 168,737</u>	<u>\$ 96,375</u>	<u>\$ 265,112</u>

3.d OTHER CURRENT ASSETS

<u>School / Fund</u>	<u>Amount</u>	<u>Due to / Reason</u>
Elementary - Miscellaneous	\$ 661	Elementary - Student Activity - Fuel reimbursement
High School - Miscellaneous	<u>8,990</u>	High School - Student Activity - Wages & Bus fuel
District Total	<u>\$ 9,651</u>	

NOTE 4. CAPITAL ASSETS

The value and changes to the capital assets for June 30, 2012 are as follows:

	<u>CAPITAL ASSETS</u>			
	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>
COST Non-Depreciable:				
Land	\$444,775	\$0	\$0	\$444,775
CIP	<u>25,720</u>	<u>158,759</u>	<u>25,720</u>	<u>158,759</u>
Total Non-Depreciable	<u>\$470,495</u>	<u>\$158,759</u>	<u>\$25,720</u>	<u>\$603,534</u>
Depreciable:				
Land Improvements	\$1,049,343	\$0	\$0	\$1,049,343
Buildings	10,653,082	184,925	0	10,838,007
Major Equipment	<u>2,629,657</u>	<u>417,011</u>	<u>53,000</u>	<u>2,993,668</u>
Total	<u>\$14,332,082</u>	<u>\$601,936</u>	<u>\$53,000</u>	<u>\$14,881,018</u>
ACCUMULATED DEPRECIATION:				
Land Improvements	\$(642,992)	\$(45,619)	\$(0)	\$(688,611)
Buildings	(5,363,057)	(275,945)	(0)	(5,639,002)
Major Equipment	<u>(2,000,053)</u>	<u>(245,526)</u>	<u>(53,000)</u>	<u>(2,192,579)</u>
Total	<u>\$(8,006,102)</u>	<u>\$(657,090)</u>	<u>\$(53,000)</u>	<u>\$(8,520,192)</u>

Depreciation was charged to the district's programs as follows:

Instructional	\$29,790
School Administration	13,486
Operation & Maintenance	320,416
Transportation	174,319
School Food	1,842
Extracurricular	26,052
Unallocated	<u>1,185</u>
Total	<u>\$567,090</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 5. RISK MANAGEMENT

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

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

NOTE 6. CURRENT LIABILITIES

6.a DEFERRED REVENUES

<u>School / Fund</u>	<u>Amount</u>	<u>Reason</u>
Elementary-General	\$ 115,615	Taxes Receivable
Elementary-Transportation	31,770	Taxes Receivable
Elementary-Bus Depreciation	264	Taxes Receivable
Elementary-Tuition	5	Taxes Receivable
Elementary-Miscellaneous	500	State of MT – School Breakfast Grant
Elementary-School Food	10,534	Prepaid Lunches
Elementary-Technology	4,445	Taxes Receivable
Elementary-Debt Service	9,559	Taxes Receivable
Elementary-Building Reserve	7,079	Taxes Receivable
High School-General	65,488	Taxes Receivable
High School-Transportation	14,838	Taxes Receivable
High School-Bus Depreciation	138	Taxes Receivable
High School-Miscellaneous	3,897	State of MT – Graduation Matters Grant
High School-Tuition	186	Taxes Receivable
High School-Adult Education	5,356	Taxes Receivable
High School-Technology	3,692	Taxes Receivable
High School-Debt Service	6	Taxes Receivable
High School-Building Reserve	6,671	Taxes Receivable
District Total	<u>\$ 280,043</u>	

NOTE 7. EMPLOYEE RETIREMENT SYSTEM

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

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

Contribution rates for both plans are required and determined by State law. The amounts contributed to the plans during the years ended June 30, 2010, 2011 and 2012 were equal to the required contribution for each year. The amounts contributed by the State, District and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	<u>2010</u>	<u>2011</u>	<u>2012</u>
TRS	\$1,191,668	\$974,934	\$941,778
PERS	<u>228,928</u>	<u>226,522</u>	<u>220,199</u>
Total	<u>\$1,420,596</u>	<u>\$1,201,456</u>	<u>\$1,161,977</u>

NOTE 8. CHANGES IN LONG TERM DEBT

8.a QZAB BONDS

The elementary district issued QZAB general obligation 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 District. These bonds all mature in 8 years. The elementary district will make annual payments to a sinking fund with the U.S. Bank of \$260,906. The first payment was made in June 2010. Interest is earned on the sinking fund at 2%, which is the same interest rate of 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 the bonds when they come due. Cash in the sinking fund at June 30, 2012 is \$782,729 and is shown as part of the elementary debt service fund. These bonds were issued for the terms and payment schedules indicated in the following schedule:

<u>Elementary</u> <u>Issue Date</u>	<u>Original</u> <u>Term</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Retired</u>	<u>Amount Outstanding</u> <u>June 30, 2009</u>
6/09	8 years	\$ 2,087,250	2%	\$ 0	\$ 2,087,250

The repayment schedule includes interest of \$ 130,455. 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>
2013	245,252	15,654
2014	240,034	20,872
2015	234,815	26,091
2016	229,597	31,309
2017	<u>224,379</u>	<u>36,529</u>
Totals	<u>\$ 1,174,077</u>	<u>\$ 130,455</u>

8.b RETIREMENT INCENTIVE

In February 2010, the District offered certified teachers a one-time incentive to retire as of June 30, 2010. The incentive offered \$500 per month for each teacher, who accepted the offer, for a period of 33 months for a total liability of \$16,500 per teacher. The incentive was accepted by six teachers giving the District a total liability of \$36,000 as of June 30, 2012. An additional three teachers agreed to retire in fiscal year 2011 giving the District a total liability of \$18,000 as of June 30, 2012. In fiscal year 2012 two teachers agreed to retire giving the District a total liability of \$8,491 as of June 30, 2012. The changes in the retirement incentive liability are noted below.

NOTES TO THE FINANCIAL STATEMENTS (continued)

8.c CHANGES IN LONG TERM DEBT

	Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2012</u>
Compensated Absences	\$ 599,363	\$ 101,762	\$ 0	\$ 701,125
Retirement Liability	103,500	8,491	49,500	62,491
Bonds Payable	2,087,250	0	0	2,087,250
OPEB	<u>589,052</u>	<u>294,526</u>	<u>0</u>	<u>883,578</u>
Total	<u>\$ 3,379,165</u>	<u>\$ 404,779</u>	<u>\$ 49,500</u>	<u>\$ 3,734,444</u>

NOTE 9. COMMITMENTS

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

9.a COMMITTED ENCUMBRANCES

<u>School / Fund</u>	<u>Amount</u>
Elementary-General	\$ 148,760
High School-Building Reserve	13,129
High School-General	<u>130,706</u>
District Total	<u>\$ 292,595</u>

NOTE 10. COOPERATIVE

10.a. SPECIAL EDUCATION

The Lewistown School District 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 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 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 District's budgeted costs for contracted special education services. All fixed assets of the Cooperative are included in the Cooperative's financial statements.

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

NOTE 11. DEFICIT FUND BALANCES

<u>SCHOOL/FUND</u>	<u>BALANCE</u>	<u>HOW TO CORRECT</u>
High School - Tuition	(155)	Collect Taxes Receivable

NOTE 12. TRANSFERS

<u>SCHOOL/FUND</u>	<u>AMOUNT</u>	<u>TO</u>
High School - Interlocal	\$ 224	High School - Miscellaneous - reimbursement

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 13. OTHER POST EMPLOYMENT BENEFITS

Plan Description - The District provides the same health care plan to all of its members. The implicit subsidy is \$3,948 per member and spouse.

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

Funding status and progress as of June 30, 2012 was as follows:

Actuarial Accrued Liability (AAL)	\$ 3,575,178
Actuarial value of plan assets	0
Unfunded Actuarial Accrued Liability (UAAL)	<u>3,575,178</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 7,372,215
UAAL as a percentage of covered payroll	48%

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Annual Required Contribution (ARC)	\$ 294,526
Interest on net OPEB obligation	0
Adjustment to ARC	0
Annual OPEB cost (expense)	294,526
Contribution made	0
Increase in net OPEB obligation	294,526
Net OPEB obligation - beginning of year	<u>589,052</u>
Net OPEB obligation - end of year	<u>\$ 883,578</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	2.50%
Health care cost rate trend	
Year	% Increase
2012-14	6.00%
2015 and after	5.00%

Lewistown School District No. 1 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 Fergus County (Budget and Actual)
 Lewistown, Montana ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
 for the Fiscal Year Ended June 30, 2012

	GENERAL FUND		TRANS EL FUND	
	Original & Final		Original & Final	
	Budget	Actual	Budget	Actual
REVENUES:				
District Levies	2,558,458	2,587,614	438,796	443,710
Interest Earnings	16,331	11,820	0	7,100
Other Local & District Sources	570	449	0	0
County Sources	0	0	82,500	78,429
State Sources	6,070,190	6,066,356	92,487	88,416
Federal	0	3,834	0	0
Total Revenues	<u>8,645,549</u>	<u>8,670,073</u>	<u>613,783</u>	<u>617,655</u>
EXPENDITURES:				
Instructional Services		4,919,527	0	0
Support Services		312,072	0	0
Educational Media Services		292,422	0	0
General Administrative Services		1,248,334	0	50,193
Operation & Maintenance Services		1,293,885	0	7,285
Transportation Services		59,136	1,200,000	392,513
Extracurricular		235,181	0	0
School Food Services		<u>82,253</u>	<u>0</u>	<u>0</u>
Total Current Outlays		8,442,809	1,200,000	449,991
Capital Outlay		<u>202,482</u>	<u>0</u>	<u>19,859</u>
Total Expenditures	<u>8,645,549</u>	<u>8,645,291</u>	<u>1,200,000</u>	<u>469,850</u>
EXCESS(DEFICIENCY)				
REV OVER EXP.		24,782		147,805
OTHER FINANCING SOURCES/USES				
Sale of Fixed Assets		<u>0</u>		<u>6,948</u>
NET CHANGES IN FUND BALANCE		24,782		154,753
BEGINNING FISCAL YEAR FUND BALANCE		<u>793,135</u>		<u>676,217</u>
ENDING FISCAL YEAR FUND BALANCE		<u>817,917</u>		<u>830,970</u>

The accompanying NOTES TO REQUIRED SUPPLEMENTAL INFORMATION are an integral part of these statements.

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

NOTES TO THE BUDGET VS ACTUAL SCHEDULE

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, 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.a1 General Budget Policies:

The School District's funds are either budgeted or nonbudgeted 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 nonbudgeted, 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 budgeted funds. The major fund, Debt Service is not included in the schedule because it is not a special revenue fund. The original budget was not amended so the original budget and the final budget are the same.

1.a2 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:

- (1) 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.
- (2) Before the fourth Monday in July, the County Superintendent estimates the revenue required for each fund.
- (3) 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.
- (4) 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.
- (5) According to State statutes, the expenditures of a budgeted fund may not legally exceed the adopted budget.
- (6) At the end of a fiscal year, unencumbered appropriations lapse unless specifically obligated by the School District.

1.b Fund Balance Reconciliation

The general fund – fund balance on the statement of revenue, expenditures, and changes in fund balances is different than the general fund – fund balance on the schedule of revenues, expenditures, and changes in fund balance (budget and actual) by \$279,466. This is due to the reserve for encumbrances. Encumbrances are not included as expenditures on the first statement as they do not meet the GAAP definition of expenditures. The District reports encumbrances at year end as budgeted expenditures and establishes a reserve of fund balances for encumbrances on the GAAP balance sheet since they do not represent GAAP expenditures or liabilities.

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

SCHEDULE OF REPORTED ENROLLMENT
Fiscal Year Ended June 30, 2012

	Reported Enrollment	Per Audit	Difference
FALL ENROLLMENT OCTOBER, 2011			
Kindergarten:	98	98	0
Grades 1 - 6:	532	532	0
Part-time	3	3	0
Junior High:	<u>183</u>	<u>183</u>	<u>0</u>
Total Elementary:	<u>816</u>	<u>816</u>	<u>0</u>
High School:	361	361	0
Part-time	1	1	0
19 yr. old	<u>2</u>	<u>2</u>	<u>0</u>
Total High School:	<u>364</u>	<u>364</u>	<u>0</u>
SPRING ENROLLMENT FEBRUARY, 2012			
Kindergarten:	98	98	0
Grades 1 - 6:	532	532	0
Part-time	2	2	0
Junior High:	<u>184</u>	<u>184</u>	<u>0</u>
Total Elementary:	<u>816</u>	<u>816</u>	<u>0</u>
High School:	342	342	0
Part-time	1	1	0
19 yr. old	<u>2</u>	<u>2</u>	<u>0</u>
Total High School:	<u>345</u>	<u>345</u>	<u>0</u>

LEWISTOWN SCHOOLS
END OF YEAR REVENUES & EXPENSES
STUDENT ACTIVITY FUND

June 30, 2012

Page 1 of 2

	BALANCE July 1, 2011	REVENUES	EXPENSES	BALANCE June 30, 2012
ANNUAL	9,023	9,081	8,710	9,394
A. P. TESTING	1,737	3,806	3,660	1,883
BAND	2,193	14,407	14,914	1,686
EAST MT JAZZ	(1,483)	11,795	10,311	0
BPA	5,010	5,734	9,526	1,218
CT MT MENTORS	265	0	0	265
CHEERLEADERS	5,239	11,618	9,940	6,916
CLAWS-HONOR SOCIETY	229	233	410	52
EAGLE RENAISSANCE	2,840	1,026	935	2,931
F CLUB	1,342	393	148	1,587
FERGUS NEWSPAPER	261	0	0	261
FFA	9,788	27,270	26,403	10,655
FCCLA	1,541	18,714	14,941	5,314
FLY FISHING	246	0	25	221
FOREIGN LANGUAGE	66	2,662	510	2,218
HOW CLUB	1,347	0	29	1,318
VICA	1,898	5,074	5,680	1,292
KEY CLUB	113	3,587	3,467	233
ART CLUB	518	979	836	661
SCIENCE CLUB	9,022	2,333	5,259	6,096
SKI CLUB	1,843	13,249	12,377	2,715
STUDENT COUNCIL	(1,219)	8,561	5,792	1,550
THESPIANS	2,225	443	158	2,510
TROPHY	2,280	0	0	2,280
VOCAL MUSIC	3,733	20,956	20,023	4,665
DISTRICT 8 MUSIC	2,874	5,595	5,747	2,722
WEIGHT CLUB	2,426	493	380	2,539
AP GOVT	(3,309)	26,855	23,546	0
CLASS OF 2012	3,828	853	2,930	1,751
CLASS OF 2011	1,186	0	1,186	0
CLASS OF 2013	(37)	13,164	9,293	3,835
CLASS OF 2014	0	0	14	(14)
EXTRACURRICULAR	31,819	204,165	211,728	24,256
GIRLS SOFTBALL/BOYS XCOUNTRY	23,278	27,440	29,488	21,229
SUBTOTAL	122,119	440,487	438,368	124,239

LEWISTOWN SCHOOLS
END OF YEAR REVENUES & EXPENSES
STUDENT ACTIVITY FUND

June 30, 2012

Page 2 of 2

	BALANCE July 1, 2011	REVENUES	EXPENSES	BALANCE June 30, 2012
BUILDERS CLUB	355	0	0	355
LC SERVICE COUNCIL	0	1,488	241	1,247
CHEERLEADERS	819	166	562	423
CONSUMER TECH	650	2,589	2,737	502
FACS	(42)	2,505	2,437	26
BC, SC STORE	593	3,288	2,972	910
MUSIC	911	626	442	1,095
PHOTO CLUB	6,117	3,875	5,731	4,261
SERVICE LEARNING	904	150	272	783
SKI CLUB	805	15,551	14,712	1,645
STUDENT COUNCIL	751	1,217	749	1,219
NEWS	37	133	0	170
GIS CLUB	0	1,200	22	1,178
COMPUTER SERV LEARNING	129	0	0	129
STUDENT ACTIVITIES	42,181	12,061	6,895	47,347
TOTAL	176,331	485,336	476,139	185,528

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2012
 Page 1 of 2

GRANTOR/PASS THROUGH GRANT AND PROGRAM TITLE	Pass Through or Grantor Contract #	CFDA Number	GRANT AWARD AMOUNT
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH STATE OF MONTANA OFFICE OF PUBLIC INSTRUCTION:			
Title I Part A	1402583100	84.010A	\$ 379,720
IDEA Part B	coop	84.027A	41,799
ARRA IDEA Part B	coop	84.391	119,701
Carl Perkins	1402598100BG	84.048A	23,025
Adult Basic Ed		84.002	27,302
Education Jobs Fund		84.410	3,834
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH STATE OF MONTANA OFFICE OF PUBLIC INSTRUCTION:			
NATIONAL SCHOOL LUNCH			
Cash Payments 1/		10.555	248,360
Commodities 2/		10.555	37,555

Notes: 1/ No separate funds or accounts maintained, district assumed first in first out for program monies.
 2/ The commodities are not included in the basic financial statements.
 3/ The Schedule of Expenditures of Federal Awards is prepared using the modified accrual basis of accounting which is described in note 1.b2.

Lewistown School District No. 1 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fergus County Fiscal Year Ended June 30, 2012
 Lewistown, Montana 59457 Page 2 of 2

GRANTOR/PASS THROUGH GRANT AND PROGRAM TITLE	Balance July 1, 2011	Revenues	Allowable Expenditures	Balance June 30, 2012
U.S. DEPARTMENT OF EDUCATION: PASSED THROUGH STATE OF MONTANA OFFICE OF PUBLIC INSTRUCTION:				
Title I Part A	\$ 0	\$ 379,720	\$ 379,720	\$ 0
Idea Part B	0	41,799	41,799	0
ARRA Idea Part B	0	119,701	119,701	0
Carl Perkins	0	23,025	23,025	0
Adult Basic Ed	0	27,302	27,302	0
Education Jobs Fund	0	3,834	3,834	0
TOTAL DEPT OF EDUCATION:	<u>\$ 0</u>	<u>\$ 595,381</u>	<u>\$ 595,381</u>	<u>\$ 0</u>
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH STATE OF MONTANA OFFICE OF PUBLIC INSTRUCTION:				
NATIONAL SCHOOL LUNCH				
Cash Payments 1/	\$ 0	\$ 248,360	\$ 248,360	\$ 0
Commodities 2/	0	37,555	37,555	0
TOTAL DEPT OF AGRICULTURE:	<u>\$ 0</u>	<u>\$ 285,915</u>	<u>\$ 285,915</u>	<u>\$ 0</u>
TOTAL FEDERAL PROGRAMS:	<u>\$ 0</u>	<u>\$ 881,296</u>	<u>\$ 881,296</u>	<u>\$ 0</u>

- Notes: 1/ No separate funds or accounts maintained, district assumed first in first out for program monies.
 2/ The commodities listed above are not included in the basic financial statements.
 3/ The Schedule of Expenditures of Federal Awards is prepared using the modified accrual basis of accounting which is described in note 1.b2.

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

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

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

We have audited 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, 2012, which collectively comprise the Lewistown School District No. 1's basic financial statements and have issued our report thereon dated November 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lewistown School District No. 1's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

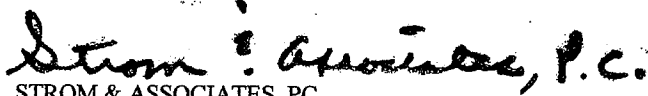
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

This report is intended solely for the information and use of the Board of Trustees, management of School District No. 1, the Montana Department of Administration, the Montana Office of Public Instruction, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


STROM & ASSOCIATES, PC
Billings, Montana
November 6, 2012

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

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Independent Auditor's Report

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

Compliance

We have audited Lewistown School District No. 1's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *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, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Lewistown School District No. 1's management. Our responsibility is to express an opinion on Lewistown School District No. 1's compliance based on our audit.

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 OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on Lewistown School District No. 1's compliance with those requirements.

In our opinion, School District No. 1 complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

The management of Lewistown School District No. 1, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lewistown School District No. 1's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the 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, noncompliance 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.

Our consideration of the 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of trustees, management of School District No. 1, the Montana Department of Administration, the Montana Office of Public Instruction, and federal awarding agency and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Strom & Associates, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
November 6, 2012

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor, Strom & Associates, PC, has issued an unqualified opinion on School District No. 1's financial statements as of and for the year ended June 30, 2012.
2. Our audit disclosed no significant deficiencies in internal controls and none that are considered to be material weaknesses relating to internal controls over financial reporting and its operation.
3. Our audit disclosed no noncompliance which was material to the financial statements of School District No. 1.
4. Our audit disclosed no significant deficiencies that are considered to be material weaknesses relating to internal controls over major federal awards programs.
5. The auditor, Strom & Associates, PC, has issued an unqualified opinion on School District No. 1's compliance with major federal awards programs as of and for the year ended June 30, 2012.
6. The audit disclosed no audit findings which are required to be reported under section .510 of OMB Circular A-133.
7. The major program for Lewistown School District No. 1 for the year ended June 30, 2012 was Title I Part A.
8. The threshold used to distinguish between Type A and type B programs was \$300,000. Lewistown School District No. 1 has Title I Part A as a type A program.
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."

There were no findings or recommendations.

C. Findings and questioned costs for Federal awards, as defined in section .510 (a) of OMB Circular A-133.

The audit disclosed no findings or questioned costs relating to federal awards as defined in section .510 (a) of OMB Circular A-133.