

LEWISTOWN SCHOOL DISTRICT NO. 1

**FERGUS COUNTY
LEWISTOWN, MONTANA**

FINANCIAL AND COMPLIANCE REPORT

Fiscal year Ended June 30, 2011

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
Joe Irish	Trustee
Lisa Pierce	Trustee
Mary Schelle	Trustee
Barb Thomas	Trustee
Monte Weeden	Trustee

OFFICIALS

Jason A. Butcher	Superintendent
Mike Waterman	District Clerk
Rhonda Long	County Superintendent
Tom Meissner	County Attorney

**Lewistown Public Schools
Management Discussion and Analysis (MD&A)
For The Year Ended June 30, 2011**

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, 2011.

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 \$11,083,446 as of June 30, 2011. This amount represents an increase of \$318,152—roughly 3%—from June 30, 2010. Approximately 41% of the district's net assets reflect its investment in capital assets (e.g. land, land improvements, buildings and improvements, and machinery and equipment). This percentage is down from 2010 as the District paid for some major facility renovations during the year.

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

Governmental Activities FY 2011

Current and other assets	8,118,808
Capital assets	<u>6,796,475</u>
Total Assets	14,915,283

Current liabilities	244,130
Non-current liabilities	<u>3,269,555</u>
Total Liabilities	3,513,685

Invested in capital assets, Net of debt	4,655,225
Restricted	641,896
Unrestricted	<u>6,104,477</u>
Total Net Assets	11,401,598

**Lewistown Public Schools
Changes in Net Assets**

Governmental Activities FY 2011

GENERAL REVENUES

District Levy	3,747,990
State Equalization	2,825,377
Other State Revenue	2,656,433
County	980,561
Federal	585,293
Investment Earning	97,800
Other	<u>254,498</u>
Total General Revenue	\$13,235,922

GOVERNMENT OPERATIONS

Instruction	6,516,685
Support	405,662
Media	515,666
Administration	1,507,090
O & M	1,948,668
Transportation	857,695
Extracurricular	274,692
School Food	643,861
Other Current Charges	47,203
Interest	500
OPEB	294,526
Depreciation – unallocated	<u>1,185</u>
Total Operations	\$13,013,433

Capital Assets

As of June 30, 2011, 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, 2011.

Land and Improvements	1,494,118
Accumulated Depreciation	(642,992)
	851,126
Buildings and Improvements	10,653,082
Construction in Progress	25,720
Accumulated Depreciation	(5,363,057)
	5,315,745
Machinery and Equipment	2,629,657
Accumulated Depreciation	(2,000,053)
	629,604

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:

- Lewistown voters again rejected the District's request for additional operating funds. Given the community's reluctance to approve higher taxes, the Board must weigh the merits of pursuing future levy requests.
- At the time of this writing, the Trustees and teachers' union have begun the negotiations process. Although the union graciously agreed to 0% raises for the last two years, but this generosity cannot be expected to continue indefinitely. The two groups must craft an agreement that is fiscally responsible, but promotes the recruitment and retention of quality instructional staff.
- Currently, a group of schools is suing the state of Montana over a bill that the governor vetoed. The legislation would have provided per-district and per-student funding rates at the level required by law. The governor's veto reduced this funding, and the plaintiffs allege that the state failed to meet its own funding requirements. Resolution is expected in April 2012.

- 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 2011 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.

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, 2011, 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, 2011, 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.

The government adopted the provisions of Governmental Accounting Standards Board statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions as discussed in note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 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.

The management's discussion and analysis information on pages 3 through 7 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 but are supplemental information. All of these schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, 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
January 25, 2012

Lewistown School District No. 1
Fergus County
Lewistown, Montana

STATEMENT OF NET ASSETS
as of June 30, 2011

Governmental Activities
2011

ASSETS:

Current Assets:

Cash & Investments	7,472,973
Taxes Receivable	351,083
Due From Other Governments	247,606
Other Current Assets	2,500
Inventory	<u>44,646</u>
Total Current Assets	<u>8,118,808</u>

Non-current Assets:

Land/Construction in Progress	470,495
Other Capital Assets(Net)	<u>6,325,980</u>
Total Non-current Assets	<u>6,796,475</u>
Total Assets	<u>14,915,283</u>

LIABILITIES

Current Liabilities:

Deferred Revenue	130,020
Compensated Absences	60,110
Current Payable	<u>49,500</u>
Total Current Liabilities	<u>239,630</u>

Non-current Liabilities:

Compensated Absences	539,253
Other Payables	54,000
Other Post Employment Benefits	589,052
Bonds Bonds	<u>2,087,250</u>
Total Non-current Liabilities	<u>3,269,555</u>
Total Liabilities	<u>3,509,185</u>

NET ASSETS:

Invested in Capital Assets, Net of Debt	4,659,725
Restricted	641,896
Unrestricted	<u>6,104,477</u>
Total Net Assets	<u>11,406,098</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, 2011

	Program Revenue			Net (Expense) Revenue 2011
	Charges for Services	Operating Grants		
Expenses				
GOVERNMENT OPERATIONS				
Instruction	6,512,185	177,715	1,115,388	(5,219,083)
Support	405,662	0	73	(405,589)
Media	515,666	0	55,143	(460,524)
Administration:	1,507,090	0	1,820	(1,505,270)
O & M	1,948,668	10,652	1,590	(1,936,426)
Transportation	857,695	0	218,222	(639,473)
Extracurricular	274,692	0	0	(274,692)
School Food	643,861	275,829	231,539	(136,493)
Other Current Charges	47,203	0	0	(47,203)
Interest	500	0	0	(500)
Other Post Employment Benefits	294,526	0	0	(294,526)
Depreciation-unallocated	<u>1,185</u>	0	0	<u>(1,185)</u>
Totals	<u>13,008,933</u>	<u>464,196</u>	<u>1,623,774</u>	<u>(10,920,963)</u>
GENERAL REVENUES				
District Levy				3,747,990
State Equalization				2,825,377
Other State Revenue				2,656,433
County				980,561
Federal				585,293
Investment Earnings				97,800
Gain on Asset				9,800
Other				<u>244,698</u>
Total General Revenues				<u>11,147,952</u>
CHANGE IN NET ASSETS				226,989
NET ASSETS				
Beginning of the Year				<u>11,083,446</u>
Prior Period Adjustments				<u>95,663</u>
End of the Year				<u>11,406,098</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, 2011

	MAJOR		Other	
	General	BUS DEPR EL	Government	
	Fund	Fund	Funds	Total
ASSETS:				
Cash and Investments	1,153,235	859,965	5,459,772	7,472,973
Taxes Receivable	242,553	2,383	106,147	351,083
Due From Other Governments	0	0	247,606	247,606
Other Current Assets	0	0	2,500	2,500
Inventories	0	0	44,646	44,646
Total Assets	<u>1,395,788</u>	<u>862,349</u>	<u>5,860,671</u>	<u>8,118,808</u>
LIABILITIES:				
Deferred Revenue	<u>242,553</u>	<u>2,383</u>	<u>236,167</u>	<u>481,103</u>
Total Liabilities	<u>242,553</u>	<u>2,383</u>	<u>236,167</u>	<u>481,103</u>
FUND BALANCE:				
Fund Balances:				
Nonspendable		0	44,646	44,646
Restricted	0	0	641,890	641,890
Committed	360,100	859,965	4,937,968	6,158,034
Unassigned:	<u>793,135</u>	<u>0</u>	<u>0</u>	<u>793,135</u>
Total Fund Balance	<u>1,153,235</u>	<u>859,965</u>	<u>5,624,504</u>	<u>7,637,705</u>
Total Liabilities and Fund Balance	<u>1,395,788</u>	<u>862,349</u>	<u>5,860,671</u>	<u>8,118,808</u>

RECONCILIATION TO THE STATEMENT OF NET ASSETS

Total fund balance reported above		7,637,705
Add capital assets not reported above	14,802,577	
Less accumulated depreciation	<u>(8,006,102)</u>	6,796,475
Less liabilities not reported above:		
Compensated absences	599,363	
Other Payable	103,500	
OPEB	589,052	
Bonds Payable	<u>2,087,250</u>	(3,379,165)
Deferred revenues for taxes receivable recognized as revenue in the government-wide statement of net assets		<u>351,083</u>
Net Assets		<u>11,406,098</u>

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

Lewistown School District No. 1 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 Fergus County GOVERNMENTAL FUNDS
 Lewistown, Montana For the Year Ended June 30, 2011

	MAJOR		Other	
	General	BUS DEPR EL	Government	
	Fund	Fund	Funds	Total
REVENUES:				
District Levies	2,633,778	6,137	1,197,219	3,837,134
Interest	16,331	14,482	66,986	97,800
Other	95	0	126,198	126,292
County	0	0	1,089,672	1,089,672
State	5,697,228	0	324,885	6,022,114
Federal	585,293	0	974,360	1,559,653
Charges for Services	476	0	463,720	464,196
Total Revenues	<u>8,933,200</u>	<u>20,620</u>	<u>4,243,041</u>	<u>13,196,861</u>
EXPENDITURES:				
Instructional Services	4,948,927	0	1,526,817	6,475,743
Support Services	327,260	0	81,073	408,333
Educational Media Services	301,961	0	177,066	479,027
General Administrative Services	1,159,402	0	383,969	1,543,371
Operation & Maintenance Services	1,533,182	0	137,660	1,670,842
Transportation Services	64,226	0	619,917	684,143
Extracurricular	221,276	0	27,365	248,641
School Food Services	122,877	0	515,766	638,644
Other Current Charges	0	0	46,660	46,660
Total Current Outlays	8,679,112	0	3,516,292	12,195,404
Capital Outlay	23,259	82,209	828,191	933,659
Debt Service	0	0	500	500
Total Expenditures	<u>8,702,371</u>	<u>82,209</u>	<u>4,344,983</u>	<u>13,129,562</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	230,830	(61,589)	(101,942)	67,299
OTHER FINANCING SOURCES/USES				
Sale of Assets	0	0	118,406	118,406
NET CHANGES IN FUND BALANCES	230,830	(61,589)	16,465	185,705
FUND BALANCE:				
Beginning of the Year	922,823	921,555	5,366,246	7,210,624
Prior Period Adjustments	(417)	0	241,793	241,376
End of the Year	<u>1,153,235</u>	<u>859,965</u>	<u>5,624,504</u>	<u>7,637,705</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, 2011

	Private Purpose Trust Funds
Assets	
Cash	267,329
Other Assets	<u>17,050</u>
Total Assets	<u>284,379</u>
Liabilities	
Total Liabilities	<u>0</u>
Net Assets	
Held in Trust for Endowment	108,048
Held in Trust for Student Activities	<u>176,331</u>
Total Net Assets	<u>284,379</u>

CHANGES IN FIDUCIARY NET ASSETS

Additions	
Contributions to Endowment	1,215
Revenue from Student Activities	<u>391,186</u>
Total Additions	<u>392,401</u>
Deductions	
Regular Education Expenses	12
Expenses of Student Activities	<u>413,845</u>
Total Deductions	<u>413,857</u>
Changes in Net Assets Held in Trust	(21,457)
Net Assets, Beginning of the Year	308,397
Prior Period Adjustments	<u>(2,561)</u>
Net Assets, Ending of the Year	<u>284,379</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 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 and proceeds from long-term debt or capital leases are reported as other financing sources.

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. When both restricted and unrestricted resources are available for use it is the district's policy to use the restricted funds first.

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 Bus Depreciation Fund – This fund is used to account for the accumulation of funds set aside for the purchase of new yellow school buses. Deposits made to the fund are limited by depreciation percentages of current busses owned by the district.

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 \$ 60,110 and it is generally paid out of the general fund. The accrued liability for sick and vacation leave at June 30, 2011 was \$559,363.

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: Nonspendable - Includes fund balance amounts that cannot be spent because it is not in spendable form, inventory. 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)

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, Certificate Deposits, Money Markets, and STIP and are carried at fair value. At June 30, 2011 the carrying amount of deposits was \$7,958,814. This includes \$916,656 in agency funds and \$90,998 in endowment funds. An additional \$521,813 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, 2010, upon which the levy for the 2011 fiscal year was based, was \$12,067,868 for the elementary district and \$13,027,196 for the high school district. The tax rates assessed for the year ended June 30, 2011 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	133.91	75.14	209.05
Transportation	36.74	16.75	53.49
Adult Education	0	4.99	4.99
Technology	5.10	4.16	9.26
Debt Service	9.85	0	9.85
Building Reserve	<u>8.12</u>	<u>7.52</u>	<u>15.64</u>
Grand Total	<u>193.72</u>	<u>108.56</u>	<u>302.28</u>

3.b TAXES RECEIVABLE

<u>Fund</u>	<u>Elementary</u>	<u>High School</u>	<u>Total</u>
General	\$ 154,516	\$ 88,037	\$ 242,553
Transportation	41,854	19,429	61,283
Bus Depreciation	2,383	1,365	3,748
Tuition	42	47	89
Adult Education	5,804	4,889	10,693
Technology	0	4,862	4,862
Debt Service	9,660	6	9,666
Building Reserve	<u>9,568</u>	<u>8,621</u>	<u>18,189</u>
Grand Total	<u>\$ 223,827</u>	<u>\$ 127,256</u>	<u>\$ 351,083</u>

3.c DUE FROM OTHER GOVERNMENTS

<u>School / Fund</u>	<u>Amount</u>	<u>Due From / Reason</u>
Elementary – Miscellaneous	\$ 149,147	Federal Govt. – Title I Part A
Elementary – Miscellaneous	86,298	Federal Govt. – ARRA Title I Part A
Elementary – Miscellaneous	4,331	Federal Govt. – Consortium Grant
High School – Traffic Education	<u>7,830</u>	State of MT – Consortium Grant
District Total	<u>\$ 247,606</u>	

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4. CAPITAL ASSETS

The value and changes to the capital assets for June 30, 2011 are as follows:

	CAPITAL ASSETS			
	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
COST Non-Depreciable:				
Land	\$ 426,175	\$ 18,600	\$ 0	\$ 444,775
CIP	0	25,720	0	25,720
Total	<u>\$ 426,175</u>	<u>\$ 44,320</u>	<u>\$ 0</u>	<u>\$ 470,495</u>
Depreciable:				
Land Improvements	\$ 1,206,456	\$ 149,536	\$ 306,649	\$ 1,049,343
Buildings	9,479,178	1,192,504	18,600	10,653,082
Major Equipment	2,712,178	210,942	293,463	2,629,657
Total	<u>\$ 13,397,812</u>	<u>\$ 1,552,982</u>	<u>\$ 618,712</u>	<u>\$ 14,332,082</u>
ACCUMULATED DEPRECIATION:				
Land Improvements	\$ (711,688)	\$(115,215)	\$(183,911)	\$ (642,992)
Buildings	(4,859,400)	(522,257)	(18,600)	(5,363,057)
Major Equipment	(1,956,582)	(297,700)	(254,229)	(2,000,053)
Total	<u>\$(7,527,670)</u>	<u>\$(935,172)</u>	<u>\$(456,740)</u>	<u>\$(8,006,102)</u>

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

Instructional	\$ 29,443
School Administration	10,025
Transportation	160,557
Operation & Maintenance	329,983
Extracurricular	26,051
School Food	1,238
Unallocated	1,185
Transfers	376,690
Total	<u>\$ 935,172</u>

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 accessed. There is no other liability to the district other than timely payments of premiums. The district can withdraw from the Workers Compensation Risk Retention Program with 60 days notice at 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. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The Public Employees' Retirement System (PERS) is a state wide retirement plan established in 1945 and governed by Title 19, chapter 2 & 3 of the Montana Code Annotated providing retirement services to substantially all public employees. The PERS is a mandatory, except for those employed less than one half time, multiple-employer, cost-sharing plan administered by the Public Employees' Retirement Division (PERD).

The PERS offers retirement, disability and death benefits to plan members and their beneficiary. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarial reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirements benefits are determined by taking 1/50 times the number of years of service times the highest consecutive 36 months salary. Members' rights become vested after five years of service. Beginning January 1998, a guaranteed annual benefit adjustment provides an annual 3% benefit increase each January if the recipient has been receiving a benefit for at least 36 months.

The Teachers' Retirement System (TRS) is a state wide retirement plan established in 1937 and governed by Title 19, chapter 20 of the Montana Code Annotated providing retirement services to teachers or professional staff of any public elementary or secondary school, colleges of technology or unit of the university system. The TRS is a mandatory multiple-employer, cost-sharing plan administered by the Teachers' Retirement Board.

The TRS offers retirement, disability and death benefits to plan members and their beneficiary. Benefit eligibility is age 60 with at least five years of service or 25 years of service regardless of age. Actuarial reduced benefits may be taken after age 50 with at least five years of service. The benefit is 1/60 times the number of years of service times the highest consecutive 36 months salary. Members' rights become vested after five years of service. Beginning January 2000, a guaranteed annual benefit adjustment provides an annual benefit increase each January of up to 3% if the recipient has been receiving a benefit for at least 36 months.

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

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

For TRS the actuarial costs are calculated using the entry age actuarial cost method. For PERS the actuarial costs are calculated using the entry age normal cost method. The actuarial value of assets is the difference between the total market value of assets and the cost value of assets is added to the cost value on a 4 year smoothed basis for both TRS and PERS. The following rates were assumed, for investment return 7.75% for both TRS & PERS, projected salary increases 4.25% for both, and post retirement benefit increases of 3% for PERS employees hired before July 1, 2007 and 1.5% for PERS employees hired after July 1, 2007 and up to 1.5% for TRS. The amortization method used was level-percentage of projected payroll and the last actuarial valuation was June 30, 2007.

Contribution rates for both plans are required and determined by State law. The PERS rates for employees, was increased from 6.80% to 6.90% effective July 1, 1999. The PERS rate for the State was set at .37% for School District Employers starting July 1, 2009. The State rate for TRS was set at 2.49% starting July 1, 2009. The PERS rate for employers was increased from 6.7% to 6.8% effective July 1, 1999. The TRS rate for employees was increased from 7.044% to 7.15% effective July 1, 1999. The employer rate for TRS was increased from 7.459% to 7.47% effective January 1, 1994.

The amounts contributed to the plans during the years ended June 30, 2009, 2010 and 2011 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>2009</u>	<u>2010</u>	<u>2011</u>
TRS	\$ 890,708	\$ 1,191,668	\$ 974,934
PERS	<u>225,858</u>	<u>228,928</u>	<u>226,522</u>
Total	<u>\$ 1,116,566</u>	<u>\$ 1,420,596</u>	<u>\$ 1,201,456</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7. CURRENT LIABILITIES

7.a DEFERRED REVENUES

<u>School / Fund</u>	<u>Amount</u>	<u>Reason</u>
Elementary-General	\$ 154,516	Taxes Receivable
Elementary-Transportation	41,854	Taxes Receivable
Elementary-Bus Depreciation	2,383	Taxes Receivable
Elementary- Tuition	42	Taxes Receivable
Elementary- Miscellaneous	119,701	Federal Govt. - ARRA IDEA Part B
Elementary- Miscellaneous	10,319	Prepaid Lunch Accounts
Elementary-Adult Ed	5,804	Taxes Receivable
Elementary-Debt Service	9,660	Taxes Receivable
Elementary-Building Reserve	9,568	Taxes Receivable
High School-General	88,037	Taxes Receivable
High School-Transportation	19,429	Taxes Receivable
High School-Bus Depreciation	1,365	Taxes Receivable
High School- Tuition	47	Taxes Receivable
High School- Technology	4,862	Taxes Receivable
High School-Adult Ed	4,889	Taxes Receivable
High School-Debt Service	6	Taxes Receivable
High School-Building Reserve	8,621	Taxes Receivable
District Total	<u>\$ 481,103</u>	

NOTE 8. CHANGES IN LONG TERM DEBT

8.a GENERAL OBLIGATION 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. General obligation 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, 2011 is \$521,813 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>Original</u>		<u>Interest</u>		<u>Amount Outstanding</u>
<u>Issue Date</u>	<u>Term</u>	<u>Amount</u>	<u>Rate</u>	<u>Retired</u>	<u>June 30, 2009</u>
6/09	8 years	\$ 2,087,250	2%	\$ 0	\$ 2,087,250

The repayment schedule includes interest of \$ 140,891. 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>
2012	\$ 250,470	\$ 10,436
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>\$ 1,424,547</u>	<u>\$ 140,891</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 \$99,000. An additional three teachers agreed to retire in fiscal year 2011 for a \$4,500 payment in fiscal year 2012 and a \$6,000 payment in fiscal year 2013. In fiscal year 2009 one teacher agreed to retire for a \$5,500 payment in fiscal year 2010 and a \$6,000 payment in fiscal year 2011. The changes in the retirement incentive liability are noted below.

8.c CHANGES IN LONG TERM DEBT

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Compensated Absences	\$ 637,842	\$ 0	\$ 38,479	\$ 599,363
Retirement Liability	105,000	31,500	33,000	103,500
OPEB	294,526	294,526	0	589,052
Bonds Payable	<u>1,826,344</u>	<u>260,906</u>	<u>0</u>	<u>2,087,250</u>
Total	<u>\$ 2,863,712</u>	<u>\$ 586,932</u>	<u>\$ 71,479</u>	<u>\$ 3,379,165</u>

NOTE 9. COOPERATIVE

9.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 10. PRIOR PERIOD ADJUSTMENTS

<u>SCHOOL/FUND</u>	<u>AMOUNT</u>	<u>REASON</u>
Elementary - General	\$ 278	Refunded Expenditures
Elementary - Miscellaneous	(455)	Prior Year Expense
Elementary - Lease Rental Fund	(245)	June Rent Expense
Elementary - School Food	(182)	Prior Year Expense
Elementary - Debt Service	260,906	To account for total debt outstanding
High School - General	(695)	Prior Year Expense
High School - Miscellaneous	(20,275)	Moved from Misc fund to Student Activity Account
High School - Miscellaneous	540	Refunds
High School - Building	<u>1,504</u>	Prior year Parking Fine Collected
Total Governmental Funds	<u>\$ 241,376</u>	
Elementary - Debt Service	(260,906)	Does not affect GASB 34 statements
Capital Asset Adjustment	<u>115,193</u>	Capital assets reevaluated
Total GASB 34 Statement	<u>\$ 95,663</u>	

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11. 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, 2011 was as follows:

Actuarial Accrued Liability (AAL)	\$ 3,575,178
Actuarial value of plan assets	<u>0</u>
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.

Annual Required Contribution (ARC)	\$ 294,526
Interest on net OPEB obligation	0
Adjustment to ARC	<u>0</u>
Annual OPEB cost (expense)	294,526
Contribution made	<u>0</u>
Increase in net OPEB obligation	294,526
Net OPEB obligation - beginning of year	<u>294,526</u>
Net OPEB obligation - end of year	<u>\$ 589,052</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 (Federal Office of the Actuary)	
Year	% Increase
2011-2014	6.00%
2015 and after	5.00%

NOTE 12. COMMITMENTS

The District's encumbrance policy is for fiscal year end encumbrances exceeding \$5,000 to be considered significant encumbrances. All encumbrances are classified as committed in the funds noted below:

12.a COMMITTED ENCUMBRANCES

<u>School / Fund</u>	<u>Amount</u>
Elementary-General	\$ 193,029
Elementary-Miscellaneous	154,209
Elementary-Building Reserve	51,287
High School-Miscellaneous	11,240
High School-Building Reserve	10,717
High School-General	<u>167,072</u>
District Total	<u>\$ 587,554</u>

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, 2011

	GENERAL FUND		BUS DEPR EL FUND	
	Original & Final		Original & Final	
	Budget	Actual	Budget	Actual
REVENUES:				
District Levies	2,594,908	2,633,778	0	6,137
Interest Earnings	18,233	16,331	0	14,482
Other Local & District Sources	75	95	0	0
State Sources	6,276,149	5,697,228	0	0
Federal	0	585,293	0	0
Charges for Services	<u>265</u>	<u>476</u>	<u>0</u>	<u>0</u>
Total Revenues	<u>8,889,629</u>	<u>8,933,200</u>	<u>0</u>	<u>20,620</u>
EXPENDITURES:				
Instructional Services		4,984,434	0	0
Support Services		327,260	0	0
Educational Media Services		301,961	0	0
General Administrative Services		1,159,402	0	0
Operation & Maintenance Services		1,533,182	0	0
Transportation Services		64,226	0	0
Extracurricular		221,276	0	0
School Food Services		<u>122,877</u>	<u>0</u>	<u>0</u>
Total Current Outlays		8,714,619	0	0
Capital Outlay		<u>172,687</u>	<u>921,555</u>	<u>82,209</u>
Total Expenditures	<u>8,890,629</u>	<u>8,887,306</u>	<u>921,555</u>	<u>82,209</u>
NET CHANGES IN FUND BALANCE		45,895		(61,589)
BEGINNING FISCAL YEAR FUND BALANCE		747,657		921,555
PRIOR PERIOD ADJUSTMENTS		(417)		0
ENDING FISCAL YEAR FUND BALANCE		<u>793,135</u>		<u>859,965</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, 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.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 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 \$360,100. 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, 2011

	Reported Enrollment	Per Audit	Difference
FALL ENROLLMENT OCTOBER, 2010			
PreK:	4	4	0
Kindergarten:	85	85	0
Grades 1 - 6:	527	527	0
Junior High:	<u>183</u>	<u>183</u>	<u>0</u>
Total Elementary:	<u>799</u>	<u>799</u>	<u>0</u>
High School:	375	375	0
Part-time	<u>3</u>	<u>3</u>	<u>0</u>
Total High School:	<u>378</u>	<u>378</u>	<u>0</u>
SPRING ENROLLMENT FEBRUARY, 2011			
PreK:	5	5	0
Kindergarten:	86	86	0
Grades 1 - 6:	539	539	0
Junior High:	<u>187</u>	<u>187</u>	<u>0</u>
Total Elementary:	<u>817</u>	<u>817</u>	<u>0</u>
High School:	372	372	0
Part-time	<u>1</u>	<u>1</u>	<u>0</u>
Total High School:	<u>373</u>	<u>373</u>	<u>0</u>

LEWISTOWN HIGH SCHOOLS
END OF YEAR REVENUES & EXPENSES
STUDENT ACTIVITY FUND
June 30, 2011

	BALANCE July 1, 2010	REVENUES	EXPENSES	BALANCE June 30, 2011
ANNUAL	6,420	12,873	10,270	9,023
A. P. TESTING	1,232	5,306	4,801	1,737
BAND	2,344	32,742	32,893	2,193
EAST MT JAZZ	932	3,791	6,206	(1,483)
BPA	4,060	6,825	5,875	5,010
CT MT MENTORS	265	0	0	265
CHEERLEADERS	6,598	8,209	9,568	5,239
CLAWS-HONOR SOCIETY	518	283	571	229
EAGLE RENAISSANCE	2,928	940	1,029	2,840
F CLUB	685	1,849	1,192	1,342
FERGUS NEWSPAPER	261	0	0	261
FFA	24,691	16,088	30,991	9,788
FCCLA	2,538	11,595	12,593	1,541
FLY FISHING	246	0	0	246
FOREIGN LANGUAGE	66	0	0	66
HOW CLUB	1,289	59	0	1,347
VICA	2,568	5,768	6,439	1,898
KEY CLUB	(227)	2,559	2,219	113
PARKING FINES	1,501	2	1,504	0
ART CLUB	534	514	530	518
SCIENCE CLUB	10,398	238	1,614	9,022
SKI CLUB	674	14,381	13,212	1,843
STUDENT COUNCIL	1,723	5,669	8,611	(1,219)
THESPIANS	2,215	520	510	2,225
TROPHY	2,446	0	166	2,280
VOCAL MUSIC	4,917	2,670	3,854	3,733
DISTRICT 8 MUSIC	3,657	7,210	7,993	2,874
WEIGHT CLUB	3,551	2,324	3,450	2,426
AP GOVT	0	21,831	25,140	(3,309)
CLASS OF 2012	0	8,515	4,687	3,828
CLASS OF 2011	3,353	900	3,067	1,186
CLASS OF 2013	0	0	37	(37)
EXTRACURRICULAR	6,176	136,059	110,416	31,819
GIRLS SOFTBALL/BOYS XCOUNTRY	0	39,977	16,700	23,278
STUDENT ACTIVITIES	<u>53,212</u>	<u>0</u>	<u>53,212</u>	<u>0</u>
TOTALS	<u>151,771</u>	<u>349,697</u>	<u>379,348</u>	<u>122,119</u>

LEWISTOWN ELEM/JUNIOR HIGH
END OF YEAR REVENUES & EXPENSES
STUDENT ACTIVITY FUND
June 30, 2011

	BALANCE July 1, 2010	REVENUES	EXPENSES	BALANCE June 30, 2011
GENERAL ACTIVITIES	1,809	8,345	5,644	4,511
BUILDERS CLUB	107	473	224	356
CHEERLEADERS	1,632	2,543	3,356	819
CONSUMER TECH	456	3,056	2,862	651
FACS	322	3,386	3,749	(42)
BC, SC STORE	1,337	2,740	3,483	593
MUSIC	100	2,131	1,320	911
PHOTO CLUB	3,084	5,636	2,583	6,138
SERVICE LEARNING	904	0	0	904
SKI CLUB	1,306	7,876	8,376	805
STUDENT COUNCIL	889	1,288	1,426	751
NEWS	37	0	0	37
COMPUTER SERV LEARNING	129	0	0	129
STUDENT ACTIVITIES	<u>37,670</u>	<u>1,453</u>	<u>1,474</u>	<u>37,649</u>
TOTAL	<u>49,780</u>	<u>38,928</u>	<u>34,496</u>	<u>54,212</u>

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2011
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	1402583111	84.010A	\$ 416,868
ARRA Title I Part A	1402583911	84.389	213,488
ARRA IDEA Part B	coop	84.391	50,795
Carl Perkins	1402598111BG	84.048A	24,205
Title II Part D	1402581411	84.318	10,561
Education Jobs		84.410	266,484
Adult Basic Ed	1402595611	84.002	27,971
ARRA Stabilization		84.394	318,809
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH STATE OF MONTANA OFFICE OF PUBLIC INSTRUCTION:			
NATIONAL SCHOOL LUNCH			
Cash Payments 1/		10.555	230,472
Commodities 2/		10.555	39,245

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.

GRANTOR/PASS THROUGH GRANT AND PROGRAM TITLE	Balance July 1, 2010	Revenues	Allowable Expenditures	Balance June 30, 2011
U.S. DEPARTMENT OF EDUCATION: PASSED THROUGH STATE OF MONTANA OFFICE OF PUBLIC INSTRUCTION:				
Title I Part A	\$ 0	\$ 416,868	\$ 416,868	\$ 0
ARRA Title I Part A	0	213,488	213,488	0
ARRA Idea Part B	0	50,795	50,795	0
Carl Perkins	0	24,205	24,795	0
Title II Part D	0	10,561	10,561	0
Education Jobs	0	266,484	266,484	0
Adult Basic ED	0	27,971	27,971	0
ARRA Stabilization	0	318,809	318,809	0
TOTAL DEPT OF EDUCATION:	<u>\$ 0</u>	<u>\$ 1,329,181</u>	<u>\$ 1,329,181</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	\$ 230,472	\$ 230,472	\$ 0
Commodities 2/	0	39,245	39,245	0
TOTAL DEPT OF AGRICULTURE:	<u>\$ 0</u>	<u>\$ 269,717</u>	<u>\$ 269,717</u>	<u>\$ 0</u>
TOTAL FEDERAL PROGRAMS:	<u>\$ 0</u>	<u>\$ 1,598,898</u>	<u>\$ 1,598,898</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, 2011, which collectively comprise Lewistown School District No. 1's basic financial statements and have issued our report thereon dated January 25, 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, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
January 25, 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, 2011. 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 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, Lewistown School District No. 1, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

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
January 25, 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, 2011.
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, 2011.
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, 2011 was Title I Part A and ARRA 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 and ARRA Title I Part A cluster and ARRA stabilization as a 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."

FINDING NUMBER 1 - STUDENT ACTIVITIES 2010:

This finding was resolved in fiscal year 2011.

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.