

LEWISTOWN SCHOOL DISTRICT NO. 1

**FERGUS COUNTY
LEWISTOWN, MONTANA**

FINANCIAL AND COMPLIANCE REPORT

Fiscal year Ended June 30, 2009

Strom & Associates, P. C.

**1114 North 31st Street
Billings, Montana 59101**

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

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

ORGANIZATION

BOARD OF TRUSTEES

| | |
|-----------------|---------------|
| Dave Byerly | Chairman |
| Becky Jackson | Vice Chairman |
| Jeremy Bristol | Trustee |
| Tara Cutler | Trustee |
| Jennifer Granot | Trustee |
| Stan Morgan | Trustee |
| Mary Schelle | Trustee |

OFFICIALS

| | |
|---------------|-----------------------|
| Jason 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, 2009**

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, 2009.

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 \$10,956,520 as of June 30, 2009. This amount represents an increase of \$817,229—roughly 8%—from June 30, 2008. The receipt of almost \$2.1 million in bond proceeds in June 2009 accounts for the bulk of this difference. Approximately 52% 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 2009 | |
| Current and other assets | 8,197,408 |
| Capital assets | <u>5,727,008</u> |
| Total Assets | 13,924,416 |

| | |
|--------------------------|------------------|
| Current liabilities | 459,537 |
| Non-current liabilities | <u>2,508,359</u> |
| Total Liabilities | 2,967,896 |

| | |
|--|-------------------|
| Invested in capital assets, Net of debt | 3,527,100 |
| Unrestricted | <u>7,429,420</u> |
| Total Net Assets | 10,956,520 |

**Lewistown Public Schools
Changes in Net Assets**

Governmental Activities FY 2009

GENERAL REVENUES

| | |
|------------------------------|---------------------|
| District Levy | 3,652,261 |
| State Equalization | 3,324,166 |
| Other State Revenue | 2,484,912 |
| County | 1,558,071 |
| Gain on Sale of Asset | 44,100 |
| Investment Earning | 188,099 |
| Other | <u>101,052</u> |
| Total General Revenue | \$11,352,661 |

GOVERNMENT OPERATIONS

| | |
|----------------------------|---------------------|
| Instruction | 6,116,255 |
| Support | 411,593 |
| Media | 352,600 |
| Administration | 1,757,957 |
| O & M | 2,034,501 |
| Transportation | 707,874 |
| Extracurricular | 235,891 |
| School Food | 566,600 |
| Other Current Charges | 65,809 |
| Interest | 4,458 |
| Depreciation – unallocated | <u>244,075</u> |
| Total Operations | \$12,497,614 |

Capital Assets

As of June 30, 2009, the District had invested over \$13 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, 2009.

| | |
|----------------------------|-------------|
| Land and Improvements | 1,589,673 |
| Accumulated Depreciation | (656,426) |
| | 933,247 |
| Buildings and Improvements | 8,457,075 |
| Accumulated Depreciation | (4,683,511) |
| | 3,773,564 |
| Machinery and Equipment | 3,344,645 |
| Accumulated Depreciation | (2,324,448) |
| | 1,020,197 |

The District's Future

The District will continue to struggle with declining enrollments. Currently school funding is still based mainly on enrollment. There is growing need for services for special students as that population continues to grow. The Lewistown Collective Bargaining Agreement also expires at the end of FY10 after increases of 3%, 4%, and 2% in 2008, 2009, and 2010, respectively. Obviously, the changes to that agreement will impact the District's financial future. 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 District currently uses ARRA stimulus money to maintain historic levels of staffing and service. Stimulus dollars currently support roughly \$100,000 in salaries and benefits and \$35,000 in special ed supplies. With that money no longer available after the 2010-11 school year, the District will need to discontinue either those expenditures or other things to make room for them in the General Fund. Current state law also provides for lower grade-level and per-student rates—the primary building blocks for our General Fund spending authority—in FY12. Typically, those preliminary rates remain constant in advance of a legislative session; however, the '09 legislature chose to fund these amounts with stimulus dollars. The rates will therefore drop after the stimulus money ceases and Lewistown—like most Montana school districts—will enter the 2011 legislative session with less money to spend than we had the previous year.
- The District recently learned that its Title I program will be cut by 13% following a change in the Title I allocation formula. This change will take place beginning in FY11. Failure to make Adequate Yearly Progress as required by No Child Left Behind also triggered a provision requiring a portion of our Title I allocation be spent on professional development. As the District currently uses almost all of its Title I allocation on staffing, these two changes will result cause the District to take a hard look at staffing in this area.

- The District estimates that general building repairs and maintenance in excess of \$10 million will be necessary over the next several years. A community group studied the District's facilities and recommended the district consider building a new Junior High. The Board is currently considering that recommendation.
- The Lewistown Airport Board recently informed the district that it will not renew the district's lease on the bus barn when it expires at the end of 2009. If this information holds true, the district will need to find a new location to house our transportation program. The District levied \$250,000 in both 2009 and 2010 in an attempt to begin saving for the possibility of moving the bus barn operations.

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, MT 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, 2009, 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, 2009, and the respective changes in financial position and, where applicable, cash flows 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 24, 2009, 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 important for 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 28 required by U.S. generally accepted accounting principles, the accompanying Schedule of Expenditures of Federal Awards page 33 - 34 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, PC
Billings, Montana
November 24, 2009

School District No. 1
Fergus County
Lewistown, MT

STATEMENT OF NET ASSETS
as of June 30, 2009

| | <u>2009</u> |
|---|-------------------|
| ASSETS: | |
| Current Assets: | |
| Cash & Investments | 7,486,688 |
| Taxes Receivable | 477,014 |
| Due From Other Governments | 198,232 |
| Inventory | 35,475 |
| Total Current Assets | <u>8,197,408</u> |
| Non-current Assets: | |
| Land/Construction in Progress | 426,175 |
| Other Capital Assets(Net) | <u>5,300,833</u> |
| Total Non-current Assets | <u>5,727,008</u> |
| Total Assets | <u>13,924,416</u> |
| LIABILITIES | |
| Current Liabilities: | |
| Compensated Absences | 91,973 |
| Current Bonds/Notes/Lease Payable | <u>367,564</u> |
| Total Current Liabilities | <u>459,537</u> |
| Non-current Liabilities: | |
| Compensated Absences | 676,015 |
| Bonds Payable | 1,826,344 |
| Other Payable | <u>6,000</u> |
| Total Non-current Liabilities | <u>2,508,359</u> |
| Total Liabilities | <u>2,967,896</u> |
| NET ASSETS: | |
| Invested in Capital Assets, Net of Debt | 3,527,100 |
| Unrestricted | <u>7,429,420</u> |
| Total Net Assets | <u>10,956,520</u> |

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

School District No. 1
Fergus County
Lewistown, MT

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2009

| | Program Revenue | | | Net (Expense) |
|--------------------------|-------------------|----------------|------------------|---------------------|
| | Charges | | Operating | Revenue |
| Expenses | for | | Grants | 2009 |
| | Services | | | |
| GOVERNMENT OPERATIONS | | | | |
| Instruction | 6,116,255 | 352,955 | 978,993 | (4,784,306) |
| Support | 411,593 | 0 | 777 | (410,816) |
| Media | 352,600 | 0 | 24,400 | (328,200) |
| Administration: | 1,757,957 | 0 | 5,327 | (1,752,631) |
| O & M | 2,034,501 | 18,453 | 1,661 | (2,014,387) |
| Transportation | 707,874 | 0 | 213,751 | (494,123) |
| Extracurricular | 235,891 | 0 | 0 | (235,891) |
| School Food | 566,600 | 290,928 | 197,042 | (78,631) |
| Other Current Charges | 65,809 | 0 | 0 | (65,809) |
| Interest | 4,458 | 0 | 0 | (4,458) |
| Depreciation-unallocated | <u>244,075</u> | <u>0</u> | <u>0</u> | <u>(244,075)</u> |
| Totals | <u>12,497,614</u> | <u>662,335</u> | <u>1,421,951</u> | <u>(10,413,328)</u> |
| GENERAL REVENUES | | | | |
| District Levy | | | | 3,652,261 |
| State Equalization | | | | 3,324,166 |
| Other State Revenue | | | | 2,484,912 |
| County | | | | 1,558,071 |
| Sale of asset | | | | 44,100 |
| Investment Earnings | | | | 188,099 |
| Other | | | | <u>101,052</u> |
| Total General Revenues | | | | <u>11,352,661</u> |
| CHANGE IN NET ASSETS | | | | 939,333 |
| NET ASSETS | | | | |
| Beginning of the Year | | | | <u>10,130,319</u> |
| Prior Period Adjustments | | | | <u>(113,132)</u> |
| End of the Year | | | | <u>10,956,520</u> |

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

School District No. 1
Fergus County
Lewistown, MT

BALANCE SHEET
GOVERNMENTAL FUNDS
as of June 30, 2009

| | MAJOR | | | | Other | |
|------------------------------------|------------------|----------------|----------------|------------------|------------------|------------------|
| | General | El Transport | El Bus | El Building | Government | Total |
| | Fund | Fund | Fund | Fund | Funds | |
| ASSETS: | | | | | | |
| Cash and Investments | 881,070 | 317,559 | 862,349 | 1,662,048 | 3,763,662 | 7,486,688 |
| Taxes Receivable | 326,226 | 60,962 | 9,532 | 0 | 80,293 | 477,014 |
| Due From Other Governments | 0 | 0 | 0 | 0 | 198,232 | 198,232 |
| Inventories | 0 | 0 | 0 | 0 | 35,475 | 35,475 |
| Total Assets | <u>1,207,296</u> | <u>378,521</u> | <u>871,881</u> | <u>1,662,048</u> | <u>4,077,662</u> | <u>8,197,408</u> |
| LIABILITIES: | | | | | | |
| Deferred Revenue | <u>326,226</u> | <u>60,962</u> | <u>9,532</u> | 0 | <u>80,293</u> | <u>477,014</u> |
| Total Liabilities | <u>326,226</u> | <u>60,962</u> | <u>9,532</u> | 0 | <u>80,293</u> | <u>477,014</u> |
| FUND BALANCE: | | | | | | |
| Reserve for Inventory | 0 | 0 | 0 | 0 | 35,475 | 35,475 |
| Reserved for Encumbrances | 180,433 | 0 | 0 | 0 | 103,786 | 284,218 |
| Unreserved Fund Balance: | | | | | | |
| General Funds | 700,637 | 0 | 0 | 0 | 0 | 700,637 |
| Special Revenue Funds | 0 | 317,559 | 862,349 | 0 | 3,116,022 | 4,295,929 |
| Capital Projects Funds | 0 | 0 | 0 | 1,662,048 | 742,087 | 2,404,135 |
| Total Fund Balance | <u>881,070</u> | <u>317,559</u> | <u>862,349</u> | <u>1,662,048</u> | <u>3,997,369</u> | <u>7,720,394</u> |
| Total Liabilities and Fund Balance | <u>1,207,296</u> | <u>378,521</u> | <u>871,881</u> | <u>1,662,048</u> | <u>4,077,662</u> | <u>8,197,408</u> |

RECONCILIATION TO THE STATEMENT OF NET ASSETS

| | | |
|---|--------------------|-------------------|
| Total fund balance reported above | | 7,720,394 |
| Add capital assets not reported above | 13,391,393 | |
| Less accumulated depreciation | <u>(7,664,385)</u> | 5,727,008 |
| Less liabilities not reported above: | | |
| Compensated absences | 767,988 | |
| Bonds Payable | 2,087,250 | |
| Other Payable | 109,677 | |
| Lease Payable | <u>2,981</u> | (2,967,896) |
| Deferred revenues for taxes receivable recognized as revenue in the government-wide statement of net assets | | <u>477,014</u> |
| Net Assets | | <u>10,956,520</u> |

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

School District No. 1
Fergus County
Lewistown, MT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2009

| | MAJOR | | | | Other | |
|--|------------------|----------------|----------------|------------------|------------------|-------------------|
| | General | El Transport | El Bus | El Building | Government | Total |
| | Fund | Fund | Fund | Fund | Funds | |
| REVENUES: | | | | | | |
| District Levies | 2,518,960 | 474,551 | 72,806 | 0 | 667,012 | 3,733,330 |
| Interest | 45,284 | 7,094 | 34,604 | 72 | 100,186 | 187,240 |
| Other | 0 | 0 | 0 | 0 | 100,191 | 100,191 |
| County | 0 | 72,505 | 0 | 0 | 1,592,441 | 1,664,946 |
| State | 6,096,969 | 82,342 | 0 | 0 | 137,935 | 6,317,247 |
| Federal | 0 | 0 | 0 | 0 | 806,906 | 806,906 |
| Charges for Services | 0 | 0 | 0 | 0 | 662,335 | 662,335 |
| Total Revenues | <u>8,661,214</u> | <u>636,493</u> | <u>107,410</u> | <u>72</u> | <u>4,067,007</u> | <u>13,472,196</u> |
| EXPENDITURES: | | | | | | |
| Instructional Services | 4,856,371 | 0 | 0 | 0 | 1,304,621 | 6,160,992 |
| Support Services | 358,379 | 0 | 0 | 0 | 55,048 | 413,427 |
| Educational Media Services | 205,168 | 0 | 0 | 0 | 147,525 | 352,693 |
| General Administrative Services | 1,298,857 | 54,784 | 0 | 41,745 | 352,971 | 1,748,357 |
| Operation & Maintenance Services | 1,334,891 | 7,170 | 0 | 320,788 | 174,410 | 1,837,259 |
| Transportation Services | 101,839 | 353,507 | 1,206 | 0 | 214,579 | 671,131 |
| Extracurricular | 209,264 | 0 | 0 | 0 | 26,627 | 235,891 |
| School Food Services | 98,212 | 0 | 0 | 0 | 493,460 | 591,672 |
| Other Current Charges | 0 | 0 | 0 | 0 | 65,809 | 65,809 |
| Total Current Charges | 8,462,981 | 415,462 | 1,206 | 362,533 | 2,835,050 | 12,077,232 |
| Capital Outlay | 24,226 | 0 | 85,493 | 0 | 136,787 | 246,506 |
| Debt Service | 106,230 | 0 | 0 | 0 | 155 | 106,385 |
| Total Expenditures | <u>8,593,437</u> | <u>415,462</u> | <u>86,699</u> | <u>362,533</u> | <u>2,971,993</u> | <u>12,430,123</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 67,777 | 221,031 | 20,711 | (362,461) | 1,095,015 | 1,042,072 |
| OTHER FINANCING SOURCES/USES | | | | | | |
| Transfer from Internal Service Fund | 0 | 0 | 0 | 0 | 64,094 | 64,094 |
| Sale of Capital Assets | 0 | 18,275 | 0 | 300 | 25,526 | 44,100 |
| Proceeds from Bonds | 0 | 0 | 0 | 2,087,250 | 0 | 2,087,250 |
| NET CHANGES IN FUND BALANCE | 67,777 | 239,306 | 20,711 | 1,725,089 | 1,184,634 | 3,237,516 |
| FUND BALANCE: | | | | | | |
| Beginning of the Year | 808,512 | 78,253 | 841,638 | 7,604 | 2,736,331 | 4,472,338 |
| Prior Period Adjustments | 4,781 | 0 | 0 | (70,645) | 76,404 | 10,540 |
| End of the Year | <u>881,070</u> | <u>317,559</u> | <u>862,349</u> | <u>1,662,048</u> | <u>3,997,369</u> | <u>7,720,395</u> |

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

School District No. 1
Fergus County
Lewistown, MT

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, 2009

| | | |
|---|------------------|----------------|
| Excess of revenues over expenditures as reported in the governmental funds statement | | 3,237,516 |
| Change in net assets from internal service funds | (82,524) | |
| Less Transfers to Special Revenue Funds | <u>64,094</u> | (18,430) |
| Revenues on the Statement of Activity not included in governmental funds statement: | | |
| Increase (decrease) in taxes receivable | | (81,068) |
| Revenues reported in the governmental funds statement not included in the Statement of Activity | | |
| Transfers From Internal Service Funds to Special Revenue Funds | 64,094 | |
| Bond/Note Proceeds | <u>2,087,250</u> | (2,151,344) |
| Expenses on the Statement of Activity not included in the governmental funds statement: | | |
| Depreciation Expense | (485,563) | |
| Retirement Incentive Debt | (11,500) | |
| (Increase) decrease in compensated absence liability | <u>101,288</u> | (395,775) |
| Expenditures reported in the governmental funds statement not included in the Statement of Activity | | |
| Capital outlays | 246,506 | |
| Payments on Retirement Incentive | 94,301 | |
| Principal payments on Lease | <u>7,627</u> | <u>348,434</u> |
| Change in net assets reported on the Statement of Activity | | <u>939,333</u> |

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

School District No. 1
Fergus County
Lewistown, MT

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
As of June 30, 2009

| | <u>Internal Service Funds</u> |
|-------------------|---------------------------------------|
| Assets | |
| Cash | <u>0</u> |
| Total Assets | <u>0</u> |
| Liabilities | |
| Total Liabilities | <u>0</u> |
| Net Assets | |
| Unrestricted | <u>0</u> |
| Total Net Assets | <u>0</u> |

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

School District No. 1
Fergus County
Lewistown, MT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
for the Fiscal Year Ended June 30, 2009

| | <u>Internal Service Funds</u> |
|---------------------------------------|---------------------------------------|
| OPERATING REVENUES: | |
| Charges for Services | <u>86,675</u> |
| Total Operating Revenues | 86,675 |
| OPERATING EXPENSES: | |
| Personnel Services - Salaries | 4,961 |
| Personnel Services - Benefits | 392 |
| Purchased Property Services | 1,360 |
| Other Purchased Services | 1,829 |
| Supplies & Materials | <u>97,423</u> |
| Total Operating Expenses | <u>105,964</u> |
| TOTAL OPERATING INCOME (LOSS) | (19,289) |
| NON-OPERATING REVENUE(EXPENSES) | |
| Interest | 859 |
| Transfer to Misc. Funds | <u>(64,094)</u> |
| Total Non-operating Revenue(Expenses) | (63,235) |
| CHANGE IN NET ASSETS | (82,524) |
| TOTAL NET ASSETS, BEGINNING | <u>82,524</u> |
| TOTAL NET ASSETS, ENDING | 0 |

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

School District No. 1
Fergus County
Lewistown, MT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the Fiscal Year Ended June 30, 2009

| | <u>Internal Service Funds</u> |
|--|---------------------------------------|
| CASH FLOWS FROM OPERATIONS: | |
| Cash Received From Customers | 86,675 |
| Personal Services - Salaries | (4,961) |
| Personal Services - Benefits | (392) |
| Purchased Property Services | (1,360) |
| Other Purchased Services | (1,829) |
| Supplies & Materials | <u>(46,269)</u> |
| NET CASH PROVIDED(USED) | |
| BY OPERATING ACTIVITIES: | <u>31,864</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Interest | <u>859</u> |
| NET CASH PROVIDED(USED) | |
| BY INVESTING ACTIVITIES: | <u>859</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | |
| Transfers Out to Misc. Funds | <u>(64,094)</u> |
| NET CASH PROVIDED(USED) BY NONCAPITAL FINANCING ACTIVITIES: | <u>(64,094)</u> |
| NET INCREASE (DECREASE) IN CASH | (31,371) |
| CASH BALANCE JULY 1, 2008 | <u>31,371</u> |
| CASH BALANCE JUNE 30, 2009 | <u>0</u> |

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

| | |
|--|---------------|
| Operating Income (Loss) | (19,289) |
| Adjustments to Reconcile Operating Income to net cash Provided by Operating Activities: | |
| Changes in Assets and Liabilities: | |
| (Increase)Decrease in Inventory | <u>51,153</u> |
| Total Adjustments | <u>51,153</u> |
| Net Cash Provided by Operating Activities | <u>31,864</u> |

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

School District No. 1
Fergus County
Lewistown, MT

STATEMENT OF FIDUCIARY NET ASSETS AND STATEMENT OF
CHANGES IN FIDUCIARY NET ASSETS
As of June 30, 2009

| | <u>Private Purpose</u> <u>Trust Funds</u> |
|--------------------------------------|--|
| Assets | |
| Cash | 311,019 |
| Other Assets | <u>18,800</u> |
| Total Assets | <u>329,819</u> |
| Liabilities | |
| Total Liabilities | <u>0</u> |
| Net Assets | |
| Held in Trust for Endowment | 106,357 |
| Held in Trust for Student Activities | <u>223,462</u> |
| Total Net Assets | <u>329,819</u> |
| <hr/> | |
| CHANGES IN FIDUCIARY NET ASSETS | |
| Additions | |
| Contributions to Endowment | 2,950 |
| Revenue from Student Activities | <u>453,306</u> |
| Total Additions | <u>456,256</u> |
| Deductions | |
| Regular Education Expenses | 153 |
| Expenses of Student Activities | <u>410,153</u> |
| Total Deductions | <u>410,306</u> |
| Changes in Net Assets Held in Trust | 45,950 |
| Net Assets, Beginning of the Year | 278,298 |
| Prior Period Adjustments | <u>5,571</u> |
| Net Assets, Ending of the Year | <u>329,819</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, MT 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." 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, proprietary funds with all internal service funds combined in one column 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.

Elementary Building Fund – This fund is used to account for funds received from the issuance of general obligation bonds. The bonds were approved by voters to be used for general repair and maintenance of the District's elementary school buildings.

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.

Internal Service Funds – These funds include a central stores fund, an elementary and high school central transportation fund, and a self-insurance health insurance fund which account for the financing of services provided by one department to other departments of the District on a cost reimbursement basis. These funds use the accrual method of accounting mentioned in the government-wide section above. All assets and liabilities associated with internal funds are included on its balance sheet. Investment earnings are non-operating revenues. The District closed all of its internal service funds in fiscal year 2009.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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).

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:

Materials, supplies and food are carried in an inventory account at average cost and are subsequently charged to expenditures when consumed. Inventories also include maintenance and operating supplies as well as instructional supplies.

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 | 20 – 50 years |
| Improvements other than buildings | 20 years |
| Machinery and Equipment | 5 – 20 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 pay out is received.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 \$91,973 and it is generally paid out of the general fund. The accrued liability for sick and vacation leave at June 30, 2009 was \$767,988.

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: Reserved Fund Balance – That portion of fund balance which is not available for appropriation or which has been legally segregated for a specific purpose. Unreserved Fund Balance – The unreserved fund balance represents that portion of fund balance that is available for budgeting in future periods.

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, certificates of deposit, U.S. government securities, and STIP and are carried at fair value. At June 30, 2009 the carrying amount of deposits was \$8,657,211. This includes \$975,843 in agency funds and \$194,680 in endowment funds.

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

The cash of the extracurricular funds totals \$223,462. Part of these funds, \$107,123 is held in the county investment pool to take advantage of the higher interest earnings, for security purposes, and for insurance protection. The remaining \$116,339 is held separately by the school district, not at the county, and is covered by FDIC. An additional \$87,557 of trust funds are held by the county in a scholarship fund.

NOTE 3. TAXES

3.a MILL LEVIES

The assessed value of the roll as of January 1, 2008, upon which the levy for the 2009 fiscal year was based, was \$11,381,411 for the elementary district and \$12,275,770 for the high school district. The tax rates assessed for the year ended June 30, 2009 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 | 131.94 | 77.22 | 209.16 |
| Transportation | 43.83 | 19.71 | 63.54 |
| Bus Depreciation | 6.15 | 3.05 | 9.20 |
| Tuition | .19 | .36 | .55 |
| Adult Education | .00 | 2.96 | 2.96 |
| Technology | 5.40 | 4.41 | 9.81 |
| Building Reserve | 8.61 | 7.98 | 16.59 |
| Grand Total | <u>196.12</u> | <u>115.69</u> | <u>311.81</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)

3.b TAXES RECEIVABLE

| <u>Fund</u> | <u>Elementary</u> | <u>High School</u> | <u>Total</u> |
|------------------|-------------------|--------------------|-------------------|
| General | \$ 203,507 | \$ 122,720 | \$ 326,227 |
| Transportation | 60,962 | 28,806 | 89,768 |
| Bus Depreciation | 9,532 | 5,223 | 14,755 |
| Tuition | 239 | 534 | 773 |
| Adult Education | 0 | 4,606 | 4,606 |
| Technology | 8,144 | 6,995 | 15,139 |
| Building Reserve | <u>13,307</u> | <u>12,439</u> | <u>25,746</u> |
| Grand Total | <u>\$ 295,691</u> | <u>\$ 181,323</u> | <u>\$ 477,014</u> |

3.c DUE FROM OTHER GOVERNMENTS

| <u>School / Fund</u> | <u>Amount</u> | <u>Due From / Reason</u> |
|---------------------------------|-------------------|---------------------------------------|
| Elementary – Miscellaneous | \$ 133,494 | Federal Govt. – Title I Part A |
| Elementary – Miscellaneous | 41,399 | Federal Govt. – Title II Part A |
| Elementary – Miscellaneous | 2,748 | Federal Govt. – Title II Part D |
| Elementary – Miscellaneous | 6,345 | Federal Govt. – Title IV Part A |
| Elementary – Miscellaneous | 18 | Federal Govt. – Title V Part A |
| High School – Miscellaneous | 11,188 | Federal Govt. – Carl Perkins |
| High School – Traffic Education | <u>3,040</u> | State of MT – Per pupil reimbursement |
| District Total | <u>\$ 198,232</u> | |

NOTE 4. CAPITAL ASSETS

The value and changes to the capital assets for June 30, 2009 are as follows:

| | <u>CAPITAL ASSETS</u> | | | |
|----------------------------------|---------------------------------|--------------------|--------------------|----------------------------------|
| | <u>Balance July 1, 2008</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance June 30, 2009</u> |
| COST: | | | | |
| Land | \$ 426,175 | \$ 0 | \$ 0 | \$ 426,175 |
| Land Improvements | 1,118,304 | 45,194 | 0 | 1,163,498 |
| CIP | 9,240 | 0 | 9,240 | 0 |
| Buildings | 8,449,728 | 7,347 | 0 | 8,457,075 |
| Major Equipment | <u>3,369,539</u> | <u>194,344</u> | <u>219,238</u> | <u>3,344,645</u> |
| Total | <u>\$ 13,372,986</u> | <u>\$ 246,885</u> | <u>\$ 228,478</u> | <u>\$ 13,391,393</u> |
| ACCUMULATED DEPRECIATION: | | | | |
| Land Improvements | \$ (599,745) | \$ (56,681) | \$ 0 | \$ (656,426) |
| Buildings | (4,497,934) | (185,577) | 0 | (4,683,511) |
| Major Equipment | <u>(2,185,571)</u> | <u>(243,305)</u> | <u>(104,428)</u> | <u>(2,324,448)</u> |
| Total | <u>\$(7,283,250)</u> | <u>\$(485,563)</u> | <u>\$(104,428)</u> | <u>\$(7,664,385)</u> |

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

| | |
|-------------------------|-------------------|
| Operation & Maintenance | \$ 241,488 |
| Unallocated | <u>244,075</u> |
| Total | <u>\$ 485,563</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. The District had a self-insurance health insurance fund with a cash balance of \$4,421 at the beginning of the year. This fund was closed to the miscellaneous fund in fiscal year 2009.

NOTE 6. CURRENT LIABILITIES

6.a DEFERRED REVENUES

| <u>School / Fund</u> | <u>Amount</u> | <u>Reason</u> |
|------------------------------|-------------------|------------------|
| Elementary-General | \$ 203,507 | Taxes Receivable |
| Elementary-Transportation | 60,962 | Taxes Receivable |
| Elementary-Bus Depreciation | 9,532 | Taxes Receivable |
| Elementary- Tuition | 239 | Taxes Receivable |
| Elementary-Technology | 8,144 | Taxes Receivable |
| Elementary-Building Reserve | 13,307 | Taxes Receivable |
| High School-General | 122,720 | Taxes Receivable |
| High School-Transportation | 28,806 | Taxes Receivable |
| High School-Bus Depreciation | 5,223 | Taxes Receivable |
| High School- Tuition | 534 | Taxes Receivable |
| High School-Adult Education | 4,606 | Taxes Receivable |
| High School-Technology | 6,995 | Taxes Receivable |
| High School-Building Reserve | 12,439 | Taxes Receivable |
| District Total | <u>\$ 477,014</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.

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).

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 retirement 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
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

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 .235% for School District Employers starting July 1, 2007. The State rate for TRS was set at 2.11% starting July 1, 2007. 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, 2007, 2008 and 2009 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>2007</u> | <u>2008</u> | <u>2009</u> |
|-------|---------------------|---------------------|---------------------|
| TRS | \$ 894,703 | \$ 1,179,466 | \$ 890,708 |
| PERS | <u>189,848</u> | <u>208,453</u> | <u>225,858</u> |
| Total | <u>\$ 1,084,551</u> | <u>\$ 1,387,919</u> | <u>\$ 1,116,566</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 10 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 net value of the bonds outstanding, and the cash in the sinking fund is available for payment. Interest expense is not shown. These bonds were issued for the terms and payment schedules indicated in the following schedule:

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

The cost of issuing the bonds was 5% or \$104,362. Debt service requirements to the sinking fund including interest earned on the sinking fund 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> |
| 2010 | \$ 260,906 | \$ 0 |
| 2011 | 255,688 | 5,218 |
| 2012 | 250,470 | 10,436 |
| 2013 | 245,252 | 15,654 |
| 2014 | 240,034 | 20,872 |
| 2015-2017 | <u>688,793</u> | <u>93,927</u> |
| Totals | <u>\$ 1,941,143</u> | <u>\$ 146,107</u> |

8.b CAPITAL LEASES

A lease purchase agreement was entered into between Flament Office Products Inc. and School District No. 1 in prior years. This lease-purchase agreement provided a method of financing copiers for the District. The amount due on this lease purchase is reflected as a liability on the financial statements of the District in the Statement of Net Assets. The amount shown in the Statement of Net Assets for capitalized machinery and equipment is \$25,857. The first lease was entered into in June 2006 with monthly payments of \$325 per month. The second lease was entered in April 2006 with payments of \$373 per month. The leases have a bargain purchase option. The total payments for these leases in fiscal year 2009 were \$8,376 and \$750 was paid to interest.

The principal amount paid as of June 30, 2009 was \$22,876. Liability is shared equally between the elementary and high school. The principal balance as of June 30, 2009 was \$2,981.

Future Minimum Lease Payments

| | |
|---------------------------|----------|
| Year Ending June 30, 2010 | \$ 2,981 |
|---------------------------|----------|

NOTES TO THE FINANCIAL STATEMENTS (continued)

8.c RETIREMENT INCENTIVE

In February 2007, the District offered certified teachers a one-time incentive to retire as of June 30, 2007. The incentive offered \$500 per month for each teacher, who accepted the offer, for a period of 36 months for a total liability of \$18,000 per teacher. The incentive was accepted by eight teachers giving the District a total liability of \$144,000. This liability was adjusted in fiscal year 2008 to include payroll taxes of \$459 per year per employee, or \$11,016. An additional six teachers agreed to retire in fiscal year 2008 for a \$7,105 payment in fiscal year 2009 and a \$7,751 payment in fiscal year 2010. This added an additional \$89,134 to the retirement liability. 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.

8.d CHANGES IN LONG TERM DEBT

| | Balance July 1, 2008 | Additions | Deletions | Balance June 30, 2009 |
|----------------------|-------------------------|---------------------|-------------------|--------------------------|
| Compensated Absences | \$ 869,276 | \$ 0 | \$ 101,288 | \$ 767,988 |
| Capital Lease | 10,607 | 0 | 7,626 | 2,981 |
| Retirement Liability | 192,478 | 11,500 | 94,301 | 109,677 |
| Bonds Payable | <u>0</u> | <u>2,087,250</u> | <u>0</u> | <u>2,087,250</u> |
| Total | <u>\$ 1,072,361</u> | <u>\$ 2,098,750</u> | <u>\$ 203,215</u> | <u>\$ 2,967,896</u> |

NOTE 9. SPECIAL EDUCATION COOPERATIVE

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. DEFICIT FUND BALANCES

| <u>SCHOOL/FUND</u> | <u>BALANCE</u> |
|-----------------------|----------------|
| Elementary – Tuition | \$(258) |
| High School – Tuition | <u>(156)</u> |
| Total | <u>\$(414)</u> |

NOTE 11. CHARGES FOR SERVICES

The District's charges for services were \$265,000 higher than the previous year in part due to the construction academy established by the District. Funds were donated to allow students to build a modular home as part of their academic training. The home was finished in fiscal year 2009 and was sold for \$153,111. These funds will be used to continue the program in subsequent years. Lewistown school district also has a computer technician on staff that performs services for other school districts in the area. The other districts are charged a fee of \$65 per student for these services. In addition MSU Northern rents space from the Lewistown school district for a fee \$30,000 in fiscal year 2009.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 12. RESIDUAL EQUITY TRANSFERS

| <u>SCHOOL/FUND</u> | <u>AMOUNT</u> | <u>TO</u> |
|---|------------------|--|
| Elementary – Central Trans. Internal Service | \$ (9,175) | Elementary – Miscellaneous to close fund deficit |
| Elementary – Miscellaneous Internal Service | 48,573 | Elementary – Miscellaneous to close fund |
| Elementary – Self Insurance Health | 4,421 | Elementary – Miscellaneous to close fund |
| High School – Central Trans. Internal Service | <u>20,275</u> | High School – Miscellaneous to close fund |
| Total | <u>\$ 64,094</u> | |

NOTE 13. PRIOR PERIOD ADJUSTMENTS

| <u>SCHOOL/FUND</u> | <u>AMOUNT</u> | <u>REASON</u> |
|----------------------------------|--------------------|---|
| Elementary – General | \$ 2,404 | Voided warrants |
| Elementary – General | (343) | Library fine adjustment |
| Elementary – School Food | 27 | Prior year revenue |
| Elementary – Miscellaneous | 70,645 | Reimburse one time only funds from bond issue |
| Elementary – Miscellaneous | 2,352 | Voided warrants |
| Elementary – Miscellaneous | 3,381 | To close agency funds |
| Elementary – Building Fund | (70,645) | Reimburse one time only funds from bond issue |
| High School – General | 3,297 | Voided warrants |
| High School – General | (578) | Library fine adjustment |
| Governmental Fund Total | <u>\$ 10,540</u> | |
| GASB 34 | <u>(123,672)</u> | Capital asset adjustment |
| GASB 34 Total | <u>\$(113,132)</u> | |
| High School – Student Activities | \$ 5,571 | Prior period revenue |

School District No. 1
Fergus County
Lewistown, MT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(Budget and Actual)
ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
for the Fiscal Year Ended June 30, 2009

| | GENERAL FUND | | El Transport FUND | | El Bus FUND | |
|------------------------------------|------------------|------------------|-------------------|----------------|------------------|----------------|
| | Original & Final | | Original & Final | | Original & Final | |
| | Budget | Actual | Budget | Actual | Budget | Actual |
| REVENUES: | | | | | | |
| District Levies | 2,449,333 | 2,518,960 | 498,867 | 474,551 | 70,000 | 72,806 |
| Interest Earnings | 43,021 | 45,284 | 0 | 7,094 | 0 | 34,604 |
| Other Local & District Sources | 1,344 | 0 | 0 | 0 | 0 | 0 |
| County Sources | 0 | 0 | 88,398 | 72,505 | 0 | 0 |
| State Sources | <u>6,091,926</u> | <u>6,096,969</u> | <u>98,235</u> | <u>82,342</u> | <u>0</u> | <u>0</u> |
| Total Revenues | <u>8,585,623</u> | <u>8,661,214</u> | <u>685,500</u> | <u>636,493</u> | <u>70,000</u> | <u>107,410</u> |
| EXPENDITURES: | | | | | | |
| Instructional Services | | 4,847,636 | 0 | 0 | 0 | 0 |
| Support Services | | 358,379 | 0 | 0 | 0 | 0 |
| Educational Media Services | | 205,168 | 0 | 0 | 0 | 0 |
| General Administrative Services | | 1,298,857 | 54,784 | 54,784 | 0 | 0 |
| Operation & Maintenance Services | | 1,334,891 | 7,170 | 7,170 | 0 | 0 |
| Transportation Services | | 101,839 | 623,545 | 353,507 | 1,206 | 1,206 |
| Extracurricular | | 209,264 | 0 | 0 | 0 | 0 |
| School Food Services | | <u>98,212</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Current Charges | | 8,454,246 | 685,500 | 415,462 | 1,206 | 1,206 |
| Capital Outlay | | 24,226 | 0 | 0 | 910,432 | 85,493 |
| Debt Service | | <u>106,230</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Expenditures | <u>8,585,623</u> | <u>8,584,702</u> | <u>685,500</u> | <u>415,462</u> | <u>911,638</u> | <u>86,699</u> |
| EXCESS(DEFICIENCY) | | | | | | |
| REV OVER EXP. | | 76,512 | | 221,031 | | 20,711 |
| OTHER FINANCING SOURCES/USES | | | | | | |
| Sale of Fixed Assets | | 0 | | 18,275 | | 0 |
| NET CHANGES IN FUND BALANCE | | 76,512 | | 239,306 | | 20,711 |
| BEGINNING FISCAL YEAR FUND BALANCE | | 619,345 | | 78,253 | | 841,638 |
| PRIOR PERIOD ADJUSTMENTS | | <u>4,781</u> | | <u>0</u> | | <u>0</u> |
| ENDING FISCAL YEAR FUND BALANCE | | <u>700,637</u> | | <u>317,559</u> | | <u>862,349</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, MT 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), 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, elementary building is not included in the schedule because it is not budgeted 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 \$180,433. 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, MT 59457

SCHEDULE OF REPORTED ENROLLMENT
Fiscal Year Ended June 30, 2009

| | Reported Enrollment | Per Audit | Difference |
|-------------------------------------|---------------------|------------|------------|
| FALL ENROLLMENT OCTOBER, 2007 | | | |
| PreK: | 8 | 8 | 0 |
| Kindergarten: | 92 | 92 | 0 |
| Grades 1 - 6: | 563 | 563 | 0 |
| Junior High: | <u>196</u> | <u>196</u> | <u>0</u> |
| Total Elementary: | <u>859</u> | <u>859</u> | <u>0</u> |
| High School: | 409 | 409 | 0 |
| 19 Year olds | <u>2</u> | <u>2</u> | <u>0</u> |
| Total High School: | <u>411</u> | <u>411</u> | <u>0</u> |
| SPRING ENROLLMENT FEBRUARY, 2008 | | | |
| PreK: | 15 | 15 | 0 |
| Kindergarten: | 95 | 95 | 0 |
| Grades 1 - 6: | 557 | 557 | 0 |
| Junior High: | <u>196</u> | <u>196</u> | <u>0</u> |
| Total Elementary: | <u>863</u> | <u>863</u> | <u>0</u> |
| High School: | 410 | 410 | 0 |
| 19 Year olds | <u>2</u> | <u>2</u> | <u>0</u> |
| Total High School: | <u>412</u> | <u>412</u> | <u>0</u> |

LEWISTOWN HIGH SCHOOL
END OF YEAR REVENUES & EXPENSES
STUDENT ACTIVITY FUND
June 30, 2009

| | BALANCE July 1, 2008 | REVENUES | EXPENSES | BALANCE June 30, 2009 |
|--------------------------|-------------------------|----------------|----------------|--------------------------|
| AFS | 9 | 0 | 0 | 9 |
| ANNUAL | 155 | 14,082 | 304 | 13,934 |
| STUDY GROUP | 1,176 | 1,422 | 1,356 | 1,242 |
| BAND | 32,433 | 13,941 | 41,241 | 5,132 |
| EAST MT JAZZ | 0 | 1,968 | 1,205 | 762 |
| BPA | 405 | 6,866 | 6,377 | 894 |
| CMT | 570 | 0 | 0 | 570 |
| CT MT MENTORS | 205 | 140 | 55 | 290 |
| STUDENT STORE | 202 | 50 | 0 | 252 |
| CHEERLEADERS | 4,515 | 10,647 | 10,591 | 4,572 |
| CLAWS-HONOR SOCIETY | 364 | 461 | 449 | 376 |
| CONCESSIONS | 9,070 | 24,667 | 31,507 | 2,230 |
| EAGLE RENAISSANCE | 1,969 | 930 | 800 | 2,099 |
| F CLUB | 2,665 | 0 | 1,644 | 1,021 |
| FERGUS NEWSPAPER | 1,042 | 650 | 1,590 | 103 |
| FFA | 9,554 | 23,716 | 11,324 | 21,945 |
| FCCLA | 1,580 | 11,896 | 11,253 | 2,223 |
| FINANCIAL ADMINISRATOR | 158 | 2,418 | 1,754 | 822 |
| FLY FISHING | 0 | 65 | 0 | 65 |
| FOREIGN LANGUAGE | 66 | 0 | 0 | 66 |
| GREEN CLUB | 86 | 1,998 | 578 | 1,506 |
| VICA | 252 | 1,366 | 1,152 | 466 |
| KEY CLUB | 976 | 4,855 | 5,556 | 275 |
| PARKING FINES | 1,573 | 275 | 440 | 1,408 |
| PEP CLUB | (23) | 23 | 0 | 0 |
| SCIENCE CLUB | 12,880 | 1,617 | 1,306 | 13,191 |
| SKI CLUB | 1,162 | 20,756 | 19,794 | 2,124 |
| STUDENT ACTIVITY TICKETS | 0 | 7,945 | 7,945 | 0 |
| STUDENT COUNCIL | 10,174 | 17,255 | 25,132 | 2,297 |
| THESPIANS | 2,379 | 1,260 | 1,576 | 2,063 |
| TOURNAMENTS | 1,623 | 2,436 | 2,990 | 1,069 |
| TROPHY | 3,634 | 0 | 0 | 3,634 |
| VOCAL MUSIC | 2,296 | 10,673 | 9,642 | 3,327 |
| DISTRICT 8 MUSIC | 0 | 8,827 | 6,006 | 2,820 |
| WEIGHT CLUB | 1,159 | 4,538 | 1,619 | 4,078 |
| CLASS OF 2008 | 1,298 | 42 | 1,340 | 0 |
| CLASS OF 2009 | 2,749 | 0 | 2,749 | 0 |
| PASS THROUGH | 520 | 17,975 | 11,720 | 6,774 |
| CLASS OF 2010 | 0 | 8,617 | 7,304 | 1,314 |
| CLASS OF 2011 | 232 | 130 | 25 | 337 |
| FCCLA/CULINARY | 247 | 1,167 | 1,412 | 2 |
| SCHOOL ACTIVITIES | <u>27,000</u> | <u>188,913</u> | <u>142,721</u> | <u>73,192</u> |
| SUBTOTAL | 136,356 | 414,587 | 372,458 | 178,485 |
| Prior Period Adjustment | (86) | 0 | (86) | 0 |
| Less: Transfers | | <u>10,960</u> | <u>10,960</u> | <u>0</u> |
| TOTAL | <u>136,270</u> | <u>403,626</u> | <u>361,412</u> | <u>178,485</u> |

LEWISTOWN ELEM/JUNIOR HIGH
END OF YEAR REVENUES & EXPENSES
STUDENT ACTIVITY FUND
June 30, 2009

| | BALANCE July 1, 2008 | REVENUES | EXPENSES | BALANCE June 30, 2009 |
|------------------------|-------------------------|---------------|---------------|--------------------------|
| GENERAL ACTIVITIES | 1,203 | 793 | 149 | 1,847 |
| BUILDERS CLUB | 31 | 199 | 123 | 106 |
| CHEERLEADERS | 150 | 5,540 | 4,417 | 1,273 |
| CONSUMER TECH | 865 | 2,160 | 2,565 | 460 |
| FACS | 81 | 1,753 | 1,613 | 221 |
| BC, SC STORE | 1,981 | 2,323 | 2,431 | 1,873 |
| MUSIC | 103 | 0 | 3 | 100 |
| PHOTO CLUB | 1,907 | 4,701 | 4,757 | 1,851 |
| HELPS | 0 | 0 | 0 | 0 |
| SERVICE LEARNING | 1,268 | 9,970 | 10,711 | 527 |
| SKI CLUB | 283 | 4,051 | 2,782 | 1,552 |
| STUDENT COUNCIL | 1,845 | 904 | 1,694 | 1,055 |
| NEWS | 32 | 683 | 661 | 54 |
| COMPUTER SERV LEARNING | 132 | 0 | 4 | 129 |
| STUDENT ACTIVITIES | <u>28,587</u> | <u>22,278</u> | <u>16,934</u> | <u>33,931</u> |
| SUBTOTAL | 38,467 | 55,354 | 48,844 | 44,977 |
| Less: Transfers | | <u>103</u> | <u>103</u> | |
| TOTAL | <u>38,467</u> | <u>55,251</u> | <u>48,741</u> | <u>44,977</u> |

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

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
Fiscal Year Ended June 30, 2009
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 | 1402583109 | 84.010A | \$ 309,019 |
| Title II Part A | 1402581409 | 84.367 | 94,116 |
| Title II Part D | 1402586009 | 84.318 | 4,420 |
| Title V | 1402583909 | 84.298 | 18 |
| IDEA Part B | 1401258278 | 84.027A | 69,871 |
| Carl Perkins | 1402598109BG | 84.048A | 51,433 |
| Drug Free Schools | 1402583909 | 84.186 | 8,631 |
| Distance Learning | 1402595608 | 84.315 | 3,475 |
| Adult Basic Education | 1402595609BG | 84.002 | 55,820 |
| U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH STATE OF MONTANA OFFICE OF PUBLIC INSTRUCTION: | | | |
| NATIONAL SCHOOL LUNCH | | | |
| Cash Payments 1/ | | 10.555 | 196,604 |
| Commodities 2/ | | 10.550 | 30,382 |
| U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES PASSED THROUGH MONTANA OFFICE OF PUBLIC INSTRUCTION: | | | |
| Learn & Serve | 0088140209II | 94.004 | 13,500 |

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.c1.

Lewistown School District No. 1 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
 Fergus County Fiscal Year Ended June 30, 2009
 Lewistown, MT 59457 Page 2 of 2

| GRANTOR/PASS THROUGH GRANT AND PROGRAM TITLE | Balance July 1, 2008 | Revenues | Allowable Expenditures | Balance June 30, 2009 |
|--|-------------------------|-------------------|---------------------------|--------------------------|
| U.S. DEPARTMENT OF EDUCATION: PASSED THROUGH STATE OF MONTANA OFFICE OF PUBLIC INSTRUCTION: | | | | |
| Title I Part A | \$ 0 | \$ 309,019 | \$ 309,019 | \$ 0 |
| Title II Part A | 0 | 94,116 | 94,116 | 0 |
| Title II Part D | 0 | 4,420 | 4,420 | 0 |
| Title V | 0 | 18 | 18 | 0 |
| Idea Part B | 0 | 69,871 | 69,871 | 0 |
| Carl Perkins | 0 | 51,433 | 51,433 | 0 |
| Drug Free Schools | 0 | 8,631 | 8,631 | 0 |
| Distance Learning | 0 | 3,475 | 3,475 | 0 |
| Adult Basic Education | 0 | 55,820 | 55,820 | 0 |
| TOTAL DEPT OF EDUCATION: | <u>0</u> | <u>596,803</u> | <u>596,803</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 | 196,603 | 196,603 | 0 |
| Commodities 2/ | 0 | 30,382 | 30,382 | 0 |
| TOTAL DEPT OF AGRICULTURE: | <u>0</u> | <u>226,985</u> | <u>226,985</u> | <u>0</u> |
| U.S. DEPARTMENT OF LABOR PASSED THROUGH MONTANA OFFICE OF PUBLIC INSTRUCTION: | | | | |
| School To Work | 0 | 13,500 | 13,500 | 0 |
| TOTAL FEDERAL PROGRAMS: | <u>\$ 0</u> | <u>\$ 837,288</u> | <u>\$ 837,288</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.c1.

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE 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, MT 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, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 24, 2009. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as item 1, 2009.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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
November 24, 2009

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

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of School District No. 1 with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. 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 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 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 requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

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 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 School District No. 1's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

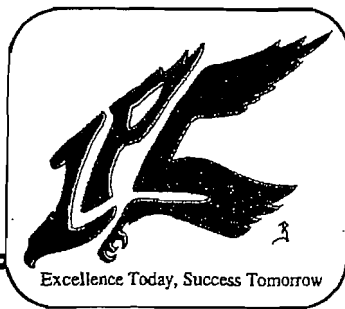
A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 24, 2009



LEWISTOWN PUBLIC SCHOOLS

SCHOOL DISTRICT NUMBER ONE

215 7TH AVENUE SOUTH • LEWISTOWN, MONTANA 59457

PHONE: (406) 535-8777 • FAX: (406) 535-7292

November 16, 2009

To whom it may concern:

The audit of Lewistown Public Schools' 2008-2009 financial statements revealed one finding to which the District must respond. Following you will find copies of the finding and the District's response to it.

FINDING NUMBER 3 – STUDENT ACTIVITIES 2009:

The finding is that not all bank accounts are being included in the monthly cash reconciliation and one investment account was not an allowable investment. Proper internal control requires all bank accounts to be reconciled on a monthly basis. MCA 7-6-202 does not allow school money to be invested in corporate stock. The effect is under reported cash and noncompliance with MCA.

Recommend all student activity bank accounts be reconciled on a monthly basis and the investment account be transferred into an allowable investment.

District Response: District administration was not aware of these issues until the auditors discovered them. The investment account will be closed and the balance moved into the Student Activity Fund. Staff has also been reminded of the importance of reconciling all accounts on a monthly basis. The Business Manager will review all monthly reconciliations to ensure compliance.

Please contact me with questions.

Sincerely,

Mike Waterman
Business Manager

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, 2009.
2. Our audit disclosed 1 significant deficiency in internal controls that is not considered to be a material weakness 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, 2009.
6. The audit disclosed no audit findings that are require reporting under section .510 of OMB Circular A-133.
7. The major programs for Lewistown School District No. 1 for the year ended June 30, 2009 were Title I Part A and National School Lunch Program.
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 not 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 – RETIREMENT 2008:

This finding was resolved in fiscal year 2009.

FINDING NUMBER 2 – CHECKING ACCOUNT 2008:

This finding was resolved in fiscal year 2009.

FINDING NUMBER 3 – STUDENT ACTIVITIES 2009:

The finding is that not all bank accounts are being included in the monthly cash reconciliation and one investment account was not an allowable investment. Proper internal control requires all bank accounts to be reconciled on a monthly basis. MCA 7-6-202 does not allow school money to be invested in corporate stock. The effect is under reported cash and noncompliance with MCA.

Recommend all student activity bank accounts be reconciled on a monthly basis and the investment account be transferred into an allowable investment.

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.