

LEWISTOWN SCHOOL DISTRICT NO. 1

**FERGUS COUNTY
LEWISTOWN, MONTANA**

FINANCIAL AND COMPLIANCE REPORT

Fiscal year Ended June 30, 2008

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
Mary Schelle	Trustee
Stan Monger	Trustee
Tara Cutler	Trustee
Jeremy Bristol	Trustee
Jennifer Granot	Trustee

OFFICIALS

Jason Butcher	Superintendent
Mike Waterman	District Clerk/Business Mgr
Rhonda Long	County Superintendent
Tom Meissner	County Attorney

**Lewistown Public Schools
Management Discussion and Analysis (MD&A)
For The Year Ended June 30, 2008**

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, 2008.

Using This Financial Report

The general format of the report is required by Statement No. 34 of the Governmental Accounting Standards Board (GASB). This is 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 \$10,139,291 as of June 30, 2008. This amount represents an increase of \$74,735—roughly 1%—from June 30, 2007. Approximately 60% 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 2008

Current and other assets	5,118,184
Capital assets	<u>6,099,451</u>
Total Assets	11,217,635

Current liabilities	145,820
Non-current liabilities	<u>932,524</u>
Total Liabilities	1,078,344

Invested in capital assets, Net of debt	5,895,623
Unrestricted	<u>4,243,668</u>
Total Net Assets	10,064,556

Lewistown Public Schools
Changes in Net Assets

Governmental Activities FY 2008

GENERAL REVENUES

District Levy	3,328,067
State Equalization	3,272,520
Other State Revenue	2,719,928
County	934,517
Gain on Sale of Asset	20,000
Investment Earning	185,754
Other	<u>115,511</u>
Total General Revenue	\$12,344,239

GOVERNMENT OPERATIONS

Instruction	6,133,596
Support	389,115
Media	611,512
Administration	1,760,149
O & M	1,542,863
Transportation	756,227
Extracurricular	284,902
School Food	630,110
Other Current Charges	38,743
Interest	1,818
Depreciation – unallocated	<u>115,907</u>
Total Operations	\$12,264,943

Capital Assets

As of June 30, 2008, 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, 2008.

Land and Improvements	1,554,885
Accumulated Depreciation	(599,745)
	955,140
Buildings and Improvements	8,449,728
Accumulated Depreciation	(4,497,934)
	3,951,794
Machinery and Equipment	3,368,848
Accumulated Depreciation	(2,185,574)
	1,183,277

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 FY09 after increases of 3% and 4% in 2008 and 2009. 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 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.
- In July 2008, Elementary District voters approved a \$2,087,250 bond issue by a 3 to 1 margin. The proceeds of the bond will be used to reimburse the district for structural repairs made to the Junior High School roof and to upgrade the heating, ventilation, and air conditioning system at the three primary buildings.
- 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 2009 in an attempt to begin saving for the possibility of moving the bus barn operations.
- The district began offering a full-time program to about 20% of the district's kindergartners in 2008-2008. A district would prefer to offer FTK to all students; however, it must find space to house the additional students.

- In the spring of 2008, a committee of the board and the LEA jointly developed an alternative compensation plan proposal. The district gaining committee will evaluate the plan as a part of the upcoming collective gaining session.

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
1114 North 31st Street
Billings, Montana 59101

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, 2008, 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, 2008, and the respective changes in financial position, and cash flows, where applicable, 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 January 28, 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 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 Lewistown School District No. 1's basic financial statements. The accompanying schedule of revenues, expenditures, and encumbrances – budget and actual page 27 required by U.S. generally accepted accounting principles, and the accompanying Schedule of Expenditures of Federal Awards pages 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
January 28, 2009

School District No. 1
Fergus County
Lewistown, Montana

STATEMENT OF NET ASSETS
as of June 30, 2008

	<u>2008</u>
ASSETS:	
Current Assets:	
Cash & Investments	4,200,962
Taxes Receivable	558,082
Due From Other Governments	246,185
Other Current Assets	30,500
Inventory	<u>80,691</u>
Total Current Assets	<u>5,116,420</u>
Capital Assets:	
Land & CIP	435,415
Capital Assets- Net	<u>5,654,321</u>
Total Assets	<u>11,206,156</u>
LIABILITIES	
Current Liabilities:	
Deferred Revenue	3,475
Compensated Absences	37,909
Current Other/Lease Payable	<u>102,030</u>
Total Current Liabilities	<u>143,414</u>
Non-current Liabilities:	
Compensated Absences	831,367
Other Payable	98,177
Lease Payable	<u>2,878</u>
Total Non-current Liabilities	<u>932,422</u>
Total Liabilities	<u>1,075,836</u>
NET ASSETS:	
Invested in Capital Assets, Net of Debt	5,886,651
Unrestricted	<u>4,243,668</u>
Total Net Assets	<u>10,130,319</u>

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

School District No. 1
Fergus County
Lewistown, Montana

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

	-----Program Revenue-----		
	Charges	Operating	Net (Expense)
	for	Grants	Revenue
Expenses	Services		2008
GOVERNMENT OPERATIONS			
Instruction	6,257,799	103,314	925,877
Support	389,115	0	504
Media	611,512	0	11,602
Administration:	1,760,149	0	7,374
O & M	1,561,892	17,970	1,000
Transportation	754,824	0	223,385
Extracurricular	284,902	0	0
School Food	630,110	275,894	201,022
Other Current Charges	40,118	0	0
Interest	739	0	0
Depreciation-unallocated	<u>115,907</u>	<u>0</u>	<u>0</u>
Totals	<u>12,407,068</u>	<u>397,177</u>	<u>1,370,765</u>
			<u>(10,639,126)</u>
GENERAL REVENUES			
District Levy			3,328,067
State Equalization			3,272,520
Other State Revenue			2,719,928
County			934,517
Gain on Disposal of Assets			20,000
Investment Earnings			185,754
Other			<u>115,511</u>
Total General Revenues			<u>10,576,297</u>
CHANGE IN NET ASSETS			(62,829)
NET ASSETS			
Beginning of the Year			<u>10,064,556</u>
Prior Period Adjustment			<u>128,592</u>
End of the Year			<u>10,130,319</u>

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

School District No. 1
Fergus County
Lewistown, Montana

BALANCE SHEET
GOVERNMENTAL FUNDS
as of June 30, 2008

	MAJOR		Other	
	General	EL Bus Depr	Government	
	Fund	Fund	Funds	Total
ASSETS:				
Cash and Investments	854,580	841,638	2,473,373	4,169,591
Taxes Receivable	413,532	12,727	131,823	558,082
Receivable From Other Funds	6,325	0	56,483	62,808
Due From Other Governments	0	0	246,185	246,185
Other Current Assets	0	0	30,500	30,500
Inventories	0	0	29,538	29,538
Total Assets	<u>1,274,437</u>	<u>854,365</u>	<u>2,967,902</u>	<u>5,096,704</u>
LIABILITIES:				
Payable to Other Funds	52,393	0	10,416	62,808
Deferred Revenue	<u>413,532</u>	<u>12,727</u>	<u>135,298</u>	<u>561,557</u>
Total Liabilities	<u>465,925</u>	<u>12,727</u>	<u>145,714</u>	<u>624,366</u>
FUND BALANCE:				
Reserve for Inventory	0	0	29,538	29,538
Reserved for Encumbrances	189,168	0	815	189,983
Unreserved Fund Balance:				
General Funds	619,345	0	0	619,345
Special Revenue Funds	0	841,638	2,281,180	3,122,818
Capital Projects Funds	0	0	510,655	510,655
Total Fund Balance	<u>808,512</u>	<u>841,638</u>	<u>2,822,188</u>	<u>4,472,338</u>
Total Liabilities and Fund Balance	<u>1,274,437</u>	<u>854,365</u>	<u>2,967,902</u>	<u>5,096,704</u>

RECONCILIATION TO THE STATEMENT OF NET ASSETS

Total fund balance reported above		4,472,338
Add Internal Service Net Assets		82,524
Add capital assets not reported above	13,372,986	
Less accumulated depreciation	<u>(7,283,250)</u>	6,089,736
Less liabilities not reported above:		
Compensated absences	869,276	
Notes Payable	192,478	
Lease Payable	<u>10,607</u>	1,072,361
Deferred revenues for taxes receivable recognized as revenue in the government-wide statement of net assets		<u>558,082</u>
Net Assets		<u>10,130,319</u>

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

School District No. 1
Fergus County
Lewistown, Montana

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	MAJOR		Other	
	General	EL Bus Depr	Government	
	Fund	Fund	Funds	Total
REVENUES:				
District Levies	2,317,892	63,820	760,273	3,141,984
Interest	43,021	47,380	93,683	184,085
Other	7,133	0	108,378	115,511
County	0	0	1,046,209	1,046,209
State	5,912,843	234	523,635	6,436,712
Federal	0	0	814,809	814,809
Charges for Services	0	0	397,177	397,177
Total Revenues	<u>8,280,889</u>	<u>111,434</u>	<u>3,744,165</u>	<u>12,136,488</u>
EXPENDITURES:				
Instructional Services	4,729,763	0	1,347,082	6,076,845
Support Services	326,714	0	48,472	375,186
Educational Media Services	399,477	0	211,086	610,564
General Administrative Services	1,281,247	0	502,753	1,784,000
Operation & Maintenance Services	1,153,510	0	270,642	1,424,151
Transportation Services	9,918	0	526,026	535,943
Extracurricular	196,592	0	28,386	224,978
School Food Services	238,285	0	361,587	599,872
Other Current Charges	0	0	19,250	19,250
Total Current Charges	8,335,506	0	3,315,284	11,650,789
Capital Outlay	28,040	128,452	69,906	226,399
Debt Service	8,370	0	0	8,370
Total Expenditures	<u>8,371,916</u>	<u>128,452</u>	<u>3,385,190</u>	<u>11,885,558</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(91,027)	(17,019)	358,975	250,929
OTHER FINANCING SOURCES/USES				
Fund Transfers In	0	0	12,317	12,317
Fund Transfers (Out)	(12,317)	0	0	(12,317)
NET CHANGES IN FUND BALANCE	(103,344)	(17,019)	371,292	250,929
FUND BALANCE:				
Beginning of the Year	916,900	858,657	2,418,589	4,194,146
Prior Period Adjustments	(5,044)	0	32,307	27,263
End of the Year	<u>808,512</u>	<u>841,638</u>	<u>2,822,188</u>	<u>4,472,338</u>

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

School District No. 1
Fergus County
Lewistown, Montana

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

Excess of revenues over expenditures as reported in the governmental funds statement		250,929
Change in net assets from internal service funds		(44,371)
Revenues on the Statement of Activity not included in governmental funds statement:		
Gain on Disposal of Fixed Assets	20,000	
Increase (decrease) in taxes receivable	<u>186,083</u>	206,083
Expenses on the Statement of Activity not included in the governmental funds statement:		
Depreciation Expense	(446,022)	
Retirement Incentive Debt	(100,150)	
(Increase) decrease in compensated absense liability	<u>(215,000)</u>	(761,172)
Expenditures reported in the governmental funds statement not included in the Statement of Activity		
Capital outlays	226,399	
Payments on Retirement Incentive	51,672	
Principal payments on Notes and Leases	<u>7,631</u>	<u>285,702</u>
Change in net assets reported on the Statement of Activity		<u>(62,829)</u>

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

School District No. 1
Fergus County
Lewistown, Montana

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
As of June 30, 2008

	<u>Internal</u> <u>Service</u> <u>Funds</u>
Assets	
Cash	31,371
Inventory	<u>51,153</u>
Total Assets	<u>82,524</u>
Liabilities	
Total Liabilities	<u>0</u>
Net Assets	
Unrestricted	<u>82,524</u>
Total Net Assets	<u>82,524</u>

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

School District No. 1
Fergus County
Lewistown, Montana

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
for the Fiscal Year Ended June 30, 2008

	<u>Internal Service Funds</u>
OPERATING REVENUES:	
Charges for Services	155,189
Other	<u>1,171</u>
Total Operating Revenues	156,360
OPERATING EXPENSES:	
Personnel Services - Salaries	57,107
Personnel Services - Benefits	5,425
Purchased Property Services	3,520
Other Purchased Services	7,102
Supplies & Materials	<u>129,245</u>
Total Operating Expenses	<u>202,400</u>
TOTAL OPERATING INCOME (LOSS)	(46,039)
NON-OPERATING REVENUE(EXPENSES)	
Interest	<u>1,669</u>
Total Non-operating Revenue(Expenses)	1,669
CHANGE IN NET ASSETS	(44,371)
TOTAL NET ASSETS, BEGINNING	150,170
PRIOR PERIOD ADJUSTMENTS	<u>(23,275)</u>
TOTAL NET ASSETS, ENDING	<u>82,524</u>

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

School District No. 1
Fergus County
Lewistown, Montana

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the Fiscal Year Ended June 30, 2008

	Internal Service Funds
CASH FLOWS FROM OPERATIONS:	
Cash Received From Customers	155,189
Cash Received From Other	1,171
Personal Services - Salaries	(57,107)
Personal Services - Benefits	(5,425)
Purchased Property Services	(3,520)
Other Purchased Services	(7,102)
Supplies & Materials	<u>(108,841)</u>
NET CASH PROVIDED(USED)	
BY OPERATING ACTIVITIES:	<u>(25,635)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest	<u>1,669</u>
NET CASH PROVIDED(USED)	
BY INVESTING ACTIVITIES:	<u>1,669</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Prior Period Adjustments	(23,275)
Reduction of Capital Assets	<u>24,334</u>
NET CASH PROVIDED(USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES:	<u>1,059</u>
NET INCREASE (DECREASE) IN CASH	(22,907)
CASH BALANCE JULY 1, 2007	<u>54,278</u>
CASH BALANCE JUNE 30, 2008	<u>31,371</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income (Loss)	(46,039)
Adjustments to Reconcile Operating Income to net cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
(Increase)Decrease in Inventory	<u>20,404</u>
Total Adjustments	<u>20,404</u>
Net Cash Provided by Operating Activities	<u>(25,635)</u>

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

School District No. 1
Fergus County
Lewistown, Montana

STATEMENT OF FIDUCIARY NET ASSETS AND STATEMENT OF
CHANGES IN FIDUCIARY NET ASSETS
As of June 30, 2008

	<u>Private Purpose Trust Funds</u>
Assets	
Cash	259,123
Other Assets	<u>19,175</u>
Total Assets	<u>278,298</u>
Liabilities	
Total Liabilities	<u>0</u>
Net Assets	
Held in Trust for Endowment	103,560
Held in Trust for Student Activities	<u>174,738</u>
Total Net Assets	<u>278,298</u>
<hr/>	
CHANGES IN FIDUCIARY NET ASSETS	
Additions	
Contributions to Endowment	30,886
Revenue from Student Activities	<u>433,709</u>
Total Additions	<u>464,595</u>
Deductions	
Regular Education Expenses	79,439
Expenses of Student Activities	<u>500,910</u>
Total Deductions	<u>580,349</u>
Changes in Net Assets Held in Trust	(115,754)
Net Assets, Beginning of the Year	394,589
Prior Period Adjustments	<u>(538)</u>
Net Assets, Ending of the Year	<u>278,298</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 districts policy to use the restricted funds first.

GASB Statement No. 34 requires that the general fund be reported as a major fund and that only one general fund be reported so the elementary and high school general funds have been combined as one major fund. All other governmental funds that exceed 10% of total governmental fund assets, liabilities, revenues, or expenditures are reported as major funds. The following funds are major funds of School District No. 1:

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

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

1.b3 Other Fund Types:

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

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

Internal Service Funds – These funds include a central stores fund, a 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 payout is received.

Liabilities incurred because of unused vacation and sick leave accumulated by employees are reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the statement of activities. The amount expected to be paid within one year is \$ 37,909 and it is generally paid out of the general fund. The accrued liability for sick and vacation leave at June 30, 2008 was \$869,276.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 Certificates of Deposit, Repurchase Agreements, U.S. Government Securities and STIP and are carried at fair value. At June 30, 2008 the carrying amount of deposits was \$5,818,132. This includes \$1,477,198 in agency funds and \$139,972 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 \$174,737. Part of these funds, \$55,587 is held in the county investment pool to take advantage of the higher interest earnings, for security purposes and for insurance protection. The remaining \$119,150 is held separately by the school district, not at the county, and is covered by FDIC and collateral agreements. An additional \$84,385 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, 2007, upon which the levy for the 2008 fiscal year was based, was \$11,140,316 for the elementary district and \$12,056,600 for the high school district. The tax rates assessed for the year ended June 30, 2008 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	132.56	78.50	211.06
Transportation	24.78	11.65	36.43
Bus Depreciation	5.85	2.79	8.64
Tuition	0	.29	.29
Adult Education	0	3.00	3.00
Technology	5.52	4.49	10.01
Building Reserve	8.80	8.13	16.93
Grand Total	<u>177.51</u>	<u>108.85</u>	<u>286.36</u>

3.b TAXES RECEIVABLE

<u>Fund</u>	<u>Elementary</u>	<u>High School</u>	<u>Total</u>
General	\$ 254,219	\$ 159,313	\$ 413,532
Transportation	41,242	21,019	62,261
Bus Depreciation	12,727	10,463	23,190
Tuition	2	395	397
Adult Education	0	4,815	4,815
Technology	10,601	9,562	20,163
Building Reserve	17,012	16,712	33,724
Grand Total	<u>\$ 335,803</u>	<u>\$ 222,279</u>	<u>\$ 558,082</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

3.c DUE FROM OTHER GOVERNMENTS

<u>School / Fund</u>	<u>Amount</u>	<u>Due From / Reason</u>
Elementary - Miscellaneous	\$ 137,870	Fed Govt. - Title I Part A
Elementary - Miscellaneous	40,122	Fed Govt. - Title II Part A
Elementary - Miscellaneous	10,818	Fed Govt. - Title IV Part A
Elementary - Miscellaneous	4,387	Fed Govt. - Title II Part D
Elementary - Miscellaneous	3,807	Fed Govt. - Title V Part A
Elementary - Miscellaneous	2,506	Fed Govt. - IDEA Part B
High School - Miscellaneous	35,395	Fed Govt. - Carl Perkins
High School - Traffic Education	11,280	State of MT - per pupil reimbursement
District Total	<u>\$ 246,185</u>	

3.d DUE FROM OTHER FUNDS

<u>School / Fund</u>	<u>Amount</u>	<u>Due From / Reason</u>
Elementary - General	\$ 4,685	Comp. Ab. - allowable transfer
Elementary - Retirement	354	Miscellaneous - recode benefits
Elementary - Miscellaneous	355	Technology - recode to grant
Elementary - Miscellaneous	4,685	General - recode OTO to general
High School - General	1,640	Elementary Miscellaneous - recoded title II Part D
High School - Retirement	124	Elementary Miscellaneous - recoded title II Part D
High School - Miscellaneous	3,257	Adult Education - recode from ABLE Grant
High School - Comp Absences	8,020	General - allowable transfer
High School - Technology	34,600	General - recode to spend balance at year end
High School - Interlocal	2,843	General - recode charges
High School - Miscellaneous	2,245	General - recode from donation fund
District Total	<u>\$ 62,808</u>	

NOTE 4. CAPITAL ASSETS

The value and changes to the capital assets for June 30, 2008 are as follows:

CAPITAL ASSETS

	<u>Balance</u>			<u>Balance</u>
<u>COST:</u>	<u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2008</u>
Land	\$ 426,175	\$ 0	\$ 0	\$ 426,175
Land Improvements	1,111,665	6,639	0	1,118,304
CIP	0	9,240	0	9,240
Buildings	8,449,728	0	0	8,449,728
Major Equipment	3,277,376	230,520	138,357	3,369,539
Total	<u>\$ 13,264,944</u>	<u>\$ 246,399</u>	<u>\$ 138,357</u>	<u>\$ 13,372,986</u>
<u>ACCUMULATED DEPRECIATION:</u>				
Land Improvements	\$ (544,768)	\$ (54,977)	\$ 0	\$ (599,745)
Buildings	(4,307,101)	(190,833)	0	(4,497,934)
Major Equipment	(2,123,716)	(200,212)	(138,357)	(2,185,571)
Total	<u>\$(6,975,585)</u>	<u>\$(446,022)</u>	<u>\$(138,357)</u>	<u>\$(7,283,250)</u>

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

Instructional	\$ 49,333
Technology	1,163
Support	1,907
School Administration	8,215
Transportation	155,212
Operation & Maintenance	52,902
Extracurricular	59,924
School Food	1,459
Unallocated	115,907
Total	<u>\$ 446,022</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 accessed. There is no other liability to the district other than timely payments of premiums. The district can withdraw from the Workers Compensation Risk Retention Program with 60 days notice at anytime. The District has no coverage for potential losses from environmental damages.

Levels of insurance have not changed materially from the prior year and settlements have not exceeded insurance coverage limits during the current or each of the two previous years. The District has a self-insurance health insurance fund with a cash balance of \$4,421 that is left from prior year activity. Activity in the fund for fiscal year 2008 was \$243 of interest income. There was no actuarial study of the fund in fiscal year 2008.

NOTE 6. CURRENT LIABILITIES

6.a DEFERRED REVENUES

<u>School / Fund</u>	<u>Amount</u>	<u>Reason</u>
Elementary-General	\$ 254,219	Taxes Receivable
Elementary-Transportation	41,242	Taxes Receivable
Elementary-Bus Depreciation	12,727	Taxes Receivable
Elementary- Tuition	2	Taxes Receivable
Elementary-Adult Education	17,012	Taxes Receivable
Elementary-Technology	10,601	Taxes Receivable
High School-General	159,313	Taxes Receivable
High School-Transportation	21,019	Taxes Receivable
High School-Bus Depreciation	10,463	Taxes Receivable
High School- Tuition	395	Taxes Receivable
High School- Miscellaneous	3,475	ABLE Grant
High School-Adult Education	4,815	Taxes Receivable
High School-Technology	9,562	Taxes Receivable
High School-Building Reserve	<u>16,712</u>	Taxes Receivable
District Total	<u>\$ 561,557</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, 2006, 2007 and 2008 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>2006</u>	<u>2007</u>	<u>2008</u>
TRS	\$ 767,692	\$ 894,703	\$ 1,179,466
PERS	188,064	189,848	208,453
Total	<u>\$ 955,756</u>	<u>\$ 1,084,551</u>	<u>\$ 1,387,919</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 8. CHANGES IN LONG TERM DEBT

8.a 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. 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 2008 were \$7,631 and \$739 was paid to interest.

The principal amount paid as of June 30, 2008 was 15,250. Liability is shared equally between the elementary and high school. The principal balance as of June 30, 2008 was 10,607.

Future Minimum Lease Payments

Year Ending June 30, 2009	\$ 8,370
2010	<u>2,980</u>
Subtotal:	11,350
Less Interest:	<u>743</u>
Total:	<u>\$ 10,607</u>

8.b 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.

8.c CHANGES IN LONG TERM DEBT

	Balance <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2008</u>
Compensated Absences	\$ 654,276	\$ 215,000	\$ 0	\$ 869,276
Capital Lease	18,238	0	7,631	10,607
Retirement Liability	<u>144,000</u>	<u>100,150</u>	<u>51,672</u>	<u>192,478</u>
Total	<u>\$ 816,514</u>	<u>\$ 315,150</u>	<u>\$ 59,303</u>	<u>\$ 1,072,361</u>

NOTE 9. COOPERATIVE

9.a. SPECIAL EDUCATION

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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>	<u>HOW TO CORRECT</u>
Elementary – Tuition	\$ (719)	Set a levy
High School – Tuition	(2,785)	Set a levy
Total	<u>\$(3,504)</u>	

NOTE 11. PRIOR PERIOD ADJUSTMENTS

<u>SCHOOL/FUND</u>	<u>AMOUNT</u>	<u>REASON</u>
Elementary – General	\$ 4,302	Federal Tax Refund
Elementary – General	6,731	revenue adj. from high school
Elementary – Retirement	3,663	TRS Overpayment
Elementary - School Food	100	Prior year revenue
Elementary - Miscellaneous	28,324	to balance clearing funds
Elementary – Lease Rental	45	Prior year revenue
High School – General	(11,853)	City of Lewistown – police
High School – General	2,507	Prior year revenue
High School – General	(6,731)	revenue adj. to elementary
High School – Lease Rental	175	Prior year revenue
Governmental Total	<u>\$ 27,263</u>	
Elementary - Central Transportation	(17,334)	to remove capital assets
Elementary - Central Transportation	258	Prior year revenue
High School – Central Transportation	801	Prior year revenue
High School - Instructional Material	(7,000)	to remove capital assets
Total Internal Service Funds	<u>\$(23,275)</u>	
GASB 34	<u>\$ 124,604</u>	Capital asset adjustment
GASB 34 Total	<u>\$ 128,592</u>	
High School – Interlocal	\$(575)	Prior year expense
High School - Student Activity	37	Prior year revenue
Total Fiduciary	<u>\$(538)</u>	

School District No. 1
Fergus County
Lewistown, Montana

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(Budget and Actual)
ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
for the Fiscal Year Ended June 30, 2008

	GENERAL FUND			EL Bus Depr FUND	
	Original	Final		Original & Final	
	Budget	Budget	Actual	Budget	Actual
REVENUES:					
District Levies	2,423,093	2,423,093	2,317,892	65,188	63,820
Interest Earnings	61,695	61,695	43,021	0	47,380
Other Local & District Sources	1,807	1,807	7,133	0	0
State Sources	<u>5,899,528</u>	<u>5,899,528</u>	<u>5,912,843</u>	<u>0</u>	<u>234</u>
Total Revenues	<u>8,386,123</u>	<u>8,386,123</u>	<u>8,280,889</u>	<u>65,188</u>	<u>111,434</u>
EXPENDITURES:					
Instructional Services			4,674,847	0	0
Support Services			326,714	0	0
Educational Media Services			399,477	0	0
General Administrative Services			1,281,247	0	0
Operation & Maintenance Services			1,153,510	0	0
Transportation Services			9,918	0	0
Extracurricular			196,592	0	0
School Food Services			<u>238,285</u>	<u>0</u>	<u>0</u>
Total Current Charges			8,280,590	0	0
Capital Outlay			103,428	923,845	128,452
Debt Service			<u>8,370</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>8,386,123</u>	<u>8,561,126</u>	<u>8,392,389</u>	<u>923,845</u>	<u>128,452</u>
EXCESS(DEFICIENCY)					
REV OVER EXP.			(111,500)		(17,019)
OTHER FINANCING SOURCES/USES					
Fund Transfers (Out)			<u>(12,317)</u>		<u>0</u>
NET CHANGES IN FUND BALANCES			(123,817)		(17,019)
BEGINNING FISCAL YEAR FUND BALANCE			748,205		858,657
PRIOR PERIOD ADJUSTMENTS			<u>(5,044)</u>		<u>0</u>
ENDING FISCAL YEAR FUND BALANCE			<u>619,345</u>		<u>841,638</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.

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 \$189,168. 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.

NOTE 2. BUDGET AMENDMENT

The District approved a budget amendment as a result of payroll accruals outstanding from June 30, 2007 under the provisions of 20-9-161(1), MCA for the elementary general fund. The budget amendment was for \$94,441 and fund reserves will provided the additional funds.

NOTES TO THE BUDGET VS ACTUAL SCHEDULE (Continued)

The District approved two budget amendments as a result of changing educational needs and deferred maintenance issues under the provisions of 20-9-161(1), MCA for the high school general fund. The budget amendments were for \$50,100 and \$30,462. The anticipated source of financing the first budget amendment shall be funds remaining after the district settled a prior year encumbrance. Funding for the second amendment shall be funds remaining after the district cleared outstanding prior year payroll liabilities.

The District approved a budget amendment as a result of the resolution of a disputed bill under the provisions of 20-9-161(1), MCA for the elementary tuition fund. The budget amendment was for \$780 and the funding will be provided by a fiscal year 2009 levy.

The District approved a budget amendment as a result of the resolution of a disputed bill under the provisions of 20-9-161(1), MCA for the high school tuition fund. The budget amendment was for \$2,440 and the funding will be provided by a fiscal year 2009 levy.

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

SCHEDULE OF REPORTED ENROLLMENT
 Fiscal Year Ended June 30, 2008

	Reported Enrollment	Per Audit	Difference
FALL ENROLLMENT OCTOBER, 2007			
PreK:	6	6	0
Kindergarten:	94	94	0
Grades 1 - 6:	572	572	0
Junior High:	<u>218</u>	<u>218</u>	<u>0</u>
Total Elementary:	<u>890</u>	<u>890</u>	<u>0</u>
High School:	421	421	0
19 Year Old	<u>1</u>	<u>1</u>	<u>0</u>
Total High School:	<u>422</u>	<u>422</u>	<u>0</u>
SPRING ENROLLMENT FEBRUARY, 2008			
PreK:	17	17	0
Kindergarten:	92	92	0
Grades 1 - 6:	564	564	0
Junior High:	<u>219</u>	<u>219</u>	<u>0</u>
Total Elementary:	<u>892</u>	<u>892</u>	<u>0</u>
High School:	411	411	0
19 Year Old	1	1	0
Early Graduate	1	1	0
Job Corp.	<u>1</u>	<u>1</u>	<u>0</u>
Total High School:	<u>414</u>	<u>414</u>	<u>0</u>

LEWISTOWN HIGH SCHOOL
END OF YEAR REVENUES & EXPENSES
STUDENT ACTIVITY FUND
June 30, 2008

	BALANCE July 1, 2007	REVENUES	EXPENSES	BALANCE June 30, 2008
AFS	9	0	0	9
ANNUAL	13	9,342	9,200	155
STUDY GROUP	1,041	1,802	1,667	1,176
BAND	29,487	10,545	7,599	32,433
BPA	556	7,841	7,992	405
CMT	570	0	0	570
CT MT MENTORS	195	10	0	205
STUDENT STORE	0	202	0	202
CHEERLEADERS	4,652	5,024	5,161	4,515
CLAWS-HONOR SOCIETY	276	381	292	364
CONCESSIONS	2,354	25,364	18,648	9,070
EAGLE RENAISSANCE	1,864	880	775	1,969
F CLUB	2,421	2,223	1,979	2,665
FERGUS NEWSPAPER	1,223	398	578	1,042
FFA	8,621	36,750	35,817	9,554
FCCLA	296	12,445	11,162	1,580
FINANCIAL ADMINISRATOR	0	2,262	2,104	158
FOREIGN LANGUAGE	66	27	27	66
GREEN CLUB	86	0	0	86
VICA	1,787	880	2,415	252
KEY CLUB	204	10,002	9,230	976
PARKING FINES	1,573	0	0	1,573
PEP CLUB	0	17	40	(23)
SCIENCE CLUB	8,672	27,198	22,989	12,880
SKI CLUB	1,138	12,194	12,170	1,162
STUDENT ACTIVITY TICKETS	0	10,541	10,541	0
STUDENT COUNCIL	9,060	26,640	25,526	10,174
THESPIANS	3,145	953	1,718	2,379
TOURNAMENTS	1,352	5,417	5,146	1,623
TROPHY	3,634	0	0	3,634
VOCAL MUSIC	1,668	2,887	2,260	2,296
WEIGHT CLUB	1,822	3,775	4,438	1,159
CLASS OF 2008	3,643	200	2,545	1,298
CLASS OF 2009	0	9,579	6,830	2,749
PASS THROUGH	520	310	310	520
CLASS OF 2011	0	232	0	232
FCCLA/CULINARY	0	537	290	247
SCHOOL ACTIVITIES	106,373	149,532	228,906	27,000
SUBTOTAL	198,320	376,389	438,354	136,356
Prior Period Adjustment		0	(86)	(86)
Less: Transfers		4,184	4,184	
TOTAL	198,320	372,206	434,256	136,270

LEWISTOWN ELEM/JUNIOR HIGH
END OF YEAR REVENUES & EXPENSES
STUDENT ACTIVITY FUND
June 30, 2008

	BALANCE July 1, 2007	REVENUES	EXPENSES	BALANCE June 30, 2008
GENERAL ACTIVITIES	1,851	462	1,111	1,202
BUILDERS CLUB	90	159	218	31
CHEERLEADERS	201	4,827	4,878	150
CONSUMER TECH	1,117	2,001	2,253	865
FACS	65	2,053	2,037	81
BC, SC STORE	835	3,506	2,360	1,981
MUSIC	136	250	282	103
PHOTO CLUB	1,533	4,281	3,908	1,907
HELPS	6	0	6	0
SERVICE LEARNING	4,900	941	4,573	1,268
SKI CLUB	363	16,862	16,942	283
STUDENT COUNCIL	1,814	510	479	1,845
NEWS	0	2,728	2,696	32
COMPUTER SERV LEARNING	0	174	42	132
STUDENT ACTIVITIES	30,666	22,794	24,873	28,587
SUBTOTAL	43,578	61,548	66,659	38,467
Less: Transfers		6	6	
TOTAL	43,578	61,542	66,653	38,467

School District No. 1
Fergus County
Lewistown, Montana 59457

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
Fiscal Year Ended June 30, 2008
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	1402583108	84.010A	\$ 283,720
IDEA Part B	1401258278	84.027	63,354
Carl Perkins	1402598108BG	84.048	52,212
Drug Free Schools	1402581608	84.186	13,637
Title II Part D	1402586008	84.318	6,657
Title II Part A	1402581408	84.367	113,785
Title V	1402583908	84.298	3,808
ABLE	1402595608	84.002	58,817

U.S. DEPARTMENT OF AGRICULTURE
PASSED THROUGH STATE OF MONTANA
OFFICE OF PUBLIC INSTRUCTION:

NATIONAL SCHOOL LUNCH			
Cash Payments 1/		10.555	200,667
Commodities 2/		10.550	28,407

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
PASSED THROUGH MONTANA
OFFICE OF PUBLIC INSTRUCTION:

Learn & Serve	1402585107	94.004	17,157
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Note: 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.
The Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting which is described in note 1.c1.

School District No. 1
Fergus County
Lewistown, Montana 59457

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
Fiscal Year Ended June 30, 2008
Page 2 of 2

GRANTOR/PASS THROUGH GRANT AND PROGRAM TITLE	Balance July 1, 2007	Revenues	Allowable Expenditures	Balance June 30, 2008
U.S. DEPARTMENT OF EDUCATION: PASSED THROUGH STATE OF MONTANA OFFICE OF PUBLIC INSTRUCTION:				
Title I	\$ 0	\$ 283,720	\$ 283,720	\$ 0
IDEA Part B	0	63,354	63,354	0
Carl Perkins	0	52,212	52,212	0
Drug Free Schools	0	13,637	13,637	0
Title II Part D	0	6,657	6,657	0
Title II Part A	0	113,785	113,785	0
Title V	0	3,808	3,808	0
ABLE	0	58,817	58,817	0
TOTAL DEPT OF EDUCATION:	0	595,990	595,990	0
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH STATE OF MONTANA OFFICE OF PUBLIC INSTRUCTION:				
NATIONAL SCHOOL LUNCH				
Cash Payments 1/	0	200,667	200,667	0
Commodities 2/	0	28,407	28,407	0
TOTAL DEPT OF AGRICULTURE:	0	229,074	229,074	0
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES PASSED THROUGH MONTANA OFFICE OF PUBLIC INSTRUCTION:				
Learn & Serve	0	17,157	17,157	0
TOTAL FEDERAL PROGRAMS:	\$ 0	\$ 842,221	\$ 842,221	\$ 0

Note: 1/ No separate funds or accounts maintained, district assumed first in first out for

2/ The commodities are not included in the basic financial statements.

The Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting which is described in note 1.c1.

STROM & ASSOCIATES, PC
1114 North 31st Street
Billings, Montana 59101

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, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 28, 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 2, 2008.

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 instances of noncompliance or other matters that are required to be reported under "Government Auditing Standards" and which are described in the accompanying schedule of findings and questioned costs as items 1, 2008.

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

Strom & Associates, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
January 28, 2009

STROM & ASSOCIATES, PC
1114 North 31st Street
Billings, Montana 59101

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, 2008. 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, 2008.

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
January 28, 2009

STROM & ASSOCIATES, PC
1114 North 31st Street
Billings, Montana 59101

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, 2008.
2. Our audit disclosed 1 significant deficiencies in internal controls and none that are considered to be material weaknesses relating to internal controls over financial reporting and its operation.
3. Our audit disclosed 1 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, 2008.
6. The audit disclosed no audit findings which are required to be reported under section .510 of OMB Circular A-133.
7. The major program for Lewistown School District No. 1 for the year ended June 30, 2008 was 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 no type A programs.
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 – CASH 2007:

This finding was resolved in fiscal year 2008.

FINDING NUMBER 2 – CASH 2007:

This finding was resolved in fiscal year 2008.

FINDING NUMBER 3 – EXPENDITURES 2007:

This finding was resolved in fiscal year 2008.

FINDING NUMBER 4 – REVENUE 2007:

This finding was resolved in fiscal year 2008.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FINDING NUMBER 5 – EXTRACURRICULAR 2007:

This finding was resolved in fiscal year 2008.

FINDING NUMBER 6 – LIABILITIES 2007:

This finding was resolved in fiscal year 2008.

FINDING NUMBER 7 - RECEIVABLES 2007:

This finding was resolved in fiscal year 2008.

FINDING NUMBER 8 – FEDERAL GRANTS 2007:

This finding was resolved in fiscal year 2008.

FINDING NUMBER 9 – PAYROLL 2007:

This finding was resolved in fiscal year 2008.

FINDING NUMBER 1 – RETIREMENT 2008:

The finding is that Elementary and High School retirement funds were over spent there approved budgets. MCA 20-9-133(2) requires that school districts expenditures remain within their approved budgets. The effect is non-compliance with MCA.

We recommend that districts not over spend their budgets and make budget amendments as appropriate.

FINDING NUMBER 2 – CHECKING ACCOUNT 2008:

The finding is that a student activity checking account was opened without board approval. The corresponding revenues and expenditures were not included in the districts trustees report. District policies require new bank accounts to be approved by the board. The effect is the possibility of errors or irregularities occurring with student activity funds.

We recommend that all school district accounts be supervised by the district and authorized by the board.

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.