

**LEWISTOWN SCHOOL DISTRICT NO. 1**

**FERGUS COUNTY  
LEWISTOWN, MONTANA**

**FINANCIAL AND COMPLIANCE REPORT**

**Fiscal year Ended June 30, 2007**

**Strom & Associates, P. C.**  
1114 North 31st Street  
Billings, Montana 59101

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

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

ORGANIZATION

BOARD OF TRUSTEES

Dave Byerly	Chairman
Becky Jackson	Vice Chairman
Mary Schelle	Trustee
Shelley Poss	Trustee
Tara Cutler	Trustee
Jeremy Bristol	Trustee
Roger Johnson	Trustee

OFFICIALS

Charles Brown	Superintendent
Stacey Vestal	District Clerk/Business Manager
Rhonda Long	County Superintendent
Tom Meissner	County Attorney

**Lewistown Public Schools  
Management Discussion and Analysis (MD&A)  
For The Year Ended June 30, 2007**

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, 2007. Certain comparative information between the current year and the prior is required to be presented in the MD&A, however, Statement No. 34 permits the omission of this comparative data in the first year of the adoption of the new reporting model. Subsequent reports will include the comparative information.

**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**

There were no significant variances between the final adopted budgets, the actual revenue received and the expenditures made.

### **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 \$10,064,556 as of June 30, 2007. This amount represents an increase of \$255,382—roughly 2%—from June 30, 2006. Approximately 61% 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 2007

Current and other assets	4,712,027
Capital assets	<u>6,189,089</u>
<b>Total Assets</b>	<b>10,901,116</b>

Current liabilities	132,105
Non-current liabilities	<u>704,455</u>
<b>Total Liabilities</b>	<b>836,560</b>

Invested in capital assets, Net of debt	6,170,851
Unrestricted	<u>3,893,705</u>
<b>Total Net Assets</b>	<b>10,064,556</b>

**Lewistown Public Schools  
Changes in Net Assets**

Governmental Activities FY 2006

GENERAL REVENUES

District Levy	3,241,321
State Equalization	3,238,976
Other State Revenue	2,537,716
County	1,018,260
Gain on Sale of Asset	11,875
Investment Earning	223,889
Other	<u>42,795</u>
<b>Total General Revenue</b>	<b>\$12,011,880</b>

GOVERNMENT OPERATIONS

Instruction	6,189,776
Support	444,637
Media	563,743
Administration	1,309,178
O & M	1,564,306
Transportation	668,424
Extracurricular	304,479
School Food	587,041
Interest	846
Depreciation – unallocated	<u>115,907</u>
<b>Total Operations</b>	<b>\$11,748,336</b>

### Capital Assets

As of June 30, 2007, 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, 2007.

Land and Improvements	1,537,840
Accumulated Depreciation	( 544,768)
	993,072
Buildings and Improvements	8,449,728
Accumulated Depreciation	(4,307,101)
	4,142,627
Machinery and Equipment	3,228,907
Accumulated Depreciation	(2,089,931)
	1,138,976

### 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 has been negotiated for FY2008 and FY2009 with increases of 3% and 4%. These increases are significant and will impact the District's budgets. The demographics of the District may change as we see the average age for staff continue to increase. Future retirements could have an affect on the budgets and the dynamics of the District.

The district also faces other challenges and decisions including:

- Significant repairs are needed at the Junior High building. An engineering report found structural flaws in that building's roof and caused the district to close the auditorium there. The board appointed a committee to research alternatives and make a recommendation in early 2008.
- The district estimates that general building repairs and maintenance in excess of \$10 million will be necessary over the next several years. As the district has limited bonding capacity, these needs will also factor into the decision regarding the Junior High School.
- 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. As a result, the district will need to find a new location to house our transportation program.

- The district began offering a full-time program to about 20% of the district's kindergartners in 2007-2008. A district would prefer to offer FTK to all students; however, it must find space to house the additional students.
- In the spring of 2007, a committee of the board and the LEA jointly developed an alternative compensation plan proposal. The district is currently evaluating the plan's feasibility.

**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 7<sup>th</sup> 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, Montana 59457

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lewistown School District No. 1 as of and for the year ended June 30, 2007, 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, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principals generally accepted in the United States of America.

In accordance with "Government Auditing Standards," we have also issued our report dated January 28, 2008, on our consideration of Lewistown School District No. 1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 7, are not a required part of the basic financial statements but are 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 performed 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 pages 28 - 29, required by U.S. generally accepted accounting principles, the accompanying Schedule of Expenditures of federal Awards pages 34 - 35 required by U.S. Office of Management and Budget (OMB) Circular A-133, "Audits of State, Local Governments, and Non-Profit organizations," and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements but are supplemental information. All of these schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Strom & Associates, P.C.*

STROM & ASSOCIATES, PC

Billings, Montana

January 28, 2008

School District No. 1  
Fergus County  
Lewistown, Montana

STATEMENT OF NET ASSETS  
as of June 30, 2007

	<u>2007</u>
<b>ASSETS:</b>	
Current Assets:	
Cash & Investments	4,181,977
Taxes Receivable	371,999
Due From Other Governments	60,094
Inventory	<u>97,957</u>
Total Current Assets	<u>4,712,027</u>
Capital Assets:	
Land	426,175
Capital Assets- Net	<u>5,762,914</u>
Total Assets	<u>10,901,116</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Due to Other Governments	15,742
Other Current Liabilities	48,000
Deferred Revenue	4,304
Capital Leases Payable	8,370
Compensated Absenses	<u>55,689</u>
Total Current Liabilities	<u>132,105</u>
Non-current Liabilities:	
Compensated Absenses	598,587
Capital Leases Payable	9,868
Other Long-Term Liabilities	<u>96,000</u>
Total Non-current Liabilities	<u>704,455</u>
Total Liabilities	<u>836,560</u>
<b>NET ASSETS:</b>	
Invested in Capital Assets, Net of Debt	6,170,851
Unrestricted	<u>3,893,705</u>
Total Net Assets	<u>10,064,556</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, 2007

	-----Program Revenue-----			Net (Expense) Revenue 2007
	Expenses	Charges for Services	Operating Grants	
<b>GOVERNMENT OPERATIONS</b>				
Instruction	6,189,776	84,987	915,595	(5,189,194)
Support	444,637	0	4,134	(440,503)
Media	563,743	2,649	12,042	(549,052)
Administration:	1,309,178	0	3,334	(1,305,844)
O & M	1,564,306	17,160	622	(1,546,524)
Transportation	668,424	3,227	234,905	(430,292)
Extracurricular	304,479	0	0	(304,479)
School Food	587,041	232,185	203,432	(151,425)
Interest	846	0	0	(846)
Depreciation-unallocated	<u>115,907</u>	<u>0</u>	<u>0</u>	<u>(115,907)</u>
Totals	<u>11,748,336</u>	<u>340,207</u>	<u>1,374,064</u>	<u>(10,034,065)</u>
<b>GENERAL REVENUES</b>				
District Levy				3,241,321
State Equalization				3,238,976
Other State Revenue				2,537,716
County				1,018,260
Gain on Asset				11,875
Investment Earnings				223,889
Other				<u>42,795</u>
Total General Revenues				<u>10,314,831</u>
<b>CHANGE IN NET ASSETS</b>				280,766
<b>NET ASSETS</b>				
Beginning of the Year				<u>9,809,174</u>
Prior Period Adjustment				<u>(25,384)</u>
End of the Year				<u>10,064,556</u>

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

School District No. 1  
 Big Horn County  
 Lewistown, Montana

BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 as of June 30, 2007

	-----MAJOR-----			Other	Total
	General	EL BUS DEPR	HS BUS DEPR	Government	
	Fund	Fund	Fund	Funds	
<b>ASSETS:</b>					
Cash and Investments	899,247	858,657	453,863	1,915,932	4,127,698
Taxes Receivable	279,049	10,532	12,704	69,715	371,999
Receivable From Other Funds	20,455	0	0	13,056	33,511
Due From Other Governments	0	0	0	60,094	60,094
Inventories	0	0	0	26,400	26,400
Total Assets	<u>1,198,750</u>	<u>869,188</u>	<u>466,567</u>	<u>2,085,197</u>	<u>4,619,702</u>
<b>LIABILITIES:</b>					
Payable to Other Funds	2,802	0	0	30,709	33,511
Due to Other Governments	0	0	0	15,742	15,742
Deferred Revenue	<u>279,049</u>	<u>10,532</u>	<u>12,704</u>	<u>74,019</u>	<u>376,303</u>
Total Liabilities	<u>281,850</u>	<u>10,532</u>	<u>12,704</u>	<u>120,470</u>	<u>425,556</u>
<b>FUND BALANCE:</b>					
Reserve for Inventory	0	0	0	26,400	26,400
Reserved for Encumbrances	168,695	0	0	0	168,695
<b>Unreserved Fund Balance:</b>					
General Funds	748,205	0	0	0	748,205
Special Revenue Funds	0	858,657	453,863	1,622,760	2,935,279
Capital Projects Funds	0	0	0	315,566	315,566
Total Fund Balance	<u>916,900</u>	<u>858,657</u>	<u>453,863</u>	<u>1,964,727</u>	<u>4,194,146</u>
Total Liabilities and Fund Balance	<u>1,198,750</u>	<u>869,188</u>	<u>466,567</u>	<u>2,085,197</u>	<u>4,619,702</u>
<b>RECONCILIATION TO THE STATEMENT OF NET ASSETS</b>					
Total fund balance reported above			4,194,146		
Add Internal Service Net Assets			150,170		
Add capital assets not reported above		13,164,674			
Less internal service assets included in net figure above		(24,334)			
Less accumulated depreciation		<u>(6,975,585)</u>	6,164,755		
<b>Less liabilities not reported above:</b>					
Compensated absences		654,276			
Capital Leases		18,238			
Retirement Incentive Payments		<u>144,000</u>	816,514		
Deferred revenues for taxes receivable recognized as revenue in the government-wide statement of net assets			<u>371,999</u>		
Net Assets			<u>10,064,556</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, 2007

	-----MAJOR-----			Other	Total
	General Fund	EL. BUS DEPR Fund	HS BUS DEPR Fund	Government Funds	
<b>REVENUES:</b>					
District Levies	2,340,389	83,984	105,036	608,801	3,138,210
Interest	61,695	49,177	25,691	83,150	219,712
Other	1,807	0	0	38,686	40,492
County	0	0	0	1,135,712	1,135,712
State	5,683,253	535	1,258	510,372	6,195,418
Federal	0	0	0	837,886	837,886
Charges for Services	<u>0</u>	<u>0</u>	<u>0</u>	<u>351,361</u>	<u>351,361</u>
Total Revenues	<u>8,087,144</u>	<u>133,696</u>	<u>131,984</u>	<u>3,565,968</u>	<u>11,918,791</u>
<b>EXPENDITURES:</b>					
Instructional Services	4,601,069	0	0	1,366,240	5,967,309
Support Services	394,516	0	0	45,882	440,397
Educational Media Services	379,578	0	0	179,928	559,505
General Administrative Services	1,070,434	0	0	211,719	1,282,153
Operation & Maintenance Services	1,186,548	0	0	319,753	1,506,301
Transportation Services	10,733	6,972	5,878	487,292	510,875
Extracurricular	222,873	0	0	21,682	244,555
School Food Services	<u>130,476</u>	<u>0</u>	<u>0</u>	<u>454,766</u>	<u>585,242</u>
Total Current Charges	7,996,226	6,972	5,878	<u>3,087,262</u>	<u>11,096,338</u>
Capital Outlay	26,974	107,497	52,947	5,889	193,308
Debt Service	<u>12,308</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>12,308</u>
Total Expenditures	<u>8,035,509</u>	<u>114,469</u>	<u>58,824</u>	<u>3,093,151</u>	<u>11,301,954</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>					
	51,634	19,227	73,160	472,817	616,838
<b>OTHER FINANCING SOURCES/USES</b>					
Sale of Fixed Assets	0	0	0	2,934	2,934
<b>EXCESS(DEFICIENCY) REV OVER EXP. AND OTHER SOURCES OVER OTHER USES</b>					
	51,634	19,227	73,160	475,751	619,772
<b>FUND BALANCE:</b>					
Beginning of the Year	852,186	839,430	380,703	1,513,010	3,585,329
Prior Period Adjustments	<u>13,080</u>	<u>0</u>	<u>0</u>	<u>(24,034)</u>	<u>(10,955)</u>
End of the Year	<u>916,900</u>	<u>858,657</u>	<u>453,863</u>	<u>1,964,727</u>	<u>4,194,146</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, 2007

Excess of revenues over expenditures as reported in the governmental funds statement		602,549
Change in net assets from internal service funds		(7,611)
Revenues on the Statement of Activity not included in governmental funds statement:		
Gain on sale of Assets	11,875	
Increase (decrease) in taxes receivable	103,111	114,986
Revenues reported in the governmental funds statement not included in the Statement of Activity		
Bond/Note Proceeds	0	
Sale of Fixed Assets	<u>2,934</u>	(2,934)
Expenses on the Statement of Activity not included in the governmental funds statement:		
Depreciation Expense	(451,519)	
Add back internal service fund depreciation included in net figure above	2,937	
Retirement Incentive Debt	(144,000)	
(Increase) decrease in compensated absense liability	<u>(55,634)</u>	(648,216)
Expenditures reported in the governmental funds statement not included in the Statement of Activity		
Capital outlays	193,308	
Principal payments on Leases	<u>11,462</u>	<u>204,770</u>
Change in net assets reported on the Statement of Activity		<u>263,543</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, 2007

	<u>Internal Service Funds</u>
Assets	
Cash	54,279
Inventory	71,557
Machinery & Equipment	<u>24,334</u>
Total Assets	<u>150,170</u>
Liabilities	
Total Liabilities	0
Net Assets	
Invested in capital assets, net of related debt	24,334
Unrestricted	<u>125,836</u>
Total Net Assets	<u>150,170</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, 2007

	<u>Internal Service Funds</u>
OPERATING REVENUES:	
Charges for Services	129,748
Other	<u>2,303</u>
Total Operating Revenues	132,051
OPERATING EXPENSES:	
Personnel Services - Salaries	59,216
Personnel Services - Benefits	5,412
Purchased Property Services	6,774
Other Purchased Services	15,287
Supplies & Materials	54,214
Depreciation	<u>2,937</u>
Total Operating Expenses	<u>143,839</u>
TOTAL OPERATING INCOME (LOSS)	(11,788)
NON-OPERATING REVENUE(EXPENSES)	
Interest	<u>4,177</u>
Total Non-operating Revenue(Expenses)	4,177
CHANGE IN NET ASSETS	(7,611)
TOTAL NET ASSETS, BEGINNING	165,700
PRIOR PERIOD ADJUSTMENTS	<u>(7,919)</u>
TOTAL NET ASSETS, ENDING	<u>150,170</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, 2007

	Internal Service Funds
<b>CASH FLOWS FROM OPERATIONS:</b>	
Cash Received From Customers	129,748
Cash Received From Other	2,303
Personal Services - Salaries	(59,216)
Personal Services - Benefits	(5,412)
Purchased Property Services	(6,774)
Other Purchased Services	(15,287)
Supplies & Materials	<u>(54,398)</u>
NET CASH PROVIDED(USED) BY OPERATING ACTIVITIES:	 <u>(9,036)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest	<u>4,177</u>
NET CASH PROVIDED(USED) BY INVESTING ACTIVITIES:	 <u>4,177</u>
NET INCREASE (DECREASE) IN CASH	(4,859)
CASH BALANCE JULY 1, 2006	67,056
PRIOR PERIOD ADJUSTMENTS	<u>(7,919)</u>
CASH BALANCE JUNE 30, 2007	<u>54,278</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income (Loss)	(11,788)
Adjustments to Reconcile Operating Income to net cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
(Increase)Decrease in Inventory	(185)
Depreciation Expense	<u>2,937</u>
Total Adjustments	<u>2,752</u>
Net Cash Provided by Operating Activities	<u>(9,036)</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, 2007

	<u>Private Purpose Trust Funds</u>
Assets	
Cash	370,563
Accounts Receivable	24,025
Total Assets	<u>394,588</u>
Liabilities	
Total Liabilities	0
Net Assets	
Held in Trust for Student Activities	241,900
Held in Trust for Endowment	<u>152,689</u>
Total Net Assets	<u>394,588</u>

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CHANGES IN FIDUCIARY NET ASSETS

Additions	
Contributions to Endowment	56,385
Revenue from Student Activities	<u>465,962</u>
Total Additions	<u>522,347</u>
Deductions	
Regular Education Expenses	63,787
Expenses of Student Activities	<u>396,221</u>
Total Deductions	<u>460,008</u>
Changes in Net Assets Held in Trust	62,339
Net Assets, Beginning of the Year	332,443
Prior Period Adjustments	<u>(193)</u>
Net Assets, Ending of the Year	<u>394,589</u>

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

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

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 1.a REPORTING ENTITY

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

School District No. 1 consists of two legally separate entities, an elementary district which provides education for kindergarten through eighth grade and a high school district which provides education for ninth through twelfth grade. For financial reporting purposes the two districts are combined because they are controlled by the same central board of trustees and managed by the same administration. The board of trustees is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. GAAP requires only one general fund for each reporting entity so the elementary and high school general funds are combined in the accompanying financial statements.

The criteria for including organizations as component units within the District's reporting entity is set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) "Codification of Government Accounting and Financial Reporting Standards." 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

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 and High School Bus Depreciation Funds** – These funds are 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** include a central stores fund, an elementary and high school central transportation fund, a student stores fund, an instructional materials copy center, 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 treasure 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 a 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 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.

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 \$ 55,689 and it is generally paid out of the general fund. The accrued liability for sick and vacation leave at June 30, 2007 was \$654,276.

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 and Repurchase Agreements and are carried at fair value. At June 30, 2007 the carrying amount of deposits was \$5,746,001. This includes \$1,298,319 in agency funds, \$265,705 in trust 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 not held by the county, \$233,522, is held separately by the school district at a local bank and is covered by FDIC and collateral agreements. The extracurricular funds also had \$137,041 that was held in the county investment pool to take advantage of the higher interest earned, for security purposes and for insurance protection.

NOTE 3. TAXES

3.a MILL LEVIES

The assessed value of the roll as of January 1, 2006, upon which the levy for the 2007 fiscal year was based, was \$10,769,744 for the elementary district and \$11,652,966 for the high school district. The tax rates assessed for the year ended June 30, 2007 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	134.11	81.89	216.00
Transportation	18.40	8.57	26.97
Bus Depreciation	7.84	9.16	17.00
Adult Education	0	1.00	1.00
Technology	6.00	5.00	11.00
Building Reserve	<u>9.10</u>	<u>8.41</u>	<u>17.51</u>
Grand Total	<u>175.45</u>	<u>114.03</u>	<u>289.48</u>

3.b TAXES RECEIVABLE

<u>Fund</u>	<u>Elementary</u>	<u>High School</u>	<u>Total</u>
General	\$ 174,281	\$ 104,768	\$ 279,049
Transportation	21,001	10,521	31,522
Bus Depreciation	10,531	12,704	23,235
Tuition	2	0	2
Adult Education	0	1,398	1,398
Technology	7,340	6,686	14,026
Debt Service	0	337	337
Building Reserve	<u>11,744</u>	<u>10,686</u>	<u>22,430</u>
Grand Total	<u>\$ 224,899</u>	<u>\$ 147,100</u>	<u>\$ 371,999</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	\$ 58,279	CMLRCC/IDEA Part B
Elementary – Miscellaneous	<u>1,815</u>	Fed Govt Title I part A
District Total	<u>\$ 60,094</u>	

3.d DUE FROM OTHER FUNDS

<u>School / Fund</u>	<u>Amount</u>	<u>Due From / Reason</u>
Elementary – General.	\$ 20,455	Elem. Metal Mines – Expenditure Transfer
Elementary – Tuition	7,850	Elem. Metal Mines – Expenditure Transfer
Elementary – Miscellaneous	142	Elem. Flex – Expenditure transfer
High School – Adult Education	2,262	High School Misc. – Expenditure transfer
High School – Traffic Education	<u>2,802</u>	Elem. General – Expenditure transfer
District Total	<u>\$ 33,511</u>	

NOTE 4. CAPITAL ASSETS

The value and changes to the capital assets for June 30, 2007 are as follows:

	CAPITAL ASSETS			Balance June 30, 2007
	Balance July 1, 2006	Additions	Deletions	
<b>COST:</b>				
Land	\$ 426,175	\$ 0	\$ 0	\$ 426,175
Land Improve.	1,111,665	0	0	1,111,665
Building	8,449,728	0	0	8,449,728
Major Equipment	<u>3,047,513</u>	<u>305,452</u>	<u>75,589</u>	<u>3,277,376</u>
Total	<u>\$ 13,035,081</u>	<u>\$ 305,452</u>	<u>\$ 75,589</u>	<u>\$ 13,264,944</u>
<b>ACCUMULATED DEPRECIATION:</b>				
Land Improvements	\$ (489,791)	\$ (54,977)	\$ 0	\$ (544,768)
Building	(4,116,268)	(190,833)	0	(4,307,101)
Major Equipment	<u>(1,993,596)</u>	<u>(205,709)</u>	<u>(75,589)</u>	<u>(2,123,716)</u>
Total	<u>\$(6,599,655)</u>	<u>\$(451,519)</u>	<u>\$(75,589)</u>	<u>\$(6,975,585)</u>

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

Instructional	\$ 50,731
Support	1,907
School Administration	9,378
Transportation	157,862
Operation & Maintenance	54,351
Extracurricular	59,924
School Food	1,459
Unallocated	<u>115,907</u>
Total	<u>\$ 451,519</u>

NOTE 5. CURRENT LIABILITIES

5.a DUE TO OTHER GOVERNMENTS

<u>School / Fund</u>	<u>Amount</u>	<u>Due to / Reason</u>
Elementary – Miscellaneous	\$ 15,742	Fed Govt. – Unused Homeland Security Grant

NOTES TO THE FINANCIAL STATEMENTS (continued)

5.b DEFERRED REVENUES

<u>School / Fund</u>	<u>Amount</u>	<u>Reason</u>
Elementary-General	\$ 174,281	Taxes Receivable
Elementary-Transportation	21,001	Taxes Receivable
Elementary-Bus Depreciation	10,531	Taxes Receivable
Elementary- Tuition	2	Taxes Receivable
Elementary-Technology	7,340	Taxes Receivable
Elementary-Building Reserve	11,744	Taxes Receivable
High School-General	104,768	Taxes Receivable
High School-Transportation	10,521	Taxes Receivable
High School-Bus Depreciation	12,704	Taxes Receivable
High School-Adult Education	1,398	Taxes Receivable
High School-Technology	6,686	Taxes Receivable
High School-Debt Service	337	Taxes Receivable
High School-Building Reserve	<u>10,686</u>	Taxes Receivable
District Total	<u>\$ 371,999</u>	

NOTE 6. 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 \$4,178 which is left from prior year activity. The fund spent \$0 to subsidize the Districts health insurance premiums in fiscal year 2007. There has been no actuarial study of the fund.

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 retirements benefits are determined by taking 1/50 times the number of years of service times the highest consecutive 36 months salary. Members' rights become vested after five years of service. Beginning January 1998, a guaranteed annual benefit adjustment provides an annual 3% benefit increase each January if the recipient has been receiving a benefit for at least 36 months.

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

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

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

Teachers Retirement System  
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 3 year smoothed basis for TRS and on a 4 year smoothed basis for PERS. The following rates were assumed for investment return: 8% for both TRS & PERS, projected salary increases 6% for TRS and 6.25% for PERS, and post retirement benefit increases of 3% for PERS and up to 3% for TRS. The amortization method used was level-percentage of projected payroll and the last actuarial valuation was July 1, 2002.

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 .10% starting July 1, 1997. The State rate for TRS was set at .11% starting July 1, 1999. 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, 2005, 2006 and 2007 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>2005</u>	<u>2006</u>	<u>2007</u>
TRS	\$ 750,033	\$ 767,692	\$ 894,703
PERS	175,092	188,064	189,848
Total	<u>\$ 925,125</u>	<u>\$ 955,756</u>	<u>\$ 1,084,551</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 34,996. The first lease was entered into in June 2004 with payments of \$325 per month and was paid in full in fiscal year 2007. Total payment made on this lease in fiscal year 2007 were \$3,900. The second lease was entered in June 2006 and has monthly payments of \$325. Total payments made in fiscal year 2007 were \$3,900. The third lease was entered in April 2006 with payments of \$373 per month. Total payments made on this lease in fiscal year 2007 were \$4,470. Each lease has a bargain purchase option. The total principal payments for these leases in fiscal year 2007 were \$11,462 and \$808 was paid in interest.

The principal amount paid as of June 30, 2007 was \$16,758. Liability is shared equally between the elementary and high school. The principal balance as of June 30, 2007 was 18,238.

Future Minimum Lease Payments

Year Ending June 30, 2008	\$ 8,370
2009	8,371
2010	<u>2,981</u>
Subtotal:	\$ 19,722
Less Interest:	<u>1,484</u>
Total:	<u>\$ 18,238</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 that 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. The contract specified that the payments were not payroll but 1099 income that the teachers would have to pay the taxes on so no liability for employer taxes has been made.

8.c CHANGES IN LONG TERM DEBT

	Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2007</u>
Compensated Absences	\$ 598,643	\$ 55,633	\$ 0	\$ 654,276
Retirement Liability	0	144,000	0	144,000
Capital Lease	<u>20,225</u>	<u>9,475</u>	<u>11,462</u>	<u>18,238</u>
Total	<u>\$ 618,868</u>	<u>\$ 209,108</u>	<u>\$ 11,462</u>	<u>\$ 816,514</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 – School Food	\$(2,365)	Increase Fees

NOTE 11. PRIOR PERIOD ADJUSTMENTS

<u>SCHOOL/FUND</u>	<u>AMOUNT</u>
Elementary – Transportation	\$ 45
Elementary – Retirement	(522)
Elementary - Private Purpose Trust	1,259
Elementary - Building Reserve	(6,118)
Elementary - School Food	314
Elementary - Miscellaneous	(14,394)
Elementary - Lease Rental	99
Elementary - Internal Service	(8,401)
High School – General	13,080
High School - Transportation	41
High School - Retirement	(27)
High School - Adult Education	27
High School - Private Purpose Trust	(1,451)
High School - Miscellaneous	(3,612)
High School - Lease Rental	111
High School - Central Transportation	482
GASB 34	<u>(6,510)</u>
District Total	<u>\$(25,577)</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, 2007

Page 1 of 2

	GENERAL FUND			EL BUS DEPR FUND		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>REVENUES:</b>						
District Levies	2,398,555	2,398,555	2,340,389	84,415	84,415	83,984
Interest Earnings	33,967	33,967	61,695	0	0	49,177
Other Local & District Sources	2,129	2,129	1,807	0	0	0
State Sources	<u>5,652,545</u>	<u>5,652,545</u>	<u>5,683,253</u>	<u>0</u>	<u>0</u>	<u>535</u>
Total Revenues	<u>8,087,197</u>	<u>8,087,197</u>	<u>8,087,144</u>	<u>84,415</u>	<u>84,415</u>	<u>133,696</u>
<b>EXPENDITURES:</b>						
Instructional Services			4,707,855	0	0	0
Support Services			394,516	0	0	0
Educational Media Services			379,578	0	0	0
General Administrative Services			1,070,434	0	0	0
Operation & Maintenance Services			1,186,548	0	0	0
Transportation Services			10,733	6,972	6,972	6,972
Extracurricular			222,873	0	0	0
School Food Services			<u>130,476</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Current Charges			8,103,012	6,972	6,972	6,972
Capital Outlay			15,364	916,873	916,873	107,497
Debt Service			<u>12,308</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>8,087,197</u>	<u>8,087,197</u>	<u>8,130,685</u>	<u>923,845</u>	<u>923,845</u>	<u>114,469</u>
EXCESS(DEFICIENCY) REV OVER EXP. AND OTHER SOURCES OVER OTHER USES			(43,541)			19,227
BEGINNING FISCAL YEAR FUND BALANCE			778,667			839,430
PRIOR PERIOD ADJUSTMENTS			<u>13,080</u>			<u>0</u>
ENDING FISCAL YEAR FUND BALANCE			<u>748,205</u>			<u>858,657</u>

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

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, 2007  
 Page 2 of 2

	HS BUS DEPR FUND		
	Original Budget	Final Budget	Actual
<b>REVENUES:</b>			
District Levies	106,746	106,746	105,036
Interest Earnings	0	0	25,691
Other Local & District Sources	0	0	0
State Sources	<u>0</u>	<u>0</u>	<u>1,258</u>
Total Revenues	<u>106,746</u>	<u>106,746</u>	<u>131,984</u>
<b>EXPENDITURES:</b>			
Instructional Services	0	0	0
Support Services	0	0	0
Educational Media Services	0	0	0
General Administrative Services	0	0	0
Operation & Maintenance Services	0	0	0
Transportation Services	5,878	5,878	5,878
Extracurricular	0	0	0
School Food Services	<u>0</u>	<u>0</u>	<u>0</u>
Total Current Charges	5,878	5,878	5,878
Capital Outlay	481,571	481,571	52,947
Debt Service	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>487,449</u>	<u>487,449</u>	<u>58,824</u>
EXCESS(DEFICIENCY) REV OVER EXP. AND OTHER SOURCES OVER OTHER USES			73,160
BEGINNING FISCAL YEAR FUND BALANCE			380,703
PRIOR PERIOD ADJUSTMENTS			<u>0</u>
ENDING FISCAL YEAR FUND BALANCE			<u>453,863</u>

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

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

NOTES TO THE BUDGET VS ACTUAL SCHEDULE

1.a BUDGETS

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

1.a1 General Budget Policies:

The School District's funds are either budgeted or nonbudgeted in accordance with State statutes. Budgeted funds are those of which a legal budget must be adopted to have expenditures from such funds and are noted above. All other funds are nonbudgeted, meaning a legal budget is not required in order to spend the cash balance of such a fund. The Schedule of Revenues, Expenditures, and Changes in Fund Balances, Budget vs. Actual, has been prepared on the modified accrual basis of accounting and contains financial information for only the major budgeted funds. The original budget was not amended so the original budget and the final budget are the same.

1.a2 Budget Operation:

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

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

1.b Fund Balance Reconciliation

The general fund – fund balance on the statement of revenue, expenditures, and changes in fund balances is different than the general fund – fund balance on the schedule of revenues, expenditures, and changes in fund balance (budget and actual) by \$168,695. 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.

School District No. 1  
Fergus County  
Lewistown, Montana 59457

SCHEDULE OF REPORTED ENROLLMENT  
Fiscal Year Ended June 30, 2007

	Reported Enrollment	Per Audit	Difference
FALL ENROLLMENT OCTOBER, 2006			
PreK:	7	7	0
Kindergarten:	114	114	0
Grades 1 - 6:	569	569	0
Junior High:	<u>228</u>	<u>228</u>	<u>0</u>
Total Elementary:	<u>918</u>	<u>918</u>	<u>0</u>
High School:	<u>436</u>	<u>436</u>	<u>0</u>
Total High School:	<u>436</u>	<u>436</u>	<u>0</u>
SPRING ENROLLMENT FEBRUARY, 2007			
PreK:	6	6	0
Kindergarten:	112	112	0
Grades 1 - 6:	578	578	0
Junior High:	<u>225</u>	<u>225</u>	<u>0</u>
Total Elementary:	<u>921</u>	<u>921</u>	<u>0</u>
High School:	<u>421</u>	<u>421</u>	<u>0</u>
Total High School:	<u>421</u>	<u>421</u>	<u>0</u>

LEWISTOWN HIGH SCHOOL  
 END OF YEAR REVENUES & EXPENSES  
 STUDENT ACTIVITY FUND  
 June 30, 2007

	BALANCE July 1, 2006	REVENUES	EXPENSES	BALANCE June 30, 2007
AFS	9	0	0	9
ANNUAL	807	10,041	10,835	13
STUDY GROUP	934	1,404	1,297	1,041
BAND	32,937	1,016	4,466	29,487
BPA	(85)	6,077	5,436	556
CMT	570	0	0	570
CT MT MENTORS	0	500	305	195
CHEERLEADERS	6,552	6,367	8,267	4,652
CLAWS-HONOR SOCIETY	500	75	299	276
CONCESSIONS	3,566	25,074	26,287	2,353
EAGLE RENAISSANCE	1,399	1,430	965	1,864
F CLUB	2,219	3,275	3,073	2,421
FERGUS	829	497	104	1,222
FFA	3,691	22,253	17,323	8,621
FCCLA	1,325	6,283	7,311	297
FINANCIAL ADMINISRATOR	0	1,540	1,540	0
FOREIGN LANGUAGE	66	0	0	66
GREEN CLUB	86	0	0	86
VICA	830	3,114	2,157	1,787
KEY CLUB	185	8,344	8,325	204
PARKING FINES	1,171	402	0	1,573
SCIENCE CLUB	13,721	12,152	17,200	8,673
SKI CLUB	654	35,225	34,742	1,137
STUDENT ACTIVITY TICKETS	0	8,165	8,165	0
STUDENT COUNCIL	7,598	25,592	24,129	9,061
THESPIANS	2,625	994	473	3,146
TOURNAMENTS	1,811	1,613	2,073	1,351
TROPHY	3,466	167	0	3,633
VOCAL MUSIC	984	4,052	3,367	1,669
WEIGHT CLUB	1,349	13,980	13,507	1,822
CLASS OF 2007	1,026	1,289	2,315	0
CLASS OF 2008	6	12,856	9,219	3,643
PASS THROUGH	1,221	2,685	3,387	519
SCHOOL ACTIVITIES	30,677	212,195	136,497	106,375
SUBTOTAL	122,729	428,657	353,064	198,322
Less: Transfers		3,460	3,460	
TOTAL	122,729	425,197	349,604	198,322

LEWISTOWN ELEM/JUNIOR HIGH  
 END OF YEAR REVENUES & EXPENSES  
 STUDENT ACTIVITY FUND  
 June 30, 2007

	BALANCE July 1, 2006	REVENUES	EXPENSES	BALANCE June 30, 2007
GENERAL ACTIVITIES	1,969	0	118	1,851
BUILDERS CLUB	208	61	179	90
SCIENCE CLUB	4	1	4	1
CHEERLEADERS	85	862	745	202
CONSUMER TECH	1,182	2,257	2,322	1,117
FACS	69	1,641	1,644	66
BC, SC STORE	817	3,744	3,727	834
MUSIC	135	1	0	136
PHOTO CLUB	2,559	4,049	5,075	1,533
HELPS	6	1	0	7
SERVICE LEARNING	648	4,324	72	4,900
SKI CLUB	2,420	1	2,058	363
STUDENT COUNCIL	1,449	567	203	1,813
GREEN CLUB	22	0	22	(0)
LIFESKILLS	23	0	23	(0)
PROJECT DISCOVERY	103	0	103	(0)
STUDENT ACTIVITIES	37,733	23,379	30,446	30,666
SUBTOTAL	49,431	40,888	46,741	43,578
Less: Transfers		123	123	
TOTAL	49,431	40,765	46,618	43,578

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	1402583107	84.010A	\$ 361,114
IDEA Part B	1401258277	84.027	76,224
Carl Perkins	1402598107BG	84.048	25,964
Drug Free Schools	1402581607	84.186	5,092
Title II Part D	1402586007	84.318	4,093
Title II Part A	1402581407	84.367	95,339
Title V	1402583907	84.298	5,940
ABLE	1402595607	84.002	48,247
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH STATE OF MONTANA OFFICE OF PUBLIC INSTRUCTION:			
NATIONAL SCHOOL LUNCH			
Cash Payments 1/		10.555	199,231
Commodities 2/		10.550	25,066
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES PASSED THROUGH MONTANA OFFICE OF PUBLIC INSTRUCTION:			
Learn & Serve	1402585107	94.004	11,042
Homeland Security	1402585207	94.001	5,600

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.

GRANTOR/PASS THROUGH GRANT AND PROGRAM TITLE	Balance July 1, 2006	Revenues	Allowable Expenditures	Balance June 30, 2007
<b>U.S. DEPARTMENT OF EDUCATION: PASSED THROUGH STATE OF MONTANA OFFICE OF PUBLIC INSTRUCTION:</b>				
Title I	\$ 0	\$ 361,114	\$ 361,114	\$ 0
IDEA Part B	0	76,224	76,224	0
Carl Perkins	0	25,964	25,964	0
Drug Free Schools	0	5,092	5,092	0
Title II Part D	0	4,093	4,093	0
Title II Part A	0	95,339	95,339	0
Title V	0	5,940	5,940	0
ABLE	0	48,247	48,247	0
<b>TOTAL DEPT OF EDUCATION:</b>	<u>0</u>	<u>622,013</u>	<u>622,013</u>	<u>0</u>
<b>U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH STATE OF MONTANA OFFICE OF PUBLIC INSTRUCTION:</b>				
<b>NATIONAL SCHOOL LUNCH</b>				
Cash Payments 1/	0	199,231	199,231	0
Commodities 2/	0	25,066	25,066	0
<b>TOTAL DEPT OF AGRICULTURE:</b>	<u>0</u>	<u>224,297</u>	<u>224,297</u>	<u>0</u>
<b>U.S. DEPARTMENT OF HEALTH &amp; HUMAN SERVICES PASSED THROUGH MONTANA OFFICE OF PUBLIC INSTRUCTION:</b>				
Learn & Serve	0	11,042	11,042	0
Homeland Security	0	5,600	5,600	0
<b>TOTAL HEALTH &amp; HUMAN SERVICES</b>	<u>0</u>	<u>16,642</u>	<u>16,642</u>	<u>0</u>
<b>TOTAL FEDERAL PROGRAMS:</b>	<u>\$ 0</u>	<u>\$ 862,952</u>	<u>\$ 862,952</u>	<u>\$ 0</u>

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS

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

We have audited the accompanying financial statements of the governmental activities, of each major fund, and the aggregate remaining fund information of Lewistown School District No. 1 as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 28, 2008. 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 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 entity'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. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as items 1, 2, 3, 4, 5, 6, 7, 8, and 9, 2007.

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, of the significant deficiencies described above, we consider items 1, 2, 3, 4, 6, 8, and 9, 2007 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lewistown School District No. 1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under "Government Auditing Standards".

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

*Strom & Associates, P.C.*

STROM & ASSOCIATES, PC  
Billings, Montana  
January 28, 2008

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
COMPLIANCE FOR MAJOR PROGRAMS

The Board of Trustees  
School District No. 1  
Fergus County  
Lewistown, Montana 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, 2007. 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 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, 2007.

Internal Control Over Compliance

The management of 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 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 School District No. 1's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the School District No. 1's internal control that might be significant deficiencies in the or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weakness.

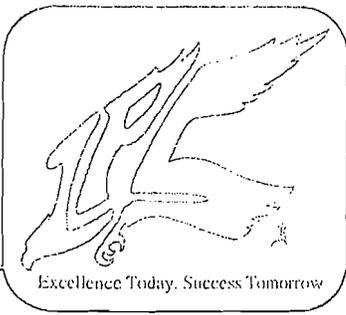
A control deficiency in School District No. 1's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiency, that adversely affects the School District No. 1'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 School District No. 1's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2, 4, and 8, 2007 to be significant deficiencies.

A material weakness is a significant deficiency, or 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 School District No. 1's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2, 4, and 8, 2007 to be material weaknesses.

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, 2008



# LEWISTOWN PUBLIC SCHOOLS

SCHOOL DISTRICT NUMBER ONE

215 7TH AVENUE SOUTH • LEWISTOWN, MONTANA 59457

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

January 25, 2008

## SCHEDULE OF PRIOR AUDIT FINDINGS

To whom it may concern:

The audit of Lewistown Public Schools' 2006-2007 financial statements revealed two repeat findings to which we must respond in a separate letter. Following you will find copies of those findings and the district's response to them.

### FINDING NUMBER 1 – CASH 2007 (repeat finding from 2005 and 2006):

The finding is that payroll and claims clearing cash and warrants payable were overstated in the trustees financial summary. Generally accepted accounting principles (GAAP) require cash and liabilities to be accurately recorded and reported. The effect is overstated cash and warrants payable which was material and had to be adjusted in the fiscal report.

Recommend the district double check the numbers reported in the trustees financial report to the districts subsidiary records and county prior to submittal.

### FINDING NUMBER 2 – CASH 2007 (repeat finding from 2006):

District cash balances were not reconciled to the county treasurers report at year end. Proper internal control requires cash balances to be reconciled in a timely manner. The effect is the possibility of errors or irregularities occurring with cash.

Recommend the district perform a cash reconciliation to the county in a timely manner every month.

District response to findings 1 and 2: According to the district's accounting system, the district has not reconciled its accounting records (including payroll and claims clearing cash and payables) to the county reports since April 2006. As such, correct balances for the Trustees' Financial Summary could not be accurately determined.

The district's cash balances now reconcile with the county's records in all funds.

Please contact me with questions.

Sincerely,

Mike Waterman  
Business Manager

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, 2007.
2. Our audit disclosed 9 significant deficiencies in internal controls 7 that are considered to be material weaknesses relating to internal controls over financial reporting and its operation.
3. Our audit disclosed no noncompliance that were material to the financial statements of School District No. 1.
4. Our audit disclosed 3 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 qualified opinion on School District No. 1's compliance with major federal awards programs as of and for the year ended June 30, 2007.
6. The audit disclosed 3 audit findings which are required to be reported under section .510 of OMB Circular A-133.
7. The major programs for School District No. 1 for the year ended June 30, 2007 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 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 3 – EXPENDITURES 2006:

This finding was resolved in fiscal year 2007.

FINDING NUMBER 1 – CASH 2007 (repeat finding from 2005 and 2006):

The finding is that payroll and claims clearing cash and warrants payable were overstated in the trustees financial summary. Generally accepted accounting principles (GAAP) require cash and liabilities to be accurately recorded and reported. The effect is overstated cash and warrants payable which was material and had to be adjusted in the fiscal report.

Recommend the district double check the numbers reported in the trustees financial report to the districts subsidiary records and county prior to submittal.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FINDING NUMBER 2 - CASH 2007 (repeat finding from 2006):

Program CFDA number and title: 84.010 Title I Part A and National School Lunch Program Passed through the State of Montana.

Federal Award Number: 1402583107

Federal Award Year: 2007

District cash balances were not reconciled to the county treasurer's report at year end. Proper internal control requires cash balances to be reconciled in a timely manner. The effect is the possibility of errors or irregularities occurring with cash.

Recommend the district perform a cash reconciliation to the county in a timely manner every month.

FINDING NUMBER 3 - EXPENDITURES 2007:

The school food fund over reported other revenue and supplies expenditures. The school food expenditures in the general funds were miscoded. GAAP requires revenues and expenditures to be properly stated and coded. The effect is over stated revenues and expenditures and miscoded expenditures.

Recommend the district move expenditures from school food program to general fund. Transferring cash and revenue to the school food fund is not allowable from the general fund. The expenditures transferred should also keep the same account coding.

FINDING NUMBER 4 - REVENUE 2007:

Program CFDA number and title: 84.010 Title I Part A and National School Lunch Program Passed through the State of Montana.

Federal Award Number: 1402583107

Federal Award Year: 2007

Numerous revenue account codes were not reconciled to the county treasurer's report at year end. GAAP requires revenue to be correctly reported and coded at year end. The effect is misstated revenues and cash.

Recommend the district reconcile revenue totals with the county treasurer's report on a monthly basis.

FINDING NUMBER 5 - EXTRACURRICULAR:

The finding is that the extracurricular student activities were not correctly reported in the TFS. GAAP requires that all funds be correctly recorded and reported. The effect is that extracurricular funds were not correctly recorded and reported in the TFS.

Recommend that the business manager include all of the districts extracurricular activities in the TFS reports.

FINDING NUMBER 6 - LIABILITIES 2007:

The district entered a three year contract to provide a retirement incentive for eight teachers and did not record the liability. GAAP requires liabilities to be correctly recorded and reported. The effect is under reported liabilities.

Recommend the district record its retirement incentive liability on its schedule of changes in long term liabilities.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FINDING NUMBER 7 – RECEIVABLES 2007:

Scholarships receivable from district alumni were not recorded in the TFS. GAAP requires receivables to be correctly recorded and reported. The effect is under reported receivables.

Recommend the district record all of its receivables on its TFS.

FINDING NUMBER 8 – FEDERAL GRANTS 2007:

Program CFDA number and title: 84.010 Title I Part A and IDEA Part B Passed through the State of Montana.

Federal Award Number: 1402583107 and 1401258277                      Federal Award Year: 2007

Federal grant receivables and deferred revenue were not correctly reported. GAAP requires federal funds received but not earned to be recorded as deferred revenue. Allowable expenditures incurred for a federal grant are recorded as revenue and a receivable. The effect is incorrectly reported federal grants.

Recommend the district correctly record federal grant receivables and deferred revenue.

FINDING NUMBER 9 – PAYROLL 2007:

The district reported payroll liabilities and negative liabilities for which it had no support. GAAP requires liabilities and receivables to be properly recorded. The effect is over stated liabilities and receivables.

Recommend the district reconcile its payroll liability accounts.

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

The audit disclosed 3 findings or questioned costs relating to federal awards as defined in section .510 (a) of OMB Circular A-133. They are listed above as items 2, 4, and 8, 2007.