

**The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.**





**GREAT FALLS SCHOOL DISTRICT 1 & A**

**FINANCIAL REPORT**

**June 30, 2017**



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## ***Great Falls Public Schools***

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### **LETTER OF TRANSMITTAL**

The Great Falls School District, in its 129<sup>th</sup> year of operation, is the second largest district in the state and the third largest employer in Great Falls. Approximately two thousand local residents are employed by the District in a variety of capacities. This includes teachers of just over 10,000 students enrolled in 21 schools. Approximately 600 support staff provide adult supervision in special education, assist in classrooms, prepare and serve meals, clean and maintain 1.9 million square feet of buildings, repair boilers and plumbing, and maintain 295 acres of grounds. Another 300, mostly part-time people, coach students in after school sports programs and approximately 250 people are employed on a regular basis as substitute teachers.

Great Falls, the seat for Cascade County operations, serves as a major hub for businesses for the central and northern part of the state. There are excellent medical, college and vocational technology education options for people in this area of the state as well. Because of the size of the community and number of businesses located here, there is a stable source of employment. More retired people are moving into the district to take advantage of the excellent health care system. Malmstrom Air Force Base also has a major impact on the vitality of the community. Below are a number of identified topics which will or may have an impact on the general operations of the District.

### **FUNDING**

#### **Funding Assumptions**

In preparing for the 2016-2017 budget, the District assumed the following:

- Rolling the 2015-2016 general educational program budget into 2016-2017 school year required an additional \$1.175 million in spending due to contractual obligations, and projected increases in health insurance premiums and general operational costs.
- The District utilized \$600,000 from reserves to balance the previous year's budget and that on-going cost must be included in cost projections for the next fiscal year because the money was used for on-going expenses.
- Inflationary increases of approximately 1.7% to the state funding formula along with ANB calculations, resulted in additional state funding for the 2016-2017 school year of just \$570,000.
- Comparing the expected budget increase required to roll over the budget and the additional revenue from the state, there is an anticipated shortfall of just over \$1,000,000.
- Options to balance the projected budget include a combination of running a levy, reductions, transfers, and/or efficiencies along with the use of reserves.

#### **Mill Levy Election**

Because the school board chose to run a bond election for \$98,865,000 for the elementary and high school districts, the school board did not to run a district levy to increase the General Fund Budget.

## **FUNDING (CONTINUED)**

### **Multi-District Agreements**

The District continued its participation in two Multi-District Agreements. The first included a technology based agreement with Belt Public Schools, Centerville Public Schools, and Vaughn Elementary School. The second agreement was between the high school and elementary district. The high school/elementary agreement provides an avenue to help balance the fiscal discrepancy which exists due to increasing enrollment in the elementary and decreasing enrollment in the high school. The agreements were amended and re-approved by all schools to accommodate the changes implemented by legislative action.

### **Federal Funding**

Federal funding, after a period of stability, has seen a slow but consistent reduction of funds. While the passage of the Every Student Succeeds Act (ESSA) brought assurances that schools would see increased funding, later estimates indicated a decrease in funding of 1% to 2% per year over the next five years. Based upon this information, a reduction of 5% to 10% is projected in the Title/Consolidated Grant Application funds over the next several years. This could result in additional cuts of up to \$350,000 in addition to the possibility of the elimination of the Title II program. Title II funds, currently representing \$675,000 in funding support, are used for class size reduction. Elimination of the Title II program impact would lead to a cut of approximately ten teachers who are currently employed in general education classrooms that, without Title II funds, would be considered overloaded classrooms and would either fail to meet accreditation standards, or would require the district, in some way, replace these ten positions.

IDEA funding has been stable, while special education enrollment has increased significantly. The result is that current state and federal dollars are inadequate to meet the needs of children with disabilities enrolled in the District and have required the use of a permissive levy, increasing the funding support required of local taxpayers. This is, in part, a result of the failure of the U.S. Congress to meet the original promise of funding 40% of the cost of special education. At this time, federal funds account for approximately 18% of the cost of special education. This, coupled with no increases in state funding over the past six years, has created a funding crisis in special education.

In addition, debate over the future of the Affordable Care Act, and the potential impact on Medicaid, may mean that services to children with disabilities will be passed on to local taxpayers at an accelerated rate. Medicaid funding in fiscal year 2017 accounted for almost \$425,000 in funding, generated by the provision of medically necessary services in schools. The services are provided by occupational therapists, physical therapists, speech-language pathologists, and registered nurses, and are required for children to access educational services. The funds generated are used to pay the staff, in essence creating support for children that are at least, in part, self-funding.

The one increased funding stream the District has seen is an increase in federal funding for vocational programs such as the Perkins grant and Career and Technical Education programs. While these increases have been modest, and have not allowed for expansion of programs, these funds have enabled high school vocational programs to keep pace with inflationary costs.

## **FUNDING (CONTINUED)**

Impact Aid funds, which have decreased over the past five years, appear to be reaching a level of stability, with some discussion of a possible funding increase. Overall, Impact Aid is significantly smaller than it was one decade ago, and remains subject to the diverse staffing patterns related to the needs of Malmstrom Air Force Base. At this time, Impact Aid provides approximately \$700,000 per year in funding support for the District.

At this time the outlook for federal funding, when looking at the larger political picture, appears to be one of ongoing budget cuts, the loss of some key programs, and reduced staffing cuts in future years. To address this it will be critical that both Federal Programs personnel and the District administration develop plans to slowly, and to the extent possible, reduce the size of federal support while working to maintain critical support to the children and youth of Great Falls.

## **ENROLLMENT**

Enrollment has a major impact on the District's budget as state funds for education are mainly distributed on a per pupil formula. For the past two years, the District had small increases in overall enrollment and expected that trend to continue for the 2016-2017 school year, which turned out not to be the case. Since the 2008-2009 school year, elementary enrollment increased each year. The elementary enrollment resulted in 70 classrooms exceeding maximum accreditation standards. Middle school enrollment remained stable and high school dropped slightly which was expected.

The District continues to be optimistic about enrollment due to these factors:

- The promising economic growth forecasted for Great Falls.
- The new affordable housing developments that are being constructed.
- The community's efforts around Graduation Matters which is keeping more high school students in school.

## **EDUCATIONAL PROGRAMMING INFORMATION**

### **Staffing**

Positions in special education, chemistry, counseling, student support (aides, substitute teachers, crossing guards, and para-educators) and food services continue to be hard to fill. This is one of the first years that the District has not filled all elementary teaching positions at the start of the school year due to the lack of high quality applicants. In some cases, non-competitive salaries are a major factor.

Benefits are a key factor in the recruitment and retention of staff. The District has an Insurance Committee that studies the trends and works to provide a good health insurance plan at a price that employees and the District can afford. Once again, there was an increase (5% for the 2016-2017 year) in health insurance premiums that will be shared by the employees and the District. Effective October 1, 2017, The District is operating with a fully insured health insurance program offered by CIGNA.

## **EDUCATIONAL PROGRAMMING INFORMATION (CONTINUED)**

### **Pre-School Program Early Learning Family Center**

The Skyline School continues to serve as an excellent location for the pre-school program. The District leased out space to Benefis Health Systems, Opportunities Incorporated, Cascade County and Quality Life Concepts. The rental income helps support the ongoing costs associated with heating and lighting this building which in turn, helps support the quality educational programs for young children. The District is a model for the benefits of pre-school education for the state of Montana. Statistics demonstrate the positive impact this pre-school program has had on preparing students for kindergarten. The pre-school program plans to expand as per grant recommendations which means that additional space will be needed along with additional transportation.

### **Student Demographics**

Seventy eight percent of the students attending school in Great Falls are Caucasian. Native Americans comprise eleven percent of the students, which makes Great Falls the second biggest district for Native American students. Just below seven percent of the students are classified as Multiracial and African Americans make up two percent of the student demographics. 9.91% of the students are classified as needing Special Education services and 3.16% are Limited English Proficient.

### **Poverty and Homeless Students**

During the 2016-2017 school year, over 47% of elementary students in the District came from families that qualify for free or reduced lunch. Cascade County has the highest percent of Free/Reduced lunch eligibility students in the AA schools in Montana. Since the 2013-2014 school year, the District experienced a steady decline from 300 students down to 200 students. In 2016-17, 350 homeless students is a new high for the district. This number of homeless students has had a major impact on not only the students who are homeless, but the transportation budget because the district is required to allow each homeless student to attend the school they were enrolled in at the time they became homeless.

### **Data for Achievement Funding**

The State added this funding component in the State funding formula which is earmarked specifically for a comprehensive data system to track student performance. The District is achieving the goal of creating a student performance data dashboard. This funding allows the District to better track a variety of student performance in real time, rather than a just a few times per year.

## **FACILITIES ACTION PLAN AND OTHER IMPROVEMENTS**

### **Facilities Action Plan**

The District has a reputation for the quality of the care of District facilities. Because all of the buildings in the District have an average age of 59 years, millions of dollars are needed to repair heating and plumbing systems, circulate adequate fresh air, save energy on utility use, and bring schools in line with life safety requirements such as: security, alarm systems, and egress/lock systems.



## **FACILITIES ACTION PLAN AND OTHER IMPROVEMENTS (CONTINUED)**

### **Facilities Action Plan (Continued)**

On October 4, 2016 the voters approved the elementary and high school district bonds. In the elementary district the vote was 12,290 for and 7,669 against. In the high school, 11,553 voters were in favor of the bond and 8,474 voted against it. The approved Facilities Action Plan provides for \$45,907,033 in elementary district projects and \$52,951,752 in high school projects. The elementary projects include upgrading infrastructure in all K-8 buildings with the exception of replacing Roosevelt and Longfellow Elementary Schools. The high school plans include upgrading infrastructure at Great Falls High School, C.M. Russell High School and Paris Gibson Education Center. Multipurpose and STEM classrooms and athletic facilities are addressed at C.M. Russell High School and at Great Falls High School, the Career and Technical Education (CTE) Facilities, lunch/dining areas, along with building entrances will be centered in a HUB between the existing main building and south campus. Memorial Stadium will be improved by adding artificial turf and the all-weather track is targeted for resurfacing. A new phone system would be installed throughout the district.

### **Energy Improvements**

During the 2010-2011 school year, the District spent \$8.3 million on energy upgrades in the District. Energy cost savings are on target each year to provide enough money to make the annual payment needed on the previous Intercap Loan. The loan will be paid off in 2026. The District continues to take advantage of a variety of rebates from NorthWestern Energy to save energy.

### **Completed Facility Improvements**

During the 2016-2017 school year, many facility improvements were completed including paving, mechanical system work, utility upgrades, elevator installations, window replacement projects, parking lot asphalt, carpeting, sidewalk replacements, drain collection, trash compactors, landscaping, and fire alarm and intercom system upgrades. The District also focused on safety issues which included the replacement of many doors throughout the District. Safety items, identified through periodic safety meetings were addressed. These included the addition of line of site cameras to the administrative offices in all buildings as well as improvements suggested by the School Resource Officers who completed a comprehensive safety survey of a number of schools.

### **Technology**

The District's goal is to infuse the tools of modern business and research into the school setting by increasing student access to technology. The District receives \$225,000 in funding annually through a technology levy to improve the infrastructure in the District. The District will continue to address infrastructure issues. The District also received a Striving Readers Grant which helped integrate technology into the learning environment. The District also successfully received an E-Rate grant to improve wireless access throughout the District.

## **CONTACT FOR ADDITIONAL INFORMATION**

If you have questions about this report or need additional information, contact the Director of Business Operations for the Great Falls School District, Brian Patrick 406-268-6050.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
ORGANIZATION  
June 30, 2017

BOARD OF TRUSTEES

Jan Cahill ..... Chairperson  
Jeff Gray ..... Vice-Chairperson  
Laura Vukasin ..... Trustee  
Ann Janikula ..... Trustee  
Bob Moretti ..... Trustee  
Jason Brantley ..... Trustee  
Don Ryan ..... Trustee

OFFICIALS

Tammy Lacey ..... District Superintendent of Schools  
Jamie Bailey ..... County Superintendent of Schools  
John Parker ..... County Attorney  
Brian Patrick ..... Director of Business Operations

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Great Falls School District 1 & A  
Cascade County  
Great Falls, Montana

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Great Falls School District 1 & A, Cascade County, Great Falls, Montana (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Great Falls School District 1 & A, Cascade County, Great Falls, Montana, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 10 to the financial statements, the District has adopted the provisions of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which has resulted in a restatement of the net position as of July 1, 2016. Our opinions are not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplemental information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Management's Discussion and Analysis and the other required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplemental schedules on pages 86 and 87 are presented for purposes of additional analysis as required by the Montana Office of Public Instruction and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CF) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The other supplemental schedules on pages 86 and 87 and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.

Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The letter of transmittal on pages 1 through 5 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2017 on our consideration of the District's internal control over financial reporting and on 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* in considering the District's internal control over financial reporting and compliance.

  
Great Falls, Montana  
December 18, 2017

**GREAT FALLS SCHOOL DISTRICT 1 & A**  
**CASCADE COUNTY**  
**GREAT FALLS, MONTANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Year Ended June 30, 2017 (Unaudited)**

The discussion and analysis of Great Falls School District 1 & A, Cascade County, Great Falls, Montana's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for fiscal year 2017 are as follows:

- Total current assets, which include cash, investments, receivables, inventories and prepaid expenses, increased by \$61,410,554. Accordingly, long term liabilities increased by \$66,945,290 due to the passage of a \$98,865,000 bond, of which \$58,710,000 in bonds were issued; as well as increases in the pension liabilities.
- Long term assets increased by \$671,785 due to the improvements made on the District facilities as result of the bond passage.
- Current liabilities decreased by \$1,008,853 due to the change in insurance coverage and the runout of the IBNR with Cigna.
- In total, net position increased \$4,973,450, from a negative \$44,893,187, after restatement, to a negative \$39,919,737, which represents an 11.08 percent increase. In fiscal year 2016 net position increased \$62,398, from a negative \$40,110,647, after restatement, to a negative \$40,048,249, which represented a 0.16 percent increase.
- Total revenues for the District increased by \$10,162,431 which can be attributed mainly to increases in operating grants, tax collections, direct state aid and county retirement, in addition to the reoffering premium on the refunding bonds issues. These increases were offset by decreases in the state guaranteed tax base subsidy, federal impact aid revenue and a decrease in the fair market value of investments.
- General revenues accounted for \$91,752,740 in revenue or 84.05 percent of all revenues. Program specific revenues, in the form of charges for services and operating grants and contributions, accounted for \$17,409,616 or 15.95 percent of total revenues of \$109,162,356. When compared to fiscal year 2016, general revenues increased by \$9,047,552 while program specific revenues increased by \$1,114,879, for a net increase in total revenues of \$10,162,431.
- The District had \$104,200,998 in expenses, which included an increase in Instructional Services of \$3,742,418, or 5.99 percent. \$17,409,616 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes, state and county equalization and federal impact aid) of \$91,752,740 were enough to provide for these programs so reserves were not used to fund the difference.
- Among the major funds, the general fund had \$70,049,965 in revenues, \$68,909,946 in expenditures, and \$359,346 of transfers out, leading to an increase in fund balance of \$780,673.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2017 (Unaudited)

**USING THIS GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)  
REPORT**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. These statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term, as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund.

**REPORTING THE DISTRICT AS A WHOLE**

**Statement of Net Position and Statements of Activities**

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2017?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private – sector companies. These bases of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net position and changes in net position. This change in net position is important because it tells the reader whether, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the District's property tax base, current property tax laws in Montana restricting revenue growth, facility condition, required educational programs and other factors.

**REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS**

**Fund Financial Statements**

The analysis of the District's major funds begins on page 21. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, the elementary district's miscellaneous programs fund, and the elementary and high school districts building funds.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2017 (Unaudited)

**REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS (CONTINUED)**

**Governmental Funds**

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides.

Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

**THE DISTRICT AS A WHOLE**

Recall that the Statement of Net Position provides the perspective of the District as a whole.

Table 1 provides a summary of the District's net position for 2017 compared to 2016.

**Table 1 – Net Position**

	2017	2016	Annual Change	
			Amount	Percent
<b>ASSETS AND DEFERRED OUTFLOWS</b>				
Current assets, including cash, investments, receivables, inventories, and prepaid expenses	\$ 86,757,151	\$ 25,346,597	\$ 61,410,554	242.28%
Long-term assets, including investments and capital assets comprised of land, buildings, improvements, machinery/equipment	<u>24,223,268</u>	<u>23,551,483</u>	<u>671,785</u>	2.85%
Total assets	<u>110,980,419</u>	<u>48,898,080</u>	<u>62,082,339</u>	126.96%
Deferred outflows of resources	<u>13,627,880</u>	<u>8,705,550</u>	<u>4,922,330</u>	56.54%
Total assets and deferred outflows of resources	<u>124,608,299</u>	<u>57,603,630</u>	<u>67,004,669</u>	116.32%
<b>LIABILITIES AND DEFERRED INFLOWS</b>				
Current liabilities	2,666,971	3,675,824	(1,008,853)	-27.45%
Long-term liabilities	<u>160,204,509</u>	<u>93,259,219</u>	<u>66,945,290</u>	71.78%
Total liabilities	<u>162,871,480</u>	<u>96,935,043</u>	<u>65,936,437</u>	68.02%
Deferred inflows of resources	<u>1,656,556</u>	<u>5,561,774</u>	<u>(3,905,218)</u>	-70.22%
Total liabilities and deferred inflows of resources	<u>164,528,036</u>	<u>102,496,817</u>	<u>62,031,219</u>	60.52%
<b>NET POSITION</b>				
Net investment in capital assets	5,095,866	5,593,656	(497,790)	-8.90%
Restricted	81,674,534	17,821,624	63,852,910	358.29%
Unrestricted	<u>(126,690,137)</u>	<u>(68,308,467)</u>	<u>(58,381,670)</u>	-85.47%
Total net position	<u>\$ (39,919,737)</u>	<u>\$ (44,893,187)</u>	<u>\$ 4,973,450</u>	11.08%



GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2017 (Unaudited)

**THE DISTRICT AS A WHOLE (CONTINUED)**

Total current and long term assets of governmental activities increased by \$62,082,339. Cash and cash equivalents increased by \$59,973,019 and taxes receivable increased by \$49,702. Due from other governments increased by \$819,584, other current assets increased by \$126,350, and capital assets increased by \$1,113,684. Current liabilities decreased by \$1,008,853, while long-term liabilities in the form of debt for the energy project improvements, compensated absences payable, the PERS and TRS pension liabilities, the OPEB liability and the bonds issued for facilities improvement increased by \$66,945,290. Unrestricted net position, the part of net position that can be used to finance day to day activities without constraints, decreased by \$58,381,670. The decrease in unrestricted net position is due to GASB Statement No. 68 which required districts to state the long term impact of potential retirements.

Table 2 shows the changes in net position for fiscal years 2017 and 2016.

**Table 2 – Changes in Net Position**

	2017	2016	Annual Change		Percent of Total
			Amount	Percent	
REVENUES					
Program revenues:					
Charges for services	\$ 1,181,574	\$ 1,179,164	\$ 2,410	0.20%	1.08%
Operating grants and contributions	16,228,042	15,115,573	1,112,469	7.36%	14.87%
General revenues:					
District levy	24,338,492	23,063,183	1,275,309	5.53%	22.30%
Direct state aid	32,541,313	31,959,158	582,155	1.82%	29.81%
State guaranteed tax base subsidy	11,710,514	11,980,648	(270,134)	-2.25%	10.73%
Other state revenue	2,955,076	2,951,468	3,608	0.12%	2.71%
PERS and TRS support revenue	3,346,962	2,552,942	794,020	31.10%	3.07%
Federal impact aid revenue	520,345	620,463	(100,118)	-16.14%	0.48%
County retirement distribution	10,359,699	9,354,957	1,004,742	10.74%	9.49%
Interest and increase in fair market value of investments	13,157	182,352	(169,195)	-92.78%	0.01%
Miscellaneous	843,074	841,148	1,926	0.23%	0.77%
Special item - gain (loss) on sale of assets	2,194	(19,693)	21,887	-111.14%	0.00%
Special item - reoffering premium on bond issuance	5,435,260	-	5,435,260	100.00%	4.98%
Transfers	(313,346)	(781,438)	468,092	-59.90%	-0.29%
Total revenues	<u>109,162,356</u>	<u>98,999,925</u>	<u>10,162,431</u>	10.27%	100.00%

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2017 (Unaudited)

**THE DISTRICT AS A WHOLE (CONTINUED)**

**Table 2 – Changes in Net Position (Continued)**

	2017	2016	Annual Change		Percent of Total
			Amount	Percent	
<b>PROGRAM EXPENSES</b>					
Regular Programs:					
Instructional services	\$ 49,175,120	\$ 47,153,134	2,021,986	4.29%	47.19%
Supportive services	4,598,310	4,493,987	104,323	2.32%	4.41%
Education. media services	2,048,634	1,937,314	111,320	5.75%	1.97%
General admin. services	2,166,467	2,037,352	129,115	6.34%	2.08%
School admin. services	5,053,749	4,853,856	199,893	4.12%	4.85%
Business services	2,169,994	2,360,715	(190,721)	-8.08%	2.08%
Operation and maintenance services	9,825,997	9,795,561	30,436	0.31%	9.43%
Special programs:					
Instructional services	14,832,883	13,432,959	1,399,924	10.42%	14.23%
Supportive services	2,896,318	2,046,546	849,772	41.52%	2.78%
School admin. services	143,835	300,590	(156,755)	-52.15%	0.14%
Student transportation services	1,031,769	952,496	79,273	8.32%	0.99%
Vocational programs:					
Instructional services	2,196,234	1,875,726	320,508	17.09%	2.11%
Extracurricular activities	1,659,918	1,567,482	92,436	5.90%	1.59%
School food services	4,323,130	4,118,804	204,326	4.96%	4.15%
Student transportation services	1,989,463	1,952,390	37,073	1.90%	1.91%
Resources transferred to other districts	-	1,370	(1,370)	-100.00%	0.00%
Interest on long term debt	89,177	96,140	(6,963)	-7.24%	0.09%
Total expenses	<u>104,200,998</u>	<u>98,976,422</u>	<u>5,224,576</u>	5.28%	100.00%
Change in net position	<u>\$ 4,961,358</u>	<u>\$ 23,503</u>	<u>\$ 4,937,855</u>	21009.47%	

**Governmental Activities**

Total property tax levies in the form of a District Levy made up 22.30 percent of revenues for governmental activities for the District for fiscal year 2017.

General revenues accounted for \$91,752,740 or 84.05 percent of total revenues. These general revenues increased when compared to fiscal year 2016 by \$9,047,552. This is primarily the result of increases in direct state aid and tax collections, as well as the county retirement distribution and reoffering premium on the new bonds. Total mills to local taxpayers decreased by 5.29 mills from the previous year due to the District choosing not to run a levy election for general operations, and a failure in the high school technology levy. The taxable valuation for the District also increased by \$6,791 in the elementary district and \$6,846 in the high school district. The Legislature made changes in the funding formula which benefited the overall budget without increasing local mills levied.

Operating grants and contributions increased by \$1,112,469, due to an increase in federal and state grants received.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2017 (Unaudited)

**THE DISTRICT AS A WHOLE (CONTINUED)**

**Governmental Activities (Continued)**

Instructional service expenses include activities dealing directly with interaction between teachers and students. Instructional service expenses, included in regular, special and vocational program categories, compose 63.54 percent of the District expenses.

	2017	2016	Annual Change		Percent of Total Expenses
			Amount	Percent	
Instructional services					
Regular programs	\$ 49,175,120	\$ 47,153,134	\$ 2,021,986	4.29%	47.19%
Special programs	14,832,883	13,432,959	1,399,924	10.42%	14.23%
Vocational programs	<u>2,196,234</u>	<u>1,875,726</u>	<u>320,508</u>	17.09%	2.11%
Total instructional services	<u>\$ 66,204,237</u>	<u>\$ 62,461,819</u>	<u>\$ 3,742,418</u>	5.99%	63.54%

The remaining 36.46 percent of District expenses consist of expenses relating to the following support areas: supportive services, educational media services, general administrative services, school administrative services, business services, operation and maintenance services, central services, student transportation services, and school food services.

Supportive services include activities which provide administration, technical and logistical support to enhance instruction including student aides for a day care, playground, study hall, bus aides, guidance services, counseling services, psychological services, speech pathology service, occupational and physical therapy services, curriculum development and staff development services. The supportive services portion of the budget increased by \$954,095. This is a 14.59% increase from the previous year.

Educational media services include activities concerned with the use of teaching and learning resources, audiovisual services, computer assisted instruction and library and media services.

General administrative services include activities of establishing policy by the Board of Trustees and administering policy by the Superintendent in connection with operating the District.

School administrative services include activities concerned with overall administrative responsibility for a group of schools.

Business services include activities concerned with paying for, transporting, exchanging and maintaining goods and services for the District. Included are fiscal and internal services necessary for operating the District. The business services portion of the budget decreased by \$190,721. This is an 8.08% decrease from the previous year.

Operation and maintenance services include activities concerned with keeping the physical plant open, comfortable, and safe for use and in effective working condition and state of repair.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2017 (Unaudited)

**THE DISTRICT AS A WHOLE (CONTINUED)**

**Governmental Activities (Continued)**

Central services include activities for supporting the District's information technology system including administrative network, data processing for managerial, administrative and student data analysis.

Student transportation services include activities concerned with the conveyance of students to and from school as provided by State and Federal law. There was an increase of \$116,346 in student transportation services for the fiscal year.

Extracurricular activities include school sponsored activities that are not part of the regular instructional programs and they also include school sponsored athletic sports involving competition between schools. Extracurricular activities spent \$92,436 more than the prior fiscal year, which equates to a 5.9% increase in expenditures. Increases can be attributed to annual adjustments to coaching salaries, increased travel costs, and improvements made to district facilities, paid for from the athletic section of the budget.

School food services include activities concerned with providing food to students and staff in a school or school district. It includes the preparation and serving of regular and incidental meals, lunches, or snacks in connection with school activities and the delivery of food. School food services spent \$204,326 more than the prior fiscal year, which is a 4.96% increase, and is due to a salary increase for school food employees, renovations to food service facilities and minor remodeling to meet health codes in many kitchen and lunchroom areas.

The dependence on tax revenues is apparent. Over 52 percent of the District's instructional services activities (\$66,204,237) are supported through local taxes (district levy and county retirement distribution) and for all activities, general revenue support is 84.05 percent. The community as a whole is the primary support for the District.

**The District's Funds**

Information about the activity of the District's major funds for the fiscal year ended June 30, 2017 begins on page 21. These funds are accounted for using the modified accrual basis of accounting. Governmental funds in total had revenues of \$100,641,584 and expenditures of \$101,450,404, which was an increase of \$3,386,969 in expenditures from the prior year. The excess of expenditures over revenues for the year was \$808,820, before other financing uses of \$63,834,108. This was a planned decrease in governmental fund balance by the District to utilize existing reserves. The use of these funds allowed the District to meet the general operational needs.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2017 (Unaudited)

**GENERAL FUND BUDGETING HIGHLIGHTS**

The District's budget is prepared according to Montana law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During fiscal year 2017, the District continued to fine-tune the classification of expenditure accounts based upon recommended State accounting guidelines. Significant budgetary changes in services categories resulted in the process. Program expenditures were reclassified in supportive services, educational media services, and business services, and budget variances compared to the prior fiscal year changed due to the re-categorization of accounts.

**CAPITAL ASSETS**

At the end of fiscal year 2017, the District had \$12,837,455 invested in land, buildings, machinery and equipment, net of depreciation.

Table 3 shows fiscal year 2017 balances compared to fiscal year 2016:

**Table 3 – Capital Assets (Net of Depreciation)**

	2017	2016	Annual Change		Percent of Total
			Amount	Percent	
Land	\$ 1,348,339	\$ 1,348,339	\$ -	0.00%	10.50%
Construction in progress	1,298,175	-	1,298,175	100.00%	10.11%
Buildings	7,837,326	8,147,283	(309,957)	-3.80%	61.05%
Machinery and equipment	<u>2,353,615</u>	<u>2,228,149</u>	<u>125,466</u>	5.63%	18.33%
Totals	<u>\$ 12,837,455</u>	<u>\$ 11,723,771</u>	<u>\$ 1,113,684</u>	9.50%	100.00%

Overall net capital assets increased by \$1,113,684 when compared to fiscal year 2016. Increases in the net cost of buildings and machinery and equipment were the result of purchases made for construction in progress. See notes to the basic financial statements for a breakdown of depreciation expense on page 43.

**DEBT ADMINISTRATION**

At June 30, 2017, the District has a long term debt obligation of \$160,204,509. The majority of this debt, \$89,847,307, comes from the District's PERS and TRS pension liabilities, as well as the net OPEB liability. The compensated absences payable of \$7,696,867 is the District's long-term debt accrual for future compensation for unclaimed leave accumulated per law. The remainder of \$62,660,335 comes from (1) low interest energy bonds initiated in fiscal year 2011 to fund a major energy renovation in the district and (2) general obligation bonds issued in fiscal year 2017 in the amount of \$58,710,000. The energy bonds are being paid back over fifteen years by using the savings in projected energy costs. The general obligation bonds are being paid back over twenty years. The general obligation bonds issued equate to 59.4% of the total of \$98,865,000 in bonds approved by the voters. The remaining balance is scheduled to be sold in August 2018.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2017 (Unaudited)

**DEBT ADMINISTRATION (CONTINUED)**

Long-term debt balances are as follows:

Compensated absences payable	\$ 7,696,867
Bonds payable, net of current portion	62,660,335
Net OPEB liability	5,124,910
PERS pension liability	12,216,426
TRS pension liability	<u>72,505,971</u>
	<u>\$ 160,204,509</u>

For an analysis of the activity in long-term debt for fiscal year 2017, see the long-term debt note to the basic financial statements beginning on page 43.

**CURRENT FINANCIAL ISSUES AND CONCERNS**

Major bond related project work includes the Building and Grounds Operations being moved from the Lowell School site to the Little Russell Elementary School location. Building construction and remodeling on that site had major progress with a projected completion date in November of 2017. The Lowell School was then demolished and construction began on the new elementary school at that site with the foundation work completed by the fiscal year end. At C.M. Russell High School, a new fire alarm system, an auxiliary gymnasium, STEM classroom and a partial bleacher replacement all had major progress. Artificial turf was installed at Memorial Stadium, projected to be complete in late August 2017. A resurfacing of the track began upon completion of the artificial turf. Major paving projects occurred at Loy and MeadowLark schools. Many facility improvements were completed including mechanical system work, utilities upgrades, elevator installations at Paris Gibson Education Center and Whittier, window replacement projects, carpeting, sidewalk replacements, drain collection, trash compactors, landscaping, and fire alarm and intercom system upgrades.

The District made the decision to become self-insured for health insurance, effective October 1, 2017. Blue Cross Blue Shield will handle the administrative functions for the district. A Self Insurance Fund was established by the Board for this purpose.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

The financial report is designed to provide the citizens, taxpayers, investors and creditors with a general overview of the School District's finance and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Brian Patrick, Director of Business Operations, Great Falls School District 1 & A, Cascade County, 1100 4<sup>th</sup> Street South, Great Falls, MT 59403 or e-mail at [brian\\_patrick@gfps.k12.mt.us](mailto:brian_patrick@gfps.k12.mt.us).

## FINANCIAL STATEMENTS

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
STATEMENT OF NET POSITION  
June 30, 2017

	Governmental Activities
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	
Current assets:	
Cash and investments	\$ 83,939,929
Taxes receivable	751,165
Due from other governments	985,653
Other current assets	62,721
Inventories	330,476
Prepaid expenses	<u>687,207</u>
Total current assets	<u>86,757,151</u>
Noncurrent assets:	
Cash and investments	11,385,813
Capital assets:	
Land and improvements	1,348,339
Buildings and improvements	48,043,791
Machinery and equipment	5,996,054
Construction in progress	1,298,175
Less accumulated depreciation	<u>(43,848,904)</u>
Total capital assets, net of depreciation	<u>12,837,455</u>
Total noncurrent assets	<u>24,223,268</u>
Deferred outflows of resources:	
Pension contributions and adjustments	<u>13,627,880</u>
Total deferred outflows of resources	<u>13,627,880</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>\$ 124,608,299</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	
Current liabilities:	
Other current liabilities	\$ 1,008,927
Current portion of bonds payable	<u>1,658,044</u>
Total current liabilities	<u>2,666,971</u>
Noncurrent liabilities:	
Compensated absences payable	7,696,867
Bonds payable (net of current portion)	62,660,335
Net OPEB liability	5,124,910
PERS pension liability	12,216,426
TRS pension liability	<u>72,505,971</u>
Total noncurrent liabilities	<u>160,204,509</u>
Deferred inflows of resources:	
Pension adjustments	<u>1,656,556</u>
Total deferred inflows of resources	<u>1,656,556</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b><u>164,528,036</u></b>
<b>NET POSITION</b>	
Net investment in capital assets	5,095,866
Restricted for:	
Debt service	5,732,625
Program	75,941,909
Unrestricted	<u>(126,690,137)</u>
<b>TOTAL NET POSITION</b>	<b><u>(39,919,737)</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b><u>\$ 124,608,299</u></b>

The Notes to Financial Statements are an integral part of this statement.



**GREAT FALLS SCHOOL DISTRICT 1 & A**  
**CASCADE COUNTY**  
**GREAT FALLS, MONTANA**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2017**

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>GOVERNMENTAL ACTIVITIES:</b>					
Regular Programs:					
Instructional services	\$ 49,175,120	\$ 131,719	\$ 67,001	\$ -	\$ (48,976,400)
Supportive services	4,598,310	-	-	-	(4,598,310)
Educational media services	2,048,634	-	-	-	(2,048,634)
General administrative services	2,166,467	-	-	-	(2,166,467)
School administrative services	5,053,749	-	-	-	(5,053,749)
Business services	2,169,994	-	-	-	(2,169,994)
Operation and maintenance services	9,825,997	122,486	-	-	(9,703,511)
Special Programs:					
Instructional services	14,832,883	-	12,101,451	-	(2,731,432)
Supportive services	2,896,318	-	-	-	(2,896,318)
School administrative services	143,835	-	-	-	(143,835)
Student transportation services	1,031,769	-	-	-	(1,031,769)
Vocational Programs:					
Instructional services	2,196,234	-	-	-	(2,196,234)
Extracurricular activities	1,659,918	-	-	-	(1,659,918)
School food services	4,323,130	927,369	3,315,776	-	(79,985)
Student transportation services	1,989,463	-	743,814	-	(1,245,649)
Interest on long-term debt	<u>89,177</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(89,177)</u>
Total Governmental Activities	<u>\$ 104,200,998</u>	<u>\$ 1,181,574</u>	<u>\$ 16,228,042</u>	<u>\$ -</u>	<u>(86,791,382)</u>

**GENERAL REVENUES:**

District levy	24,338,492
Direct state aid	32,541,313
State guaranteed tax base subsidy	11,710,514
Other state revenue	2,955,076
PERS and TRS support revenue	3,346,962
Federal impact aid revenue	520,345
County retirement distribution	10,359,699
Interest and increase in fair market value of investments	13,157
Miscellaneous	843,074
Special item - gain on sale of capital assets	2,194
Special item - reoffering premium on bond issuance	5,435,260
Transfers - to interlocal fund	<u>(313,346)</u>
Total general revenues	<u>91,752,740</u>
<b>Change in net position</b>	<u>4,961,358</u>
Net position at July 1	(40,048,249)
Prior period adjustments	<u>(4,832,846)</u>
Net position at July 1, as restated	<u>(44,881,095)</u>
Net position at June 30	<u>\$ (39,919,737)</u>

The Notes to Financial Statements are an integral part of this statement.

**GREAT FALLS SCHOOL DISTRICT 1 & A**  
**CASCADE COUNTY**  
**GREAT FALLS, MONTANA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2017**

	General Fund	Miscellaneous Programs Elementary	Building Elementary	Building High School	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and investments	\$ 9,484,862	\$ 3,279,652	\$ 34,077,601	\$ 23,471,104	\$ 24,721,827	\$ 95,035,046
Taxes receivable	651,779	-	-	-	99,386	751,165
Due from other governments	-	889,303	-	-	96,350	985,653
Other current assets	15,497	-	400	-	46,565	62,462
Inventories	207,923	-	-	-	122,553	330,476
Prepaid expenses	<u>687,207</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>687,207</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 11,047,268</b></u>	<u><b>\$ 4,168,955</b></u>	<u><b>\$ 34,078,001</b></u>	<u><b>\$ 23,471,104</b></u>	<u><b>\$ 25,086,681</b></u>	<u><b>\$ 97,852,009</b></u>
<b>LIABILITIES</b>						
Other current liabilities	\$ 1,008,927	\$ -	\$ -	\$ -	\$ -	\$ 1,008,927
Unearned grant revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>1,008,927</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,008,927</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unearned revenue for taxes receivable	<u>651,779</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>99,386</u>	<u>751,165</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>651,779</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>99,386</u>	<u>751,165</u>
<b>FUND BALANCES</b>						
Nonspendable	895,130	-	-	-	122,553	1,017,683
Restricted	1,002,879	-	34,078,001	23,471,104	23,122,550	81,674,534
Committed	7,220,633	-	-	-	-	7,220,633
Assigned	239,824	4,168,955	-	-	1,742,192	6,150,971
Unassigned	<u>28,096</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,096</u>
<b>TOTAL FUND BALANCE</b>	<u>9,386,562</u>	<u>4,168,955</u>	<u>34,078,001</u>	<u>23,471,104</u>	<u>24,987,295</u>	<u>96,091,917</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<u><b>\$ 11,047,268</b></u>	<u><b>\$ 4,168,955</b></u>	<u><b>\$ 34,078,001</b></u>	<u><b>\$ 23,471,104</b></u>	<u><b>\$ 25,086,681</b></u>	<u><b>\$ 97,852,009</b></u>

The Notes to Financial Statements are an integral part of this statement.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
June 30, 2017

Total fund balance - governmental funds	\$ 96,091,917
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not reported as assets in governmental funds. The cost of the assets is \$56,686,359, and the accumulated depreciation is \$43,848,904.	12,837,455
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Property taxes receivable expected to be collected in the following year, but are not available soon enough to pay for the current period's expenditures, and therefore are reflected as unearned revenue in governmental funds.	751,165
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of compensated absences payable of \$7,696,867, bonds payable of \$64,318,379, the net other post-employment benefits obligation of \$5,124,910, the PERS pension liability of \$12,216,426, and the TRS pension liability of \$72,505,971.	(161,862,553)
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in governmental funds. Deferred outflows for PERS were \$1,933,394 and TRS were \$11,694,486, for a total of \$13,627,880. Deferred inflows for PERS were \$759,639 and TRS were \$896,917, for a total of \$1,656,556.	11,971,324
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An internal service fund is used by management to charge the costs of purchasing services to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	<u>290,955</u>
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Total net position - governmental activities	<u>\$ (39,919,737)</u>
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**GREAT FALLS SCHOOL DISTRICT 1 & A**  
**CASCADE COUNTY**  
**GREAT FALLS, MONTANA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2017**

	General Fund	Miscellaneous Programs Elementary	Building Elementary	Building High School	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
District levy	\$ 20,955,089	\$ -	\$ -	\$ -	\$ 3,333,701	\$ 24,288,790
Interest and decrease in fair market value of investments	6,689	(9,382)	14,355	10,789	(9,294)	13,157
Miscellaneous	-	75,604	24,957	12	742,501	843,074
Direct state aid	32,541,313	-	-	-	-	32,541,313
State guaranteed tax base subsidy	11,710,514	-	-	-	-	11,710,514
State special education	2,100,518	-	-	-	-	2,100,518
Other state payments	2,682,291	-	-	-	272,785	2,955,076
Federal/state/local aid	-	9,111,812	-	-	4,786,231	13,898,043
County reimbursement	-	-	-	-	10,731,606	10,731,606
State reimbursement	-	-	-	-	377,919	377,919
Tuition and fees	53,551	-	-	-	200,654	254,205
Lunch sales	-	-	-	-	927,369	927,369
<b>Total</b>	<b>70,049,965</b>	<b>9,178,034</b>	<b>39,312</b>	<b>10,801</b>	<b>21,363,472</b>	<b>100,641,584</b>
<b>EXPENDITURES</b>						
Current:						
Regular Programs:						
Instructional services	36,913,679	375,050	-	199,572	8,311,557	45,799,858
Supportive services	3,713,313	156,471	-	-	320,166	4,189,950
Educational media services	1,756,498	-	-	-	181,437	1,937,935
General administrative services	1,886,551	-	-	-	142,060	2,028,611
School administrative services	4,332,305	-	-	-	495,694	4,827,999
Business services	1,899,738	-	-	-	262,140	2,161,878
Operation and mainten- ance services	8,619,955	-	608,857	275	391,632	9,620,719
Special Programs:						
Instructional services	3,556,648	8,954,527	-	-	2,023,731	14,534,906
Supportive services	2,100,770	591,331	-	-	-	2,692,101
School administrative services	-	143,403	-	-	-	143,403
Student transportation services	-	-	-	-	1,030,749	1,030,749
Vocational Programs:						
Instructional services	1,796,631	-	-	-	300,785	2,097,416
Extracurricular activities	1,374,845	-	-	-	170,840	1,545,685
School food services	-	-	-	-	4,236,563	4,236,563
Student transportation services	-	-	-	-	1,989,385	1,989,385
Resources transferred to other districts	-	-	-	-	-	-
Capital outlay	348,100	115,693	902,298	410,267	225,975	2,002,333
Debt service	610,913	-	-	-	-	610,913
<b>Total</b>	<b>68,909,946</b>	<b>10,336,475</b>	<b>1,511,155</b>	<b>610,114</b>	<b>20,082,714</b>	<b>101,450,404</b>
Excess of revenues over expenditures	1,140,019	(1,158,441)	(1,471,843)	(599,313)	1,280,758	(808,820)
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfer in (out)	(359,346)	-	-	-	46,000	(313,346)
Sale of bonds	-	-	34,501,625	23,914,825	5,728,810	64,145,260
Sale of capital assets	-	-	1,719	475	-	2,194
	<b>(359,346)</b>	<b>-</b>	<b>34,503,344</b>	<b>23,915,300</b>	<b>5,774,810</b>	<b>63,834,108</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>780,673</b>	<b>(1,158,441)</b>	<b>33,031,501</b>	<b>23,315,987</b>	<b>7,055,568</b>	<b>63,025,288</b>
Fund balance at July 1	8,589,920	5,340,110	1,002,779	153,497	17,968,231	33,054,537
Prior period adjustment	15,969	(12,714)	43,721	1,620	(36,504)	12,092
Fund balance at July 1, as restated	8,605,889	5,327,396	1,046,500	155,117	17,931,727	33,066,629
Fund balance at June 30	<u>\$ 9,386,562</u>	<u>\$ 4,168,955</u>	<u>\$ 34,078,001</u>	<u>\$ 23,471,104</u>	<u>\$ 24,987,295</u>	<u>\$ 96,091,917</u>

The Notes to Financial Statements are an integral part of this statement.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF  
ACTIVITIES  
For the Year Ended June 30, 2017

Total net change in fund balance - governmental funds	\$ 63,025,288
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$2,002,333) exceeds depreciation expense (\$888,649).	1,113,684
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Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues and are unearned in the governmental funds, but have been recognized as revenue in previous periods in the statement of activities. Unearned tax revenues increased by this amount this year.	49,703
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In the statement of activities, certain operating expenses such as compensated absences are measured by the amounts <i>earned</i> during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used or <i>paid</i> . This is the amount by which vacation and sick leave used exceeded the amounts earned.	185,756
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	521,736
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Issuance of bonds is an other financing source in the governmental funds, but increases long-term liabilities in the statement of net position.	(58,710,000)
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Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense. The net of state pension contribution received (\$3,346,962), less the cost of pension benefits earned that exceeded the employee contributions (\$4,318,532), is reported within governmental activities.	(971,570)
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In the statement of activities, the accrued cost associated with the provision of other post-employment benefits as part of the employees overall compensation package is expensed, but is not recognized as an expenditure in governmental funds until paid.	(279,972)
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The net revenue of certain activities of an internal service fund is reported within governmental activities.	26,733
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Total change in net position - governmental activities	\$ 4,961,358
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GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
BALANCE SHEET - INTERNAL SERVICE FUND  
For the Year Ended June 30, 2017

ASSETS

Cash and investments	\$ 290,696
Other current assets	<u>259</u>
Total assets	<u>\$ 290,955</u>

NET POSITION

Unrestricted	<u>\$ 290,955</u>
Total net position	<u>\$ 290,955</u>

The Notes to Financial Statements are an integral part of this statement.

GREAT FALLS SCHOOL DISTRICT 1 & A  
 CASCADE COUNTY  
 GREAT FALLS, MONTANA  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION -  
 INTERNAL SERVICE FUND  
 For The Year Ended June 30, 2017

OPERATING REVENUES	
Charges for services	\$ 224,892
Interest income	<u>2,176</u>
Total operating revenues	<u>227,068</u>
OPERATING EXPENSES	
Personal services - salaries	89,722
Personal services - benefits	27,420
Other purchased services	8,481
Miscellaneous	<u>74,712</u>
Total operating expenses	<u>200,335</u>
Change in net position	26,733
Net position, beginning of year	<u>264,222</u>
Net position, end of year	<u><u>\$ 290,955</u></u>

The Notes to Financial Statements are an integral part of this statement.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUND  
For The Year Ended June 30, 2017

CASH FLOW FROM OPERATING ACTIVITIES

Cash received from internal services	\$ 226,826
Cash paid to employees	(117,142)
Cash paid to suppliers for goods and services	<u>(83,193)</u>
Net cash flows from operating activities	<u>26,491</u>

Net increase in cash and cash equivalents 26,491

Cash and cash equivalents, beginning of year 264,205

Cash and cash equivalents, end of year \$ 290,696

RECONCILIATION OF OPERATING INCOME TO  
NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating income	\$ 26,733
Adjustments to reconcile operating income to net cash flows from operating activities:	
Change in receivables	<u>(242)</u>

Net cash flows from operating activities \$ 26,491



GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
STATEMENT OF NET POSITION - FIDUCIARY FUNDS  
June 30, 2017

	Endowment Fund	Miscellaneous Trust Fund	Extracurricular Fund	Interlocal Agreement Fund
<b>ASSETS</b>				
Cash and investments	\$ 458,795	\$ 63,703	\$ 1,290,795	\$ 1,052,528
Prepaid expenses	-	-	-	-
Machinery and equipment	-	-	-	177,476
Less accumulated depreciation	-	-	-	(36,472)
<b>TOTAL ASSETS</b>	<u>458,795</u>	<u>63,703</u>	<u>1,290,795</u>	<u>1,193,532</u>
<b>NET POSITION</b>				
Net position held in trust for student scholarships	<u>\$ 458,795</u>	<u>\$ 63,703</u>		
Net position held in trust for student activities			<u>\$ 1,290,795</u>	
Net position held in trust for technology purchases				<u>\$ 116,858</u>
Net position held in trust for collaborative purchasing				<u>\$ 1,076,674</u>

The Notes to Financial Statements are an integral part of this statement.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION  
For the Year Ended June 30, 2017

	Endowment Fund	Miscellaneous Trust Fund	Extracurricular Fund	Interlocal Agreement Fund
<b>ADDITIONS</b>				
Contributions/donations from private sources	\$ -	\$ 8,000	\$ -	\$ 69
Transfers from other funds	-	-	-	313,346
Interest and decrease in fair market value of investments	(858)	(118)	-	-
Student extracurricular activity receipts	<u>-</u>	<u>-</u>	<u>2,180,148</u>	<u>-</u>
Total	<u>(858)</u>	<u>7,882</u>	<u>2,180,148</u>	<u>313,415</u>
<b>DEDUCTIONS</b>				
Instruction	-	-	-	140,000
Technology services	-	-	-	-
Operations & maintenance	-	-	-	24,770
Student scholarships	8,250	9,980	-	-
Student extracurricular activity expenses	<u>-</u>	<u>-</u>	<u>2,171,412</u>	<u>-</u>
Total	<u>8,250</u>	<u>9,980</u>	<u>2,171,412</u>	<u>164,770</u>
<b>Change in net position</b>	(9,108)	(2,098)	8,736	148,645
Net position at July 1	<u>467,903</u>	<u>65,801</u>	<u>1,282,059</u>	<u>1,044,887</u>
Net position at June 30	<u>\$ 458,795</u>	<u>\$ 63,703</u>	<u>\$ 1,290,795</u>	<u>\$ 1,193,532</u>

The Notes to Financial Statements are an integral part of this statement.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies followed by the District are presented below:

**Reporting Entity**

The District is a primary government, meeting the criteria embodied in GASB Statement No. 61, "The Financial Reporting Entity" of a separately elected governing body, a separate legal standing, and fiscal independency. The District supplies public education services at all levels below the college and university level and actually consists of two legally separate districts - the high school district and the elementary district. Both districts must be maintained separately per state law because of differences in funding provided by the state legislature, but are under common control of a single school board and therefore reported together on the basic financial statements. The school system was established by an act of the State legislature which designated the school board as the governing authority. Members of the school board are elected by the public. The school board has control over hiring and firing employees, the power to contract for schools, authority to purchase equipment, and control over other day-to-day management functions. The school board is responsible for financing the District's deficit and may issue bonds to finance District construction.

The school board was initially responsible for appointing all of the initial members of the board of directors of the Great Falls Public Schools Foundation, a separate 501(c)(3) organization. After the first year of the Foundation, the school board has the responsibility of appointing only a minority membership of the Foundation's board of directors. The relationship between the District and the Foundation does not presently require inclusion of the activity of the Foundation in the financial statements of the District.

Cascade County provides substantial services to the District. Taxes are levied and collected by the county. A portion of the District's cash is maintained and invested by the county treasurer. However, as management policies of the District are the sole responsibility of the school board, the District is not considered to be a component of the county. The county does not significantly influence the operations of the school system; therefore the District is being treated as a separate and independent unit of local government.

**Fund Accounting**

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund balance, revenues, and expenditures or expenses, as appropriate. The following funds are maintained by the District:

**Governmental Fund Types**

General Fund (Elementary and High School) - accounts for revenues and expenditures not included in any other fund.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Accounting (Continued)**

Special Revenue Funds

Transportation Fund (Elementary and High School) - accounts for the revenues and expenditures for the District's pupil transportation program.

Food Services Fund (Elementary) - accounts for that portion of the school food services program which is self-supporting, including state and federal reimbursements. Other costs are budgeted for and expended through the General and Retirement Funds.

Tuition Fund (Elementary and High School) – accounts for tuition payments for students who are residents of the District but attend school outside the District.

Retirement Fund (Elementary and High School) - accounts for the employer's contribution to the Teachers' Retirement System, the Public Employees' Retirement System, Unemployment Insurance, and Social Security.

Miscellaneous Programs Fund (Elementary and High School) - accounts for federal and state grant and reimbursement moneys received by the District.

Adult Education Fund (Elementary and High School) - accounts for the revenue and expenditures for the District's adult education program.

Traffic Education Fund (High School) - accounts for the revenues and expenditures for the District's driver education program.

Impact Act (P.L. 874) Fund (Elementary and High School) - accounts for the receipt and expenditure of Public Law 81-874 Impact Aid moneys.

Lease Rental Agreement Fund (Elementary and High School) - accounts for the rental and lease payments received from District owned property and the expenditure of that money for the maintenance of the property.

Compensated Absence Fund (Elementary and High School) - accounts for moneys transferred from the General Fund for the purpose of paying accumulated compensated absence benefits that a nonteaching employee is entitled to upon termination.

Technology Fund (Elementary and High School) - accounts for state grant money received to be used for technology related expenditures.

Flexibility Fund (Elementary and High School) - accounts for state grant and voted levy moneys received for the purpose of paying salaries, operating expenses, building expenses, and purchasing supplies and equipment.

Debt Service Fund (Elementary and High School) - accounts for principal and interest payments on outstanding long-term debt and the revenue derived for this purpose from a property tax levy.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Accounting (Continued)**

Capital Projects Funds

Building Fund (Elementary and High School) - accounts for building repair projects and the insurance proceeds received for that purpose.

Building Reserve Fund (Elementary and High School) - accounts for revenue and expenditures for voter approved improvements, remodeling, or construction of District facilities.

**Internal Service Fund**

Print Center (Elementary) - accounts for the Print Center operations of the District, which provides services to other departments of the District on a cost reimbursement basis.

**Fiduciary Fund Types**

*Private Purpose Trust Funds*

Endowment Fund (High School) - accounts for endowments received which are to be used for student scholarships, whereby only interest may be used.

Miscellaneous Trust Fund (High School) - accounts for endowments received which are to be used for student scholarships, whereby both principal and interest may be used.

Extracurricular Fund (High School) - accounts for various student activities, such as athletics, clubs, classes, student government organizations, student publications, and other such activities. Separate fund accounts within the Extracurricular Fund are maintained to account for these various activities. Such a fund is established under the authority of Section 20-9-504, MCA. The Fund is administered by School District administrators and faculty members and the student organizations, operating under guidelines and policies established by the board of trustees and the Montana Association of School Business Officials handbook *Guidelines to Student Activity Fund Accounting*.

Interlocal Agreement Fund (Elementary) - accounts for (1) technology purchases to be made in conjunction with other participating school districts and (2) collaborative purchasing between the Elementary and High School districts. Such a fund is established under the authority of Section 20-3-363, MCA.

*Agency Funds*

Accounts Payable Clearing Fund (High School) - accounts for receipts from operating funds for payment of approved expenditure claims of the District. Cash remaining in this fund at year-end represents warrants issued but not yet presented by the payee for payment. The total of the outstanding warrants are netted against the cash balance of the fund on the basic financial statements.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Accounting (Continued)**

*Agency Funds (Continued)*

Payroll Clearing Fund (High School) - accounts for receipts from operating funds for their portions of payroll costs and the payroll disbursements to employees and state and federal agencies. Cash remaining in this fund at year-end represents warrants issued but not yet presented by the payee for payment. The total of the outstanding warrants are netted against the cash balance of the fund on the basic financial statements.

Under state statutes, the General, Transportation, Tuition, Adult Education, Retirement, Technology, Flexibility, Debt Service, and Building Reserve funds are considered budgeted funds, which means that a budget must be adopted in order to spend any money from the funds. The statutes define the Food Services, Compensated Absence, Traffic Education, Miscellaneous Programs, Lease Rental Agreement, Impact Aid (P. L. 874), Building, Endowment, Extracurricular, Miscellaneous Trust and Interlocal Agreement funds as nonbudgeted funds. A budget is not required to spend money from these funds.

**Basis of Presentation**

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District's financial statements consist of government-wide financial statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

*Government-wide Financial Statements*

The statement of net position and the statement of activities display information about the District as a whole, with the exception of the fiduciary fund types. Any interfund activity has been eliminated to minimize any possible double-counting of such internal activities.

The statement of net position presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation (Continued)**

*Government-wide Financial Statements (Continued)*

The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from general revenues of the District. The District's policy is to apply restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

*Fund Financial Statements*

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The emphasis of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. A separate statement is presented for the District's fiduciary funds. Generally accepted accounting principles require the general fund be reported as a major fund, as well as all other governmental funds whose assets, liabilities, revenues, or expenditures exceed 10% or more of the total for all governmental funds. Accordingly, the District reports the general fund, the Elementary District's miscellaneous programs fund, and the Elementary and High School District's building funds as major funds.

**Measurement Focus/Basis of Accounting**

The government-wide financial statements of the District are reported using the economic resources measurement focus under the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenues in the year for which they are levied. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund financial statements of the District are reported using a current financial resources measurement focus and the modified accrual basis of accounting. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Revenues are recorded when susceptible to accrual, that is, when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Certain revenues of the District require specific revenue recognition terms. Under this measurement focus, the District considers property taxes as available if they are collected within 30 days after the date the taxes become delinquent. Uncollected property taxes become delinquent each May 31. Therefore, property tax levies collected through June 30 are reported as revenue in the fiscal year ended June 30.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus/Basis of Accounting (Continued)**

Amounts not collected by June 30 are reported as unearned revenue. In applying the susceptible to accrual concept to grant revenues, two types of revenues must be considered. In one type, moneys must be expended on the specific purpose or project before any amounts will be paid to the District. Therefore, revenues are recognized based upon the expenditures recorded. In the other type, moneys are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These moneys are recognized as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenues of the District are recognized as revenue when both the measurable and available criteria are met. Expenditures are recognized when the liability is incurred, except for unmatured interest on general long-term debt.

**New Accounting Pronouncements**

The District has adopted the provisions of the following GASB pronouncements for the year ended June 30, 2017:

- Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement is effective for fiscal years beginning after June 15, 2017. The District early implemented this Statement for fiscal year 2017.
- Statement No. 77 – *Tax Abatement Disclosures*. This statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement is effective for fiscal years beginning after December 15, 2015.

**Budgets and Budgetary Accounting**

A budget is adopted by the board of trustees each fiscal year for the General Fund and those other governmental fund types classified by state law as budgeted funds. A listing of these funds is included above under "Fund Accounting." All budgets are formulated in accordance with state law. The board of trustees must meet on or before August 25 to consider all budget information and must have that final budget adopted by the fourth Monday in August. Budget appropriations not expended or obligated lapse at the end of the fiscal year. The District's budget is prepared on the basis of accounting described above for the governmental fund financial statements. The legal level of control (the level on which expenditures may not legally exceed appropriations) is at the fund level.



GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Budgets and Budgetary Accounting (Continued)**

The General Fund budget is based on the state's BASE aid, which is designed to equalize taxing effort throughout the state and bases the budgets primarily on enrollment. Budgets of other funds are based primarily on estimated expenditures and revenues. Budgeted fund expenditures are limited by state law to budgeted amounts, except that they can be increased for emergencies as defined by state law. Transfers may be made between expenditure objects and/or functions within the same fund.

**Cash and Investments**

All cash and investments of the District's funds, including the cash and investments of the Extracurricular Fund, are held by First Interstate Bank, the county treasurer, and the Big Sky Investment Pool managed by First Interstate Bank.

**Capital Assets**

All purchased capital assets are valued at historical cost where historical cost records are available and at estimated historical cost where no historical records exist. Purchases of capital assets with a cost of \$5,000 or greater are included as additions to capital assets. Donated capital assets are recorded at estimated fair market value as of the date received. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Machinery and equipment	5-15 years

**Inventories**

Inventories of food are valued at cost and expensed when used in operations. Inventories of materials and supplies are also valued at cost and expensed when used in operations.

**Liability for Compensated Absences**

Compensated absences for vacation and sick leave are recorded as expenditures in the governmental funds when taken. Vacation leave, within certain limitations, may be payable to the employee on termination. Sick leave is accumulated for administrative, certified (teaching) and classified (non-teaching) employees at the rate of 12 working days for each year of service. Part-time employees are entitled to prorated benefits upon fulfillment of the qualifying period of time. Upon termination, classified employees are eligible for compensation at one-fourth of the accumulated sick leave amount.

**Fund Balance**

The District previously implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Balance (Continued)**

The following classifications describe the relative strength of the spending constraints:

*Nonspendable*

Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

*Restricted*

Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

*Committed*

Amounts that can be used only for specific purposes determined by a formal action of the Board of Trustees. The Board of Trustees is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through a majority vote on a motion proposed by the Board of Trustees.

*Assigned*

Amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. Intent can be expressed by the Board of Trustees or by the District's superintendent of schools to which the Board of Trustees delegates that authority.

*Unassigned*

All other spendable amounts that are not categorized in the above fund balance categories.

The requirements of GASB No. 54 include the restatement of fund balances for reporting on the fund financial statements if a substantial portion of inflows into a special revenue fund are not derived from restricted or committed revenue sources. Of the inflows into the Elementary and High School District's compensated absences funds, a substantial portion is not derived from restricted or committed revenue sources.

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

**Interfund Transactions**

During the course of its operations, the District has transaction between funds for Print Center activities. These transactions are generally recorded as charges for services revenue and operations expenditures. These transactions are eliminated in the government-wide financial statements.

GREAT FALLS SCHOOL DISTRICT 1 & A  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Estimates**

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2. CASH AND INVESTMENTS**

Montana statutes authorize the District to invest in direct obligations of the United States government; in savings or time deposits in a state or national bank, building or loan association, savings and loan association, or credit union located in the state and insured by the FDIC, FSLIC, or NCUA; in repurchase agreements or in the State Short-Term Investment Pool (S.T.I.P.).

A portion of the cash and investments of the District are held by the county treasurer in the District's name. These monies are not invested in the County pool, and are not generating any investment income for the District. The remaining portion of the District's cash and investments are held in checking accounts, certificates of deposit, and repurchase agreements managed by First Interstate Bank as part of the Big Sky Investment Pool, a unified investment program established and sponsored by the Montana School Boards Association (MTSBA) for participation by MTSBA member school districts under the auspices of and in compliance with MCA Title 7, Chapter 11 (the provisions governing interlocal cooperative agreements) and MCA Title 20, Chapter 9, Part 7 (educational cooperative agreements). The pool is not SEC-registered. Investments of the Big Sky Investment Pool consist of U. S. Government money market funds and U. S. Government Agency Securities. The District receives a pro-rata share of investment earnings from both the county-wide and Big Sky pool at each distribution date. Under generally accepted accounting principles, the District is required to comply with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools." This pronouncement requires governmental entities to record certain investments in external investment pools at fair value, rather than historical cost. The District's investment in U.S. Government Securities is shown at fair value, with the current period's net decrease in fair value of \$161,492 being included with interest income on the Statement of Activities and the Statement of Revenues, Expenditures, and Changes in Fund Balances.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 2. CASH AND INVESTMENTS (CONTINUED)**

At June 30, 2017, the District's cash and investments consisted of the following:

Investment Type	Fair Value	Investment Maturities Less	
		than 1-Year	1-5 Years
County-wide investment pool	\$ 686,478	\$ 686,478	\$ -
Checking accounts	7,759,558	7,759,558	-
Certificates of deposit	578,234	50,229	528,005
Repurchase agreements	74,227,988	74,227,988	-
U.S. government money market funds	385,756	385,756	-
U.S. government agencies	7,025,033	775,431	6,249,602
Mortgage backed securities	7,528,516	2,920,310	4,608,206
	<u>\$ 98,191,563</u>	<u>\$ 86,805,750</u>	<u>\$ 11,385,813</u>

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District follows Montana State law as it pertains to the type of investments in the District portfolio.

**Credit Risk**

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Obligations of or guaranteed by the U.S. government do not require disclosure of credit quality. Investments within S.T.I.P., part of the county-wide investment pool, have credit risk as measured by major credit rating services. This risk is that the issuer of a S.T.I.P. investment may default in making timely principal and interest payments. The Montana Board of Investment's policy requires that S.T.I.P. investments have credit ratings as provided by at least two of the national recognized statistical rating organizations (NRSRO), to assist in the monitoring and management of credit risk. The U.S. Government guarantees the U.S. Government securities directly or indirectly. Obligations of the U.S. Government or obligations explicitly guaranteed are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40. The S&P rating service provides the credit quality ratings for S.T.I.P. in total as of June 30, 2017, presented in the following table:

Investment Type	Fair Value	Credit Quality
		Rating
Treasuries	\$ 124,774,000	A-1+
Asset Backed Commercial Paper	1,089,830,000	A-1
Corporate Commercial Paper	356,122,000	A-1
Corporate Notes	369,751,000	A-1+
Certificates of Deposit	484,113,000	A-1+
U.S. Government Agency	389,807,000	A-1+
Money Market Funds (Unrated)	24,219,000	NR
Money Market Funds (Rated)	148,000,000	A-1+
	<u>\$ 2,986,616,000</u>	<u>A-1</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 2. CASH AND INVESTMENTS (CONTINUED)**

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2017, none of the District's deposits were uninsured and uncollateralized.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District does not have a formal investment policy limiting the amount the District may invest in any one issuer. As there is minimal credit risk associated with investments issued or guaranteed by the U.S. Government, no disclosure of concentration of credit risk is required for these investments. The U.S. Government extended the explicit guarantee to certain government agencies such as Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (FHLMC-Freddie Mac). Given the explicit guarantee extension, S.T.I.P. had no concentration of credit risk exposure to Fannie Mae and Freddie Mac.

The S.T.I.P. investment policy adopted by the Montana Board of Investments limits concentration of credit risk exposure by limiting portfolio investment types to 3% in any issuer with the exception of U.S. Treasury and U.S. Agency securities as well as any repurchase agreements with a financial institution.

As previously mentioned, GAAP requires investments in U.S. Government securities to be reported at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs, using the market value approach. Following is a description of the valuation methodologies used for investments measured at fair value. There have been no changes in the methodologies used at June 30, 2017.

*Government agencies* – Valued using pricing models maximizing the use of observable inputs for similar securities.

As required under GAAP, investments are classified within the level of lowest significant input considered in determining fair value. GAAP also establishes a fair value hierarchy, which prioritizes the valuation of inputs into three broad levels as described below.

Level 1: quoted prices in active markets as of the measurement date.

Level 2: quoted prices that are not active, quoted prices for similar assets or liabilities in active markets or inputs other than quoted prices that are observable (either directly or indirectly) for substantially the full term of the asset or liability.

Level 3: significant unobservable prices or inputs for which there is little or no market activity for the asset or liability at the measurement date.

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June 30, 2017

**NOTE 2. CASH AND INVESTMENTS (CONTINUED)**

**Concentration of Credit Risk (Continued)**

The District's investments at June 30, 2017, categorized by level, are summarized below:

	Cost	Fair Value (Level 2)
Certificates of deposit	\$ 574,591	\$ 578,234
U.S. government agencies	7,003,685	7,025,033
Mortgage backed securities	7,526,336	7,528,516
	<u>\$ 15,104,612</u>	<u>\$ 15,131,783</u>

**NOTE 3. PROPERTY TAXES RECEIVABLE**

The District is permitted by state statutes to levy taxes for various purposes. Property taxes are levied in August of each fiscal year, based on the assessed value as of the prior January 1. Taxes are normally billed in October and are payable 50% by November 30 and 50% by May 31. Property tax lien dates are December 1 and June 1. The taxes levied by the District for the year ended June 30, 2017 were properly established and were within the legal limits as approved by the voters. Property taxes are accounted for and collected by the county treasurer.

As described in Note 1, property taxes are recorded as receivable when they are billed by the county treasurer. Amounts not collected by June 30, but expected to be received in the future, are reported as revenue in the government-wide financial statements when billed and as unearned revenue in the governmental fund financial statements.

Protested taxes are also recorded as receivable when the original assessment is billed by the county treasurer as the District is not entitled to receive any of the protested amount until the protest is settled.

Uncollected property taxes are attached as an enforceable lien on the underlying property. After a period of three years, Cascade County, the collecting agent, may begin foreclosure proceedings and sell the property at auction. The District receives its share of the sale proceeds from Cascade County. No allowance for uncollectible property taxes is reflected in the basic financial statements as the District considers all property taxes receivable at June 30, 2017 to be fully collectible.

**NOTE 4. DUE FROM OTHER GOVERNMENTS**

Due from other governments of \$985,653 consists of \$889,303 due to the Elementary District's miscellaneous programs fund and \$38,750 due to the High School District's miscellaneous programs fund from federal grantor agencies, via the State of Montana's Office of Public Instruction, and \$57,600 due to the High School District's traffic education fund from the State of Montana's Office of Public Instruction.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 5. INVENTORIES**

Inventories totaling \$330,476 consist of the following:

	<u>General</u>	<u>Food Services</u>
Paper supplies	\$ 93,181	\$ -
Custodial/miscellaneous supplies	61,735	-
Technology supplies	53,007	-
Food (non-O.P.I)	-	74,248
Food supplies	-	48,305
	<u>\$ 207,923</u>	<u>\$ 122,553</u>

**NOTE 6. PREPAID EXPENSES**

Prepaid expenses of \$687,207 consist of \$579,880 liability insurance premiums paid in June 2017 to provide coverage during the 2017-2018 fiscal year, and \$107,327 annual support fees paid in May 2017 to provide technology support during the 2017-2018 fiscal year. Both amounts were paid out of the general fund.

**NOTE 7. CAPITAL ASSETS**

A summary of activity in capital assets follows:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
Capital assets not being depreciated:				
Land	\$ 1,348,339	\$ -	\$ -	\$ 1,348,339
Construction in progress	-	1,298,175	-	1,298,175
Total capital assets not being depreciated	<u>1,348,339</u>	<u>1,298,175</u>	<u>-</u>	<u>2,646,514</u>
Capital assets being depreciated:				
Buildings	48,088,839	206,033	(251,081)	48,043,791
Machinery and equipment	5,508,953	498,125	(11,024)	5,996,054
Total capital assets being depreciated	53,597,792	704,158	(262,105)	54,039,845
Less accumulated depreciation:				
Buildings	(39,941,556)	(515,990)	251,081	(40,206,465)
Machinery and equipment	(3,280,804)	(372,659)	11,024	(3,642,439)
	<u>(43,222,360)</u>	<u>(888,649)</u>	<u>262,105</u>	<u>(43,848,904)</u>
Capital assets being depreciated, net	<u>10,375,432</u>	<u>(184,491)</u>	<u>-</u>	<u>10,190,941</u>
Capital assets, net	<u>\$ 11,723,771</u>	<u>\$ 1,113,684</u>	<u>\$ -</u>	<u>\$ 12,837,455</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 7. CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to functions as follows:

Instructional services	\$ 529,811
Supportive services	662
General administrative services	71,612
Business services	685
Operation and maintenance services	164,485
Extracurricular activities	73,663
School food services	47,731
Total depreciation expense	<u>\$ 888,649</u>

The deletions in the above schedule consists of the reduction in the cost of machinery and equipment of \$262,105 due to its disposal during fiscal year 2017, and the related reduction in accumulated depreciation of \$262,105.

**NOTE 8. OTHER CURRENT LIABILITIES**

Other current liabilities as of June 30, 2017 of \$1,008,927 consist of payroll-related liabilities.

**NOTE 9. LONG-TERM DEBT**

**Long-Term Debt Transactions**

The following is a summary of long-term debt transactions of the District for the fiscal year ended June 30, 2017:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017
Compensated absences payable	\$ 7,882,623	\$ -	\$ (185,756) *	\$ 7,696,867
Bonds payable	<u>6,130,115</u>	<u>58,710,000</u>	<u>(521,736)</u>	<u>64,318,379</u>
Total	<u>\$ 14,012,738</u>	<u>\$ 58,710,000</u>	<u>\$ (707,492)</u>	<u>\$ 72,015,246</u>

\* This is the net decrease to compensated absences payable.

**Special Improvement District Assessment**

The District is charged a special improvement district assessment annually by the City of Great Falls. The District's assessment is for street maintenance, lighting, and curb and gutter improvements made on District owned property. Payments are made from the general funds of both the Elementary and High School Districts.



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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 9. LONG-TERM DEBT (CONTINUED)**

**Compensated Absences Payable**

Compensated absences payable, representing vacation and sick leave benefits earned by employees and payable upon termination, are \$7,696,867 and are recorded as a liability in the government-wide financial statements. As benefits earned during the next fiscal year are expected to be used by employees before any accrued benefits, benefits payable at June 30, 2017 are considered a long-term liability. Payment of benefits is expected to be made out of the compensated absences funds of the Elementary and High School Districts.

**Bonds Payable**

On April 27, 2011, the District issued \$8,365,000 in Qualified School Construction Bonds, \$6,510,000 in the Elementary District and \$1,855,000 in the High School District, to provide financing for the installation and construction of certain energy efficiency improvements to be installed at all facilities within the District. The obligation of the District to make payments on the bonds shall be a limited general obligation payable from any legally available funds as provided under Section 20-9-471, MCA. Unlike general obligation bonds, the full faith and credit and taxing power of the District is not pledged to the repayment of the bonds. The bonds are payable only from money available in the general fund or any other legally available fund of the District, but the District cannot increase mill levies to pay debt service on the bonds. The District anticipates energy cost savings to be sufficient to service the bond debt.

As the bonds are issued as Qualified School Construction Bonds under Section 54F of the Internal Revenue Code of 1986 (the Code), the bonds are classified as “specified tax credit bonds” within the meaning of Section 6431(f)(3) of the Code. This results in the District being entitled to a credit provided in Section 6431(f). As such, the District’s effective interest rate due on the outstanding principal owed on the bonds is reduced from 6.35% per annum to 1.09% per annum. For the fiscal year ended June 30, 2017, the effective interest rate was slightly higher due to the government sequester reduction, which resulted in a 6.3% reduction in the subsidy payment received. The effect of the government sequester on fiscal year 2018 is scheduled to be a 6.6% reduction.

On February 21, 2017, the District issued \$58,710,000 in general obligation bonds, \$34,675,000 in the Elementary District and \$24,035,000 in the High School District, to be used for building, altering, repairing, buying, furnishing, equipping, purchasing lands for, and/or obtaining a water supply for a school, teacherage, dormitory, gymnasium, or other building. Payments are to be made from the debt service funds of both the Elementary and High School Districts.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 9. LONG-TERM DEBT (CONTINUED)**

Bonds payable as of June 30, 2017 are as follows:

Date of Issue	Term	Effective Interest Rate	Annual Serial Payment	Issued	Retired	Outstanding 6/30/17	Current Portion
<u>Elementary</u>							
4/27/2011	15 years	1.09%	Varies	\$ 6,510,000	\$ (2,145,320)	\$ 4,364,680	\$ 426,511
2/21/2017	20 years	2.89%	Varies	34,675,000	-	34,675,000	630,000
<u>High School</u>							
4/27/2011	15 years	1.09%	Varies	1,855,000	(611,301)	1,243,699	121,533
2/21/2017	20 years	2.89%	Varies	24,035,000	-	24,035,000	480,000
Total bonds payable						<u>\$ 64,318,379</u>	<u>\$ 1,658,044</u>

The annual requirements to amortize all bond debt outstanding as of June 30, 2017, including interest payments of \$30,181,711, are as follows:

Year Ending June 30	Principal	Interest	Total
2018	\$ 1,658,044	\$ 3,380,455	\$ 5,038,499
2019	2,595,360	2,464,875	5,060,235
2020	2,703,723	2,377,727	5,081,450
2021	2,818,167	2,287,066	5,105,233
2022	2,928,733	2,196,581	5,125,314
2023-2027	15,624,352	9,169,267	24,793,619
2028-2032	16,245,000	5,898,280	22,143,280
2033-2037	19,745,000	2,407,460	22,152,460
Total	<u>\$ 64,318,379</u>	<u>\$ 30,181,711</u>	<u>\$ 94,500,090</u>

GREAT FALLS SCHOOL DISTRICT 1 & A  
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**NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (OPEB) LIABILITY**

For purposes of measuring the net OPEB liability (NOL), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the District's Retiree Benefits Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

**Plan Description**

The District's Health Plan (the Health Plan) is a single-employer defined benefit healthcare plan administered by the District. The Health Plan provides medical and prescription drug expenses for retirees and their spouses. The Health Plan's actuary is Healthcare Actuaries. The Health Plan does not issue a separate stand-alone financial report.

**Benefits Provided**

Participants are eligible for benefits upon retirement. Benefits are in the form of access to the District's medical plans. Retirement eligibility is the earlier of age 50 and five years of service or any age with 25 years of service. Benefits continue for the retirees and their spouses' lifetime.

Other benefit provisions apply.

**Employees Covered by Benefit Terms**

At June 30, 2017 (the census date), the benefit terms covered the following employees:

<b><u>Category</u></b>	<b><u>Count</u></b>
Inactive employees or beneficiaries currently receiving benefit payments	69
Inactive employees entitled to but not yet receiving benefit payment	-
Active employees	708

Benefit contributions are paid by the District as they come due.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (OPEB) LIABILITY**  
**(CONTINUED)**

**Net OPEB Liability**

The District's NOL was measured as of June 30, 2017, and the total OPEB liability (TOL) used to calculate the NOL was determined by an actuarial valuation as of June 30, 2017.

*Actuarial Assumptions*

The TOL in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation:	2.50%
Salary increases:	Individual and aggregate salary increases 4.00%
Investment rate of return:	3.50%
Pre-Medicare healthcare cost trend rates:	8.50% in the first year, trending down to 3.84% over 58 years
Medicare healthcare cost trend rates:	7.00% in the first year, trending down to 3.84% over 58 years
Mortality rates were based on RPH 2014 Mortality tables, with mortality improvement scales applied.	

*Discount Rate*

The discount rate used to measure the TOL was 3.50%. The District's OPEB Plan is an unfunded plan, therefore the discount rate was set to the rate of tax-exempt, high-quality 20-year municipal bonds, as of the valuation date.

Changes in the TOL for June 30 are as follows:

	<u>Total OPEB Liability</u>
Balances as of June 30, 2016	\$ 4,844,938
Changes for the year:	
Service cost	336,629
Interest	165,682
Differences between expected and actual experience	-
Contributions	-
Benefit payments, including refunds of employee contributions	(46,678)
Implicit rate subsidy fulfilled	<u>(175,661)</u>
Net changes	<u>279,972</u>
Balances as of June 30, 2017	<u>\$ 5,124,910</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (OPEB) LIABILITY**  
**(CONTINUED)**

There is sensitivity of the TOL to changes in the discount rate. The TOL of the District, as well as what the District's TOL would be if it were calculated using a discount rate that is one percentage point lower (2.50%) or one percentage point higher (4.50%) follows:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
	<u>2.50%</u>	<u>3.50%</u>	<u>4.50%</u>
Total OPEB liability (asset)	<u>\$ 5,285,634</u>	<u>\$ 5,124,910</u>	<u>\$ 4,898,629</u>

There is also sensitivity of the TOL to changes in the healthcare cost trend rates. The TOL of the District as well as what the District's TOL would be if it we calculated using healthcare cost trend rates that are one percentage point lower (7.50%) or one percentage point higher (9.50%) than current healthcare cost trend rate follows:

	<u>1% Decrease</u>	<u>Trend Rate</u>	<u>1% Increase</u>
	<u>7.50%</u>	<u>8.50%</u>	<u>9.50%</u>
	<u>decreasing to</u>	<u>decreasing to</u>	<u>decreasing to</u>
	<u>2.84%</u>	<u>3.84%</u>	<u>4.84%</u>
Total OPEB liability (asset)	<u>\$ 4,876,411</u>	<u>\$ 5,124,910</u>	<u>\$ 5,322,804</u>

For the year ended June 30, 2017, the District recognized an OPEB expense of \$502,311. At June 30, 2017, the District did not report any deferred outflows of resources and deferred inflows of resources related to OPEB, based on the actuarial report received.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 11. RETIREMENT PLANS**

The information provided below is for employer's who are using a June 30, 2016 measurement date for the 2017 reporting.

Employers are provided guidance in GASB 68, paragraph 74, that pension amounts must be combined as a total or aggregate for reporting. This is true when employers are provided benefits through more than one pension, whether cost-sharing, single-employer, or agent plans.

**Pension Amounts Total for Employer – Employer's proportion of TRS and PERS pension amounts combined**

	The employer's proportionate share associated with TRS	The employer's proportionate shared associated with PERS	The employer's total pension amounts
Total pension liability	\$ 217,642,728	\$ 12,787,368	\$ 230,430,096
Fiduciary net position	145,136,757	570,942	145,707,699
Net pension liability	72,505,971	12,216,426	84,722,397
Deferred outflows of resources	11,694,486	1,933,394	13,627,880
Deferred inflows of resources	896,917	759,639	1,656,556
Pension expense	9,048,464	818,004	9,866,468

***Teachers Retirement System***

**Net Pension Liability**

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Montana Teachers' Retirement System (TRS or the System). Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability (NPL). In accordance with Statement 68, the System has a special funding situation in which the State of Montana is legally responsible for making contributions directly to TRS that are used to provide pension benefits to the retired members of TRS. Due to the existence of a special funding situation, employers are also required to report the portion of the State of Montana's proportionate share of the collective NPL that is associated with the employer.

GREAT FALLS SCHOOL DISTRICT 1 & A  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 11. RETIREMENT PLANS (CONTINUED)**

***Teachers Retirement System (Continued)***

**Net Pension Liability (Continued)**

The following table displays the amounts and the percentages of NPL for the fiscal years ended June 30, 2017 and 2016 (reporting dates):

	Net Pension Liability as of June 30, 2017	Net Pension Liability as of June 30, 2016	Percent of Collective NPL as of 6/30/17	Percent of Collective NPL as of 6/30/16	Change in Percent of Collective NPL
GREAT FALLS SCHOOL DISTRICT 1 & A					
Proportionate share	\$ 72,505,971	\$ 64,387,569	3.9689%	3.9189%	0.0500%
STATE OF MONTANA					
Proportionate share associated with employer	<u>47,236,171</u>	<u>43,106,917</u>	<u>2.5857%</u>	<u>2.6237%</u>	<u>-0.0380%</u>
Total	<u>\$ 119,742,142</u>	<u>\$ 107,494,486</u>	<u>6.5546%</u>	<u>6.5426%</u>	<u>0.0120%</u>

At June 30, 2017, the District recorded a liability of \$72,505,971 for its proportionate share of the NPL. The NPL was measured as of June 30, 2016, and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of July 1, 2016. Therefore, no update procedures were used to roll forward the TPL to the measurement date. The District's proportion of the NPL was based on the employer's contributions received by TRS during the measurement period July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of TRS' participating employers. At June 30, 2017, the District's proportion was 3.9689 percent.

***Changes in actuarial assumptions and other inputs:*** Since the previous measurement date the normal cost method has been updated to align the calculation of the projected compensation and the total present value of plan benefits so that the normal cost rate reflects the most appropriate allocation of plan costs over future compensation.

***Changes in benefit terms:*** There have been no changes in benefit terms since the previous measurement date.

***Changes in proportionate share:*** There were no changes between the measurement date of the collective pension liability and the reporting date. However, each employer may have unique circumstances that will impact the employer's proportionate share of the collective NPL. If there were changes that are expected to have an impact on the NPL, the employer should disclose the amount of the expected resultant change in the employer's proportionate share of the collective NPL, if known.

GREAT FALLS SCHOOL DISTRICT 1 & A  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 11. RETIREMENT PLANS (CONTINUED)**

***Teachers Retirement System (Continued)***

**Pension Expense**

	<u>Pension Expense as of June 30, 2017</u>
GREAT FALLS SCHOOL DISTRICT 1 & A Proportionate share	\$ 5,963,382
STATE OF MONTANA Proportionate share associated with employer	<u>3,085,082</u>
	<u>\$ 9,048,464</u>

At June 30, 2017, the District recognized a Pension Expense of \$5,963,382 for its proportionate share of the TRS' pension expense. The District also recognized grant revenue of \$3,085,082 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the District.

**Deferred Inflows and Outflows**

At June 30, 2017, the employer reported its proportionate share of TRS' deferred outflows of resources and deferred inflows of resources related to TRS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 387,674	\$ 154,129
Changes in actuarial assumptions	461,411	455,722
Differences between projected and actual investment earnings	4,669,048	-
Changes in proportion and differences between actual and expected contributions	1,344,343	287,066
*Contributions paid to TRS subsequent to the measurement date - FY2017 Contributions	<u>4,832,010</u>	<u>-</u>
Total	<u>\$ 11,694,486</u>	<u>\$ 896,917</u>

\* Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the NPL in the year ended June 30, 2018.



GREAT FALLS SCHOOL DISTRICT 1 & A  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 11. RETIREMENT PLANS (CONTINUED)**

***Teachers Retirement System (Continued)***

**Deferred Inflows and Outflows (Continued)**

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Deferred Outflows of Resources (a)	Deferred Inflows of Resources (b)	Amount recognized in Pension Expenses as an increase or (decrease) to Pension Expense (a) - (b)
2018	\$ 1,615,927	\$ 517,100	\$ 1,098,827
2019	885,621	224,793	660,828
2020	2,684,908	155,024	2,529,884
2021	1,676,022	-	1,676,022
2022	-	-	-
Thereafter	-	-	-

**Plan Description**

TRS is a mandatory-participation, multiple-employer cost-sharing defined-benefit public pension plan that provides retirement services to individuals employed as teachers, administrators, and in other professional and skilled positions employed in public education in Montana.

The TRS Board is the governing body of the System and the TRS staff administers the system in conformity with the laws set forth in Title 19, chapter 20 of the Montana Code Annotated, and administrative rules set forth in Title 2, chapter 44 of the Administrative Rules of Montana. Additional information pertaining to membership, benefit structure, and prior years' actuarial valuations, as well as links to applicable statutes and administrative rules, may be obtained by visiting the TRS web site at [trs.mt.gov](http://trs.mt.gov).

**Summary of Benefits**

Through June 30, 2013, all members enrolled in TRS participated in a single-tiered plan (Tier One). Employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to creditable service years divided by 60 times the average final compensation. Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Beginning July 1, 2013, new members in TRS participate in a second benefit tier (Tier Two), which differs from Tier One as follows:

- Tier Two uses a 5-year average final compensation (as opposed to 3-year AFC in Tier One)
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One)

GREAT FALLS SCHOOL DISTRICT 1 & A  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 11. RETIREMENT PLANS (CONTINUED)**

***Teachers Retirement System (Continued)***

**Summary of Benefits (Continued)**

- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One)
- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation -  $1.85\% \times \text{AFC} \times \text{years of creditable service}$  - for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than  $1.6667 \times \text{AFC} \times \text{years of creditable service}$ )

A guaranteed annual benefit adjustment (GABA) is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABA for Tier One members is 1.5% of the benefit payable as of January 1st. For Tier Two members the GABA each year may vary from 0.5% to 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation.

**Overview of Contributions**

The System receives a portion of the total required statutory contributions directly from the State for all employers. The employers are considered to be in a special funding situation as defined by GASB 68 and the State is treated as a non-employer contributing entity in TRS. The System receives 2.49% of reportable compensation from the State's general fund for School Districts and Other Employers. The System also receives 0.11% of reportable compensation from the State's general fund for all TRS Employers including State Agency and University System Employers. Finally, the State is also required to contribute \$25 million in perpetuity payable July 1<sup>st</sup> of each year.

GREAT FALLS SCHOOL DISTRICT 1 & A  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 11. RETIREMENT PLANS (CONTINUED)**

***Teachers Retirement System (Continued)***

**Overview of Contributions (Continued)**

The table below show the legislated contribution rates for TRS members, employers, and the State.

	School District and Other Employers			Total Employee
	Members	Employers	General Fund	& Employer
Prior to July 1, 2007	7.15%	7.47%	0.11%	14.73%
July 1, 2007 to June 30, 2009	7.15%	7.47%	2.11%	16.73%
July 1, 2009 to June 30, 2013	7.15%	7.47%	2.49%	17.11%
July 1, 2013 to June 30, 2014	8.15%	8.47%	2.49%	19.11%
July 1, 2014 to June 30, 2015	8.15%	8.57%	2.49%	19.21%
July 1, 2015 to June 30, 2016	8.15%	8.67%	2.49%	19.31%
July 1, 2016 to June 30, 2017	8.15%	8.77%	2.49%	19.41%
July 1, 2017 to June 30, 2018	8.15%	8.87%	2.49%	19.51%
July 1, 2018 to June 30, 2019	8.15%	8.97%	2.49%	19.61%
July 1, 2019 to June 30, 2020	8.15%	9.07%	2.49%	19.71%
July 1, 2020 to June 30, 2021	8.15%	9.17%	2.49%	19.81%
July 1, 2021 to June 30, 2022	8.15%	9.27%	2.49%	19.91%
July 1, 2022 to June 30, 2023	8.15%	9.37%	2.49%	20.01%
July 1, 2023 to June 30, 2024	8.15%	9.47%	2.49%	20.11%

**TRS Stand-Alone Statements**

TRS' stand-alone financial statements, actuarial valuations and experience studies can be found online at <https://trs.mt.gov/TrsInfo/NewsAnnualReports>.

**Actuarial Assumptions**

The TPL as of June 30, 2016, is based on the results of an actuarial valuation date of July 1, 2016. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the July 1, 2016 valuation were based on the results of the last actuarial experience study, dated May 1, 2014. Among those assumptions were the following:

- Total Wage Increases\* 4.00 – 8.51% for Non-University Members and 5.00% for University Members  
\*Total Wage Increases include 4.00% general wage increase assumption.
- Investment Return 7.75%
- Price Inflation 3.25%

GREAT FALLS SCHOOL DISTRICT 1 & A  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 11. RETIREMENT PLANS (CONTINUED)**

***Teachers Retirement System (Continued)***

**Actuarial Assumptions (Continued)**

- Postretirement Benefit Increases
  - Tier One Members: If the retiree has received benefits for at least 3 years, the retirement allowance will be increased by 1.5% on January 1<sup>st</sup>
  - Tier Two Members: the retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the System to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.
- Mortality among contributing members, service retired members, and beneficiaries
  - For Males: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  - For Females: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members
  - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

**Discount Rate**

The discount rate used to measure the TPL was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. In addition to the contributions the State general fund will contribute \$25 million annually to the System payable July 1st of each year.

Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

GREAT FALLS SCHOOL DISTRICT 1 & A  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 11. RETIREMENT PLANS (CONTINUED)**

***Teachers Retirement System (Continued)***

**Target Allocations**

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis	Long Term Expected Portfolio Real Rate of Return*
Broad U.S. Equity	36.00%	4.80%	1.73%
Broad International Equity	18.00%	6.05%	1.09%
Private Equity	12.00%	8.50%	1.02%
Intermediate Bonds	23.40%	1.50%	0.35%
Core Real Estate	4.00%	4.50%	0.18%
High Yield Bonds	2.60%	3.25%	0.08%
Non-Core Real Estate	4.00%	7.50%	0.30%
	<u>100.00%</u>		4.75%
		Inflation	<u>3.25%</u>
	Expected arithmetic nominal return		8.00%

\* The long-term expected nominal rate of return above of 8.00% differs from the total TRS long-term rate of return assumption of 7.75%. The assumed rate is comprised of a 3.25% inflation rate and a real long-term expected rate of return of 4.50%.

The assumed long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2009 through 2013, is outlined in a report dated May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans, which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2016, is summarized in the above table.

**Sensitivity Analysis**

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
The employer's proportion of Net Pension Liability	<u>\$ 97,282,879</u>	<u>\$ 72,505,971</u>	<u>\$ 51,646,555</u>

GREAT FALLS SCHOOL DISTRICT 1 & A  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 11. RETIREMENT PLANS (CONTINUED)**

***Teachers Retirement System (Continued)***

**Sensitivity Analysis (Continued)**

In accordance with GASB 68 regarding the disclosure of the sensitivity of the NPL to changes in the discount rate, the above table presents the NPL calculated using the discount rate of 7.75%, as well as what the NPL would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

**Summary of Significant Accounting Policies**

The Teachers' Retirement System prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the NPL, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position of the System and additions to/deductions from TRS's fiduciary net position have been determined on the same accrual basis as they are reported by TRS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. TRS adheres to all applicable Governmental Accounting Standards Board (GASB) statements. TRS' stand-alone financial statements, actuarial valuations and experience studies can be found online at <https://trs.mt.gov/TrsInfo/NewsAnnualReports>.

***Public Employees Retirement System***

**Net Pension Liability**

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, employers and the non-employer contributing entity are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System Defined Benefit Retirement Plan (the Plan). Employers are required to record and report their proportionate share of the collective NPL, Pension Expense, and Deferred Inflows and Deferred Outflows of resources associated with pensions.

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). As GASB Statement 68 allows, a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2016, was determined by taking the results of the June 30, 2015, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

GREAT FALLS SCHOOL DISTRICT 1 & A  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 11. RETIREMENT PLANS (CONTINUED)**

***Public Employees Retirement System (Continued)***

**Special Funding**

The state of Montana, as the non-employer contributing entity, paid to the Plan additional contributions that qualify as *special funding*. Those employers who received *special funding* are counties; cities & towns; school districts & high schools; and other governmental agencies.

**Not Special Funding**

Per Montana law, state agencies and universities paid their own additional contributions. These employer paid contributions are *not* accounted for as special funding for state agencies and universities but are reported as employer contributions. The state of Montana, as the non-employer contributing entity, also paid to the Plan coal tax contributions that are *not* accounted for as special funding for all participating employers.

	Net Pension Liability as of June 30, 2017	Net Pension Liability as of June 30, 2016	Percent of Collective NPL as of June 30, 2017	Percent of Collective NPL as of June 30, 2016	Change in Percent of Collective NPL
GREAT FALLS SCHOOL DISTRICT 1 & A					
Proportionate share	\$ 12,216,426	\$10,535,710	0.7172%	0.7537%	-0.0365%
STATE OF MONTANA					
Proportionate share					
associated with employer	<u>570,942</u>	<u>495,071</u>	<u>0.0335%</u>	<u>0.0354%</u>	<u>-0.0019%</u>
Total	<u>\$ 12,787,368</u>	<u>\$11,030,781</u>	<u>0.7507%</u>	<u>0.7891%</u>	<u>-0.0384%</u>

The table above displays the proportionate shares of the District's and the state of Montana's NPL for June 30, 2017, and 2016. The District's proportionate share equals the ratio of the District's contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of the contributions for a particular employer to the total state contributions paid. The District recorded a liability of \$12,216,426 and the District's proportionate share was 0.7172 percent.

***Changes in actuarial assumptions and methods:*** There were no changes in assumptions or other inputs that affected the measurement of the TPL.

***Changes in benefit terms:*** There have been no changes in benefit terms since the previous measurement date.

***Changes in proportionate share:*** Between the measurement date of the collective NPL and the employer's reporting date there were no changes in proportion that would have an effect on the employer's proportionate share of the collective NPL since the previous measurement date.

GREAT FALLS SCHOOL DISTRICT 1 & A  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 11. RETIREMENT PLANS (CONTINUED)**

***Public Employees Retirement System (Continued)***

**Pension Expense**

	<u>Pension Expense as of June 30, 2017</u>
GREAT FALLS SCHOOL DISTRICT 1 & A Proportionate share	\$ 556,124
STATE OF MONTANA Proportionate share associated with employer	47,845
STATE OF MONTANA Coal tax for employer	<u>214,035</u>
	<u><u>\$ 818,004</u></u>

At June 30, 2017, the District recognized its proportionate share of the Plan's Pension Expense of \$556,124. The District also recognized grant revenue of \$47,845 for the State of Montana proportionate share of the Pension Expense that is associated with the District. Additionally, the District recognized grant revenue of \$214,035 from the Coal Severance Tax Fund.

**Deferred Inflows and Outflows**

At June 30, 2017, the employer reported its proportionate share of the Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 65,916	\$ 40,437
Differences between projected and actual investment earnings	1,149,322	-
Changes in actuarial assumptions	-	-
Changes in proportion and differences between actual and expected contributions	-	719,202
*Contributions paid to PERS subsequent to the measurement date - FY2017 Contributions	<u>718,156</u>	<u>-</u>
Total	<u><u>\$ 1,933,394</u></u>	<u><u>\$ 759,639</u></u>

\* Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018.



GREAT FALLS SCHOOL DISTRICT 1 & A  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 11. RETIREMENT PLANS (CONTINUED)**

***Public Employees Retirement System (Continued)***

**Deferred Inflows and Outflows (Continued)**

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

Year ended June 30:	Amount of deferred outflows and deferred inflows recognized in future years as an increase or (decrease) to Pension Expense
2018	\$ 55,644
2019	55,644
2020	653,117
2021	410,396
2022	-
Thereafter	-

**Plan Description**

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan covers the State, local governments, certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the defined contribution and defined benefit retirement plans. All new members from the universities also have a third option to join the university system's Montana University System Retirement Program (MUS-RP).

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature.

**Summary of Benefits**

**Eligibility for Benefit**

Service retirement:

Hired prior to July 1, 2011:	Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service.
Hired on or after July 1, 2011:	Age 65, 5 years of membership services; Age 70, regardless of membership service.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 11. RETIREMENT PLANS (CONTINUED)**

***Public Employees Retirement System (Continued)***

**Summary of Benefits (Continued)**

**Early Retirement**

Early retirement, actuarially reduced:

Hired prior to July 1, 2011:	Age 50, 5 years of membership service; or Any age, 25 years of membership service.
Hired on or after July 1, 2011:	Age 55, 5 years of membership service.

**Vesting**

5 years of membership service

**Member's Highest Average Compensation (HAC)**

Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months;

Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;

**Compensation Cap**

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's highest average compensation.

**Monthly Benefit Formula**

Members hired prior to July 1, 2011:

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

GREAT FALLS SCHOOL DISTRICT 1 & A  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 11. RETIREMENT PLANS (CONTINUED)**

***Public Employees Retirement System (Continued)***

**Summary of Benefits (Continued)**

**Guaranteed Annual Benefit Adjustment (GABA)**

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
  - 1.5% for each year PERS is funded at or above 90%;
  - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
  - 0% whenever the amortization period for PERS is 40 years or more.

**Overview of Contributions**

Member and employer contribution rates are specified by state law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The Montana Legislature has the authority to establish and amend contribution rates. Member and employer contribution rates are shown in the table below.

Fiscal Year	Member		State & Universities Employer	Local Government		School Districts	
	Hired < 7/1/11	Hired >7/1/11		Employer	State	Employer	State
2017	7.90%	7.90%	8.47%	8.37%	0.10%	8.10%	0.37%
2016	7.90%	7.90%	8.37%	8.27%	0.10%	8.00%	0.37%
2015	7.90%	7.90%	8.27%	8.17%	0.10%	7.90%	0.37%
2014	7.90%	7.90%	8.17%	8.07%	0.10%	7.80%	0.37%
2012-2013	6.90%	7.90%	7.17%	7.07%	0.10%	6.80%	0.37%
2010-2011	6.90%		7.17%	7.07%	0.10%	6.80%	0.37%
2008-2009	6.90%		7.04%	6.94%	0.10%	6.80%	0.24%
2000-2007	6.90%		6.90%	6.80%	0.10%	6.80%	0.10%

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 11. RETIREMENT PLANS (CONTINUED)**

***Public Employees Retirement System (Continued)***

**Overview of Contributions (Continued)**

2. Employer contributions to the system:

- a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS-DBRP has dropped below 25 years and remains below 25 years following the reduction of both the additional employer and additional member contributions rates.
- b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
- c. The portion of employer contributions allocated to the Plan Choice Rate (PCR) are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

3. Non Employer Contributions

a. Special Funding

- i. The State contributes 0.1% of members' compensation on behalf of local government entities.
- ii. The State contributes 0.37% of members' compensation on behalf of school district entities.

b. Not Special Funding

- i. The State contributes a portion of Coal Severance Tax income and earnings from the Coal Severance Tax fund.

**Stand-Alone Statements**

The financial statements of the Montana Public Employees' Retirement Board's (PERB) *Comprehensive Annual Financial Report* (CAFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, 406-444-3154 or the MPERA website at <http://mpera.mt.gov/index.shtml>.

**Actuarial Assumptions**

The TPL used to calculate the NPL was determined by taking the results of the June 30, 2015 actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2016. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2016 valuation were based on the results of the last actuarial experience study, dated June 2010, for the six-year period July 1, 2003 to June 30, 2009.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 11. RETIREMENT PLANS (CONTINUED)**

***Public Employees Retirement System (Continued)***

**Actuarial Assumptions (Continued)**

Among those assumptions were the following:

- |  |          |
|--|----------|
| • Investment Return (net of admin expense) | 7.75%    |
| • Admin Expense as a % of Payroll          | 0.27%    |
| • General Wage Growth*                     | 4.00%    |
| *includes Inflation at                     | 3.00%    |
| • Merit Increases                          | 0% to 6% |

**Guaranteed Annual Benefit Adjustment (GABA)**

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
  - 1.5% for each year PERS is funded at or above 90%;
  - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
  - 0% whenever the amortization period for PERS is 40 years or more.

Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.

Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvements were assumed.

**Discount Rate**

The discount rate used to measure the TPL was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. Of salaries paid, the State contributes 0.1% for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. No municipal bond rate was incorporated in the discount rate.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 11. RETIREMENT PLANS (CONTINUED)**

***Public Employees Retirement System (Continued)***

**Target Allocations**

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the Plan. The most recent analysis, performed for the period of fiscal years 2003 through 2009, is outlined in a report dated June 2010, and is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2016, are summarized below.

Asset Class	Target Asset Allocation (a)	Real Rate of Return Arithmetic Basis (b)	Long Term Expected Portfolio Real Rate of Return (a) x (b)
Cash Equivalents	2.6%	4.00%	0.10%
Domestic Equity	36.0%	4.55%	1.64%
Foreign Equity	18.0%	6.35%	1.14%
Fixed Income	23.4%	1.00%	0.23%
Private Equity	12.0%	7.75%	0.93%
Real Estate	8.0%	4.00%	0.32%
Total	100.00%		4.37%
Inflation			3.00%
Portfolio Return Expectation			7.37%

**Sensitivity Analysis**

The sensitivity of the NPL to the discount rate is shown in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.75%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
The District's proportion of Net Pension Liability	<u>\$ 17,726,934</u>	<u>\$ 12,216,426</u>	<u>\$ 7,469,662</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 11. RETIREMENT PLANS (CONTINUED)**

***Public Employees Retirement System (Continued)***

**Summary of Significant Accounting Policies**

MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the NPL; Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and Additions to or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

**PERS Disclosure for the Defined Contribution Plan**

The District contributed to the state of Montana Public Employee Retirement System Defined Contribution Retirement Plan (PERS-DCRP) for employees that have elected the DCRP. The PERS-DCRP is administered by the PERB and is reported as a multiple-employer plan established July 1, 2002, and governed by Title 19, chapters 2 & 3, MCA.

All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the *defined benefit* and *defined contribution* retirement plans.

Member and employer contribution rates are specified by state law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The Montana Legislature has the authority to establish and amend contribution rates.

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.

At the plan level for the measurement period ended June 30, 2016, the PERS-DCRP employer did not recognize any net pension liability or pension expense for the *defined contribution* plan. Plan level non-vested forfeitures for the 289 employers that have participants in the PERS-DCRP totaled \$382,656.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 11. RETIREMENT PLANS (CONTINUED)**

**Funding Policy**

	<u>TRS</u>	<u>PERS</u>
Authority to establish and amend contribution rates to plan:	State legislature	State legislature
Required plan member contributions:	8.15 % of monthly compensation	7.9 % of monthly compensation
Required employer contributions:	8.77 % of monthly compensation	8.1 % of monthly compensation
Required state contributions:	2.49 % of monthly compensation	.37 % of monthly compensation
Required employer contributions received and % of required amount:		
June 30, 2017	\$ 4,579,985 100%	\$ 736,559 100%
June 30, 2016	\$ 4,466,551 100%	\$ 734,283 100%
June 30, 2015	\$ 4,287,384 100%	\$ 740,033 100%

On-behalf payments made by the State of Montana totaled \$1,300,360 and \$33,754 for TRS and PERS, respectively, for the year ended June 30, 2017.



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**NOTE 12. FUND BALANCE**

As of June 30, 2017, fund balances are comprised of the following:

	General Fund	Miscellaneous Programs Elementary	Building Elementary	Building High School	Nonmajor Governmental Funds	Total Governmental Funds
<b>NONSPENDABLE</b>						
Inventories	\$ 207,923	\$ -	\$ -	\$ -	\$ 122,553	\$ 330,476
Prepaid items	687,207	-	-	-	-	687,207
<b>RESTRICTED</b>						
Student transportation services	-	-	-	-	1,798,935	1,798,935
Tuition	-	-	-	-	261	261
School food service	-	-	-	-	997,553	997,553
Retirement costs	-	-	-	-	2,861,524	2,861,524
Vacation/sick leave costs	1,002,879	-	-	-	-	1,002,879
Adult education services	-	-	-	-	220,585	220,585
Traffic education services	-	-	-	-	324,175	324,175
Facility rental	-	-	-	-	21,687	21,687
Technology costs	-	-	-	-	1,343,512	1,343,512
Debt service	-	-	-	-	5,732,625	5,732,625
Building costs	-	-	34,078,001	23,471,104	260,516	57,809,621
Education services to federally connected children	-	-	-	-	9,236,738	9,236,738
Other purposes	-	-	-	-	324,439	324,439
<b>COMMITTED</b>						
Budgetary reserves - instruction	7,220,633	-	-	-	-	7,220,633
<b>ASSIGNED</b>						
Instructional services	54,965	4,168,955	-	-	1,742,192	5,966,112
Supportive services	3,934	-	-	-	-	3,934
General administrative services	-	-	-	-	-	-
School administrative services	7,213	-	-	-	-	7,213
Business services	86,149	-	-	-	-	86,149
Operation and maintenance services	87,563	-	-	-	-	87,563
<b>UNASSIGNED</b>						
Budgetary reappropriation	28,096	-	-	-	-	28,096
Total fund balances	<u>\$ 9,386,562</u>	<u>\$ 4,168,955</u>	<u>\$34,078,001</u>	<u>\$23,471,104</u>	<u>\$24,987,295</u>	<u>\$96,091,917</u>

**NOTE 13. TAX ABATEMENTS**

As indicated in Note 1, GASB Statement No. 77, *Tax Abatement Disclosures*, was effective for the District for the year ended June 30, 2017. The District's property tax revenue is subject to tax abatement agreements it enters into directly, as well as indirectly by those entered into by Cascade County (the County) and the City of Great Falls (the City). Tax abatement agreements are entered into on an individual basis with businesses under the Montana Code Annotated 2015, Title 15 Taxation (the Code). Under the Code, local governments may grant property tax abatements to business with qualifying improvements or modernized processes that represent new industry or expansion of an existing industry (15-24-1402).

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**NOTE 13. TAX ABATEMENTS (CONTINUED)**

In the first five years after a construction permit is issued, a business' property is taxed at 50 percent of taxable value with equal percentage increases taxed until the full taxable value is attained in the tenth year. In subsequent years, the property is taxed at its full taxable value (15-10-420). For the year ended June 30, 2017, the District has not entered into any tax abatement agreements, nor has the District received any information from the City or the County regarding any indirect effects to the District, if any, regarding tax abatement agreements entered into by those entities during the fiscal year.

**NOTE 14. PROPERTY LEASED TO OTHERS**

The District leases some of its property to others under operating leases expiring in future years. The following is a schedule of these leases and the minimum future rentals on noncancellable operating leases as of June 30, 2017:

Leased Property	Lessee	Lease Term	Minimum Future Rental
Paris Gibson Square	Paris Gibson Square	7/1/93 to 6/30/2027	\$1/year
Skyline Education Center	Benefis Healthcare System	9/1/16 to 6/30/19	\$3,046/year
Skyline Education Center	Quality Life Concepts	9/1/16 to 6/30/2019	\$1,062/year
Skyline Education Center	Cascade County (MSU Extension)	9/1/16 to 6/30/2019	\$25,948/year
Chief Joseph Annex	Alliance for Youth	7/1/16 to 6/30/2021	\$0/year
Longfellow School	Opportunities, Inc.	7/1/17 to 6/30/2018	\$4,400/year
Soccer Complex	City of Great Falls	6/1/04 to 6/1/2029	\$1/year
Roosevelt Elementary School	AT&T Mobility, LLC	1/1/13 to 12/31/2018	\$9,000/year
West Elementary School parking lot	Collins Mansion Bed & Breakfast	1/1/12 to 12/31/2017	\$1/year
Great Falls High School	Verizon	1/29/16 to 1/29/2021	\$24,000/year
Whittier House	Boyd/Boily Family	8/12/17 to 8/11/2018	\$15,000/year
Whittier Apartment #2	Flaten Family	9/16/16 to tenant move out	\$8,400/year
Whittier Apartment #3	Jones Family	4/1/16 to tenant move out	\$4,800/year

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June 30, 2017

**NOTE 15. TRANSPORTATION CONTRACTS**

The District has transportation contracts through June 30, 2019 with Big Sky Bus Lines to provide school buses for the transportation of students to and from school. Fees paid are based on a fixed rate per bus per four and one-half hour day, times 180 days per year, along with a fuel expense reimbursement amount.

**NOTE 16. INTERLOCAL AGREEMENTS**

**Targeted Case Management**

The District and the City-County Health Department, Great Falls, Montana, have entered into an interagency agreement to establish and operate a program to serve students with special health care needs and high risk infants and children. City-County Health Department provides population-based screening for infants at risk for developmental delay and/or special health needs, conduct consultation and/or referral to other disciplines/agencies and monitor referral outcomes, provide anticipatory guidance, risk reduction education and counseling, care coordination including monitoring and reassessment for infants and children at risk for developmental delay and those with special health care needs, and other nursing interventions as needed on behalf of the family, children, and adolescents.

**School Resource Officer**

The District has entered into an agreement with the City of Great Falls for the services of the City's Police Department for 187 days to enforce compulsory attendance provision of Title 20, Chapter 5, Part 1 of Montana Code Annotated. The City provides the District with four police officers and the equipment necessary to enforce the above mentioned provisions. The District's payment to the City was \$275,964 for the period August 29, 2016 through June 6, 2017. The District's payment to the City is to be \$307,125 for the period August 30, 2017 through June 1, 2018.

**Artist in Residence Program**

The District previously entered into an agreement with the Paris Gibson Museum of Art (The Square) for the funding of the Artist in Residence Program provided to the District. The Square provides the District with an artist(s) to work in the elementary and secondary schools, sharing creative abilities in classroom, studio performance, or workshop situations with students, faculty, administrators, and/or community members. The District's payment to The Square for the 2016/2017 school year was \$4,000. The agreement was not renewed for school year 2017/2018.

**Multi-District Agreements**

The District has an agreement with Cascade Public Schools, Centerville Public Schools, Belt Public Schools, Vaughn Elementary School and Sun River Valley Public Schools to collectively purchase technology supplies and equipment. The District has entered into an agreement between the Elementary and High School districts to collectively purchase classroom supplies and materials, as well as provide operations maintenance for the buildings and equipment. The Elementary District is the prime agent for the interlocal fund established for purposes of the multidistrict agreements.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 17. PENDING LITIGATION**

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the District's legal counsel that these matters will not have a material adverse effect on the basic financial statements of the District.

**NOTE 18. RISK MANAGEMENT**

The District faces a considerable number of risks of loss, including damage to and loss of property and contents, employee torts, professional liability (i.e. errors and omissions), environmental damage, workers' compensation (i.e. employee injuries), and medical insurance costs of employees. A variety of 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 content damage and professional liabilities. Coverage limits and the deductibles in the commercial policies have stayed relatively constant for the last several years. The premiums for the policies are paid out of the District's general fund. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years. Given the lack of coverage available, the District has no coverage for potential losses from environmental damages.

The District has contracted with Montana Schools Group Insurance Authority for workers' compensation coverage. Premiums under the policy are paid by the District.

The District obtains medical insurance coverage for its employees through policies offered by Cigna. Premiums under the policies are paid partly by the District and partly by the employees.

**NOTE 19. LONG-TERM CONSTRUCTION COMMITMENTS**

On October 4, 2016, District voters approved \$98,865,000 in bonding capacity to address issues identified in the District's Facilities Action Plan. For the following five years, the District will be improving the infrastructure of all buildings in the District. Two new elementary schools will be built, a connector hub will be constructed at Great Falls High School, and a multipurpose athletic facility will be added to C.M. Russell High School. Boiler replacements, electrical improvements, cement work, and roofing issues will be addressed, along with addressing the many other items identified for improvement. On February 21, 2017, the District issued \$58,710,000 in general obligation bonds to be used for these projects, with the remaining balance to be sold in August 2018.

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June 30, 2017

**NOTE 19. LONG-TERM CONSTRUCTION COMMITMENTS (CONTINUED)**

In addition to the projects financed by bonds, the District has certain construction projects in progress or awarded to contractors at June 30, 2017. Major projects include, among others, electrical upgrade and parking lot expansion at Loy Elementary School; parking lot project at Meadowlark Elementary School; classroom conversion at Mountain View Elementary School; electrical upgrade and boiler replacement project at Sunnyside Elementary School; elevator addition at Whittier Elementary School; air handler work, window replacement project and fire alarm replacement at East Middle School; walk in cooler installation, fire alarm replacement, boiler replacement project and cafeteria roof replacement at North Middle School; concrete apron replacement, fire alarm replacement, girls locker room work and well work at C.M. Russell High School; stadium renovation, fieldhouse boiler replacement, pool project, pool mechanical work, window replacement project and ADA curb work at Great Falls High School; and elevator additions, window replacement, office remodel and loading dock replacement at Paris Gibson Education Center.

**NOTE 20. ENCUMBRANCES**

The District utilizes encumbrance accounting in its governmental funds. Encumbrances are recognized as a valid and proper charge against a budget appropriation in the year in which a purchase order, contract, or other commitment is issued and, accordingly, encumbrances outstanding at year end are reported as budget expenditures in the current year. Generally, all unencumbered appropriations lapse at year end, except as set forth in Section 20-9-209, MCA. Open encumbrances at fiscal yearend are included in restricted, committed, or assigned fund balance, as appropriate.

Total encumbrances as of June 30, 2017 for the general fund were \$239,824, all assigned, and for the non-major funds in the aggregate were \$67,145, of which \$64,799 were restricted and \$2,346 were assigned.

GREAT FALLS SCHOOL DISTRICT 1 & A  
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**NOTE 21. PRIOR PERIOD ADJUSTMENTS**

During the year ended June 30, 2017 the District recorded in various funds prior period adjustments increasing beginning net position by \$12,092, consisting of reimbursements for prior year expenditures.

Also during the year ended June 30, 2017 the District has implemented GASB Statement No. 75, regarding the reporting of postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement is effective for fiscal years beginning after June 15, 2017. The District early implemented this Statement for fiscal year 2017. Accordingly, beginning net position has been restated to reflect the reimbursements and previously unrecognized net OPEB liability as follows:

Beginning net position, as originally reported	\$ (40,048,249)
Reimbursements for the prior year	12,092
Net OPEB liability, June 30, 2016	<u>(4,844,938)</u>
Net restatement	<u>(4,832,846)</u>
Beginning net position, as restated	<u>\$ (44,881,095)</u>

REQUIRED SUPPLEMENTAL INFORMATION

**GREAT FALLS SCHOOL DISTRICT 1 & A**  
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**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance
	Original Budget	Final Budget	(Budgetary Basis)	Favorable (Unfavorable)
<b>REVENUES</b>				
District levy	\$ 20,992,208	\$ 20,992,208	\$ 20,955,089	\$ (37,119)
Interest	2,176	2,176	7,160	4,984
Miscellaneous	-	-	-	-
Direct state aid	32,527,825	32,527,825	32,541,313	13,488
State guaranteed tax base subsidy	11,634,095	11,634,095	11,710,514	76,419
State special education	2,100,996	2,100,996	2,100,518	(478)
Other state payments	2,682,291	2,682,291	2,682,291	-
Tuition and fees	67,854	67,854	53,551	(14,303)
Total	<u>70,007,445</u>	<u>70,007,445</u>	<u>70,050,436</u>	<u>42,991</u>
<b>EXPENDITURES</b>				
Current:				
Regular Programs:				
Instructional services	37,234,864	37,234,864	36,817,812	417,052
Supportive services	4,240,902	4,240,902	3,713,074	527,828
Educational media services	1,951,416	1,951,416	1,760,432	190,984
General administrative services	1,506,125	1,506,125	1,722,678	(216,553)
School administrative services	4,283,569	4,283,569	1,605,930	2,677,639
Business services	2,061,984	2,061,984	1,900,045	161,939
Operation and mainten- ance services	9,254,377	9,254,377	8,569,170	685,207
Central services	107,809	107,809	-	107,809
Special Programs:				
Instructional services	3,153,062	3,153,062	3,556,648	(403,586)
Supportive services	1,742,327	1,742,327	2,100,770	(358,443)
School administrative services	-	-	-	-
Vocational Programs:				
Instructional services	2,251,747	2,251,747	1,796,831	454,916
Extracurricular activities	1,492,147	1,492,147	1,392,545	99,602
Capital outlay	127,524	127,524	3,087,830	(2,960,306)
Debt service	441,320	441,320	610,913	(169,593)
Total	<u>69,849,173</u>	<u>69,849,173</u>	<u>68,634,678</u>	<u>1,214,495</u>
Excess of revenues over expenditures	<u>158,272</u>	<u>158,272</u>	<u>1,415,758</u>	<u>1,257,486</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Resources transferred (to) from other funds	(158,272)	(158,272)	(907,888)	(749,616)
Sale of capital assets	-	-	-	-
	<u>(158,272)</u>	<u>(158,272)</u>	<u>(907,888)</u>	<u>(749,616)</u>
Excess of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>507,870</u>	<u>\$ 507,870</u>
Fund balance at July 1			7,620,020	
Prior period adjustment			<u>15,969</u>	
Fund balance at July 1, as restated			<u>7,635,989</u>	
Fund balance at June 30			<u>\$ 8,143,859</u>	

See Accompanying Notes to Budgetary Comparison Schedule.



GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
NOTES TO BUDGETARY COMPARISON SCHEDULE  
June 30, 2017

**NOTE 1. BUDGETARY BASIS OF ACCOUNTING**

The major difference between the budgetary basis of accounting and generally accepted accounting principles used in preparing the basic financial statements are the recording of encumbrances under the budgetary basis. Encumbrances allowed under state law are commitments related to unperformed contracts for the purchase of personal property or to complete construction projects. Under the budgetary basis of accounting such encumbrances are allowed to be recorded as expenditures in the year the commitments arise. Encumbrances outstanding at year-end are reported within the fund balance classifications related to the purposes for which resources have already been provided. All unexpended appropriations in funds for which appropriations are adopted lapse at year end, other than those encumbered as set forth in Section 20-9-209, MCA. Encumbered amounts will be added to the following year's budget for each fund encumbering expenditures in order to maintain budget authority. Encumbrances reported at the end of the current fiscal year must be liquidated by the end of the following fiscal year. The District utilized an encumbrance system for budgetary reporting for the year ended June 30, 2017. Encumbrances of \$239,824 of the General Fund are reflected as expenditures on the Budgetary Comparison Schedule - General Fund, for the year ended June 30, 2017.

The "actual" results of operations as presented in the Budgetary Comparison Schedule - General Fund are in accordance with the legally enacted budgetary basis to provide a meaningful comparison of actual results with budget. They do not, however, include the activity of the District's compensated absence funds which were required under GASB Statement No. 54 to be included with the activity of the general fund on the Statement of Revenues, Expenditures, and Changes in Fund Balances.

Adjustments necessary to convert the results of operations as of June 30, 2017 on the modified accrual basis for the general fund to the budgetary basis are as follows:

<u>General Fund</u>	
Excess of revenue over expenditures (GAAP)	\$ 780,673
Due to implementation of GASB Statement No. 54:	
Compensated absence funds' net activity for 6/30/17	(265,979)
Due to expenditure:	
Encumbrances at 6/30/16	233,000
Encumbrances at 6/30/17	<u>(239,824)</u>
Excess of revenue over expenditures (budget)	<u>\$ 507,870</u>

Adjustments necessary to convert fund balance as of June 30, 2017 on the modified accrual basis for the general fund to the budgetary basis are as follows:

<u>General Fund</u>	
Fund balance, 6/30/17 (GAAP)	\$ 9,386,562
Due to implementation of GASB Statement No. 54:	
Compensated absence funds' fund balance, 6/30/17	(1,002,879)
Due to expenditure:	
Encumbrances at 6/30/17	<u>(239,824)</u>
Fund balance, 6/30/17 (budget)	<u>\$ 8,143,859</u>

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY  
June 30, 2017

The District adopted GASB Statement No. 75 for the fiscal year ending June 30, 2017. This statement requires a disclosure of the changes in the Net OPEB Liability for the last 10 fiscal years, or as many years as available, as well as the sources of the changes. See Note 10 to the financial statements for additional information on the significant assumptions used in calculating the calculation of the Net OPEB Liability.

	<u>2017</u>
<b>Total OPEB Liability</b>	
Service cost	\$ 336,629
Interest	165,682
Changes of benefit terms	-
Differences between expected and actual experience	-
Change of assumptions	-
Benefit payments	(46,678)
Implicit rate subsidy fulfilled	<u>(175,661)</u>
Net changes in total OPEB liability	279,972
Total OPEB liability, beginning of year	<u>4,844,938</u>
Total OPEB liability, end of year	<u><u>\$ 5,124,910</u></u>
 Covered employee payroll	 <u><u>\$ 38,542,468</u></u>
District's total OPEB liability as a percentage of covered-employee payroll	 <u><u>13.30%</u></u>

<b>Changes in the Total OPEB Liability</b>	<u>Total OPEB Liability</u>
Balances as of June 30, 2016	\$ 4,844,938
Changes for the year:	
Service cost	336,629
Interest	165,682
Differences between expected and actual experience	-
Contributions	-
Benefit payments, including refunds of employee contributions	(46,678)
Implicit rate subsidy fulfilled	<u>(175,661)</u>
Net changes	<u>279,972</u>
Balances as of June 30, 2017	<u><u>\$ 5,124,910</u></u>

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITIES  
June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Schedule of Proportionate Share of the Net TRS Pension Liability For the Last Ten Fiscal Years*</b>			
Employer's proportionate share of the net pension liability associated with the Employer	3.96890%	3.91890%	3.78570%
Employer's proportion of the net pension liability	\$ 72,505,971	\$ 64,387,569	\$ 58,255,724
State of MT proportionate share of the net pension liability associated with the Employer	<u>47,236,171</u>	<u>43,106,917</u>	<u>39,899,529</u>
<b>Total</b>	<b><u>\$ 119,742,142</u></b>	<b><u>\$ 107,494,486</u></b>	<b><u>\$ 98,155,253</u></b>
Employer's covered-employee payroll	\$ 51,517,925	\$ 49,974,262	\$ 50,022,585
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	140.739%	128.841%	116.459%
Plan fiduciary net position as a percentage of the total pension liability	66.69%	69.30%	70.36%
<b>Schedule of Proportionate Share of the Net PERS Pension Liability For the Last Ten Fiscal Years*</b>			
Employer's proportionate share of the net pension liability associated with the Employer	0.71720%	0.75370%	0.78815%
Employer's proportion of the net pension liability	\$ 12,216,426	\$ 10,535,710	\$ 9,820,461
State of MT proportionate share of the net pension liability associated with the Employer	<u>570,942</u>	<u>495,071</u>	<u>459,074</u>
<b>Total</b>	<b><u>\$ 12,787,368</u></b>	<b><u>\$ 11,030,781</u></b>	<b><u>\$ 10,279,535</u></b>
Employer's covered-employee payroll	\$ 8,880,760	\$ 9,094,138	\$ 9,230,703
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	137.560%	115.852%	106.389%
Plan fiduciary net position as a percentage of the total pension liability	74.71%	78.40%	79.90%

\*The amounts presented above for each fiscal year were determined as of June 30th, the measurement date.  
Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
SCHEDULE OF CONTRIBUTIONS  
June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Schedule of TRS Contributions For the Last Ten Fiscal Years*</b>			
Contractually required contributions	\$ 4,832,010	\$ 4,899,704	\$ 4,784,242
Contributions in relation to the contractually required contributions	\$ 4,832,010	\$ 4,899,704	\$ 4,784,242
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Employer's covered-employee payroll	\$ 52,522,247	\$ 51,517,925	\$ 50,022,585
Contributions as a percentage of covered-employee payroll	9.1999%	9.5107%	9.5642%
<b>Schedule of PERS Contributions For the Last Ten Fiscal Years*</b>			
Contractually required contributions	\$ 718,156	\$ 727,118	\$ 736,501
Contributions in relation to the contractually required contributions	\$ 718,156	\$ 727,118	\$ 736,501
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Employer's covered-employee payroll	\$ 8,866,027	\$ 8,880,760	\$ 9,230,703
Contributions as a percentage of covered-employee payroll	8.1000%	8.1880%	7.9788%

\*The amounts presented above for each fiscal year were determined as of June 30th, the measurement date.  
Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION  
June 30, 2017

***Teachers Retirement System***

***Changes of Benefit Terms:***

The following changes to the plan provisions were made as identified:

The 2013 Montana Legislature passed HB 377 which provides additional revenue and created a two tier benefit structure. A Tier One Member is a person who first became a member before July 1, 2013 and has not withdrawn their member's account balance. A Tier Two Member is a person who first becomes a member on or after July 1, 2013 or after withdrawing their member's account balance, becomes a member again on or after July 1, 2013.

The second tier benefit structure for members hired on or after July 1, 2013 is summarized below.

- (1) **Final Average Compensation:** average of earned compensation paid in five consecutive years of full-time service that yields the highest average
- (2) **Service Retirement:** Eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55
- (3) **Early Retirement:** Eligible to receive an early retirement allowance if a member is not eligible for service retirement but has at least five years of creditable service and attained age 55
- (4) **Professional Retirement Option:** if the member has been credited with 30 or more years of service and has attained the age of 60 they are eligible for an enhanced allowance equal to 1.85% of average final compensation times all service at retirement. Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%
- (5) **Annual Contribution:** 8.15% of member's earned compensation
- (6) **Supplemental Contribution Rate:** On or after July 1, 2023, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met:
  - a. The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and
  - b. The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and
  - c. A State or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board.
- (7) **Disability Retirement:** A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION (CONTINUED)  
June 30, 2017

***Teachers Retirement System (Continued)***

***Changes of Benefit Terms (Continued):***

**(8) Guaranteed Annual Benefit Adjustment (GABA):**

- a. If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the Board.

HB 377 increased revenue from the members, employers and the State as follows:

- Annual State contribution equal to \$25 million paid to the System in monthly installments.
- One-time contribution payable to the Retirement System by the trustees of a school district maintaining a retirement fund. The one-time contribution to the Retirement System shall be the amount earmarked as an operating reserve in excess of 20% of the adopted retirement fund budget for the fiscal year 2013. The amount received was \$22 million in FY 2014.
- 1% supplemental employer contribution. This will increase the current employer rates:
  - School Districts contributions will increase from 7.47% to 8.47%
  - The Montana University System and State Agencies will increase from 9.85% to 10.85%.
  - The supplemental employer contribution will increase by 0.1% each fiscal year for fiscal year 2014 thru fiscal year 2024. Fiscal years beginning after June 30, 2024 the total supplemental employer contribution will be equal to 2%.
- Members hired prior to July 1, 2013 (Tier 1) under HB 377 are required to contribute a supplemental contribution equal to an additional 1% of the member's earned compensation.
- Each employer is required to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position to the System.

***Changes in Actuarial Assumptions and Other Inputs:***

The following changes to the actuarial assumptions were adopted in 2016:

- The normal cost method has been updated to align the calculation of the projected compensation and the total present value of plan benefits so that the normal cost rate reflects the most appropriate allocation of plan costs over future compensation.

The following changes to the actuarial assumptions were adopted in 2015:

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three year COLA deferral period for Tier 2 Members.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION (CONTINUED)  
June 30, 2017

***Teachers Retirement System (Continued)***

***Changes in Actuarial Assumptions and Other Inputs (Continued):***

- The 0.63% load applied to the projected retirement benefits of the university members "to account for larger than average annual compensation increases observed in the years immediately preceding retirement" is not applied to benefits expected to be paid to university members on account of death, disability and termination (prior to retirement eligibility).
- The actuarial valuation was updated to reflect the assumed rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.
- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the \$500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to "retain membership in the System" are covered by the \$500 death benefit after termination.

The following changes to the actuarial assumptions were adopted in 2014:

- Assumed rate of inflation was reduced from 3.50% to 3.25%
- Payroll Growth Assumption was reduced from 4.50% to 4.00%
- Assumed real wage growth was reduced from 1.00% to 0.75%
- Investment return assumption was changed from net of investment and administrative expenses to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:

For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.

For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.

- Mortality among disabled members was updated to the following:

For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.

For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION (CONTINUED)  
June 30, 2017

***Teachers Retirement System (Continued)***

***Method and Assumptions Used in Calculations of Actuarially Determined Contributions:***

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	24 years
Asset valuation method	4-year smoothed market
Inflation	3.25 percent
Salary increase	4.00 to 8.51 percent, including inflation for Non-University Members and 5.00% for University Members;
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation



GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION (CONTINUED)  
June 30, 2017

***Public Employees Retirement System***

***Changes of Benefit Terms***

The following changes to the plan provision were made as identified:

***2013 Legislative Changes:***

House Bill 454 - Permanent Injunction Limits Application of the GABA Reduction passed under HB 454

***Guaranteed Annual Benefit Adjustment (GABA)***

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007 and before July 1, 2013
- Members hired on or after July 1, 2013
  - 1.5% each year PERS is funded at or above 90%;
  - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and,
  - 0% whenever the amortization period for PERS is 40 years or more.

***2015 Legislative Changes:***

General Revisions - House Bill 101, effective January 1, 2016

***Second Retirement Benefit - for PERS***

- 1) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:
  - refund of member's contributions from second employment plus regular interest (currently 0.25%);
  - no service credit for second employment;
  - start same benefit amount the month following termination; and
  - GABA starts again in the January immediately following second retirement.
- 2) For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:
  - member receives a recalculated retirement benefit based on laws in effect at second retirement; and,
  - GABA starts in the January after receiving recalculated benefit for 12 months.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION (CONTINUED)  
June 30, 2017

***Public Employees Retirement System (Continued)***

***2015 Legislative Changes (Continued):***

- 3) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:
  - refund of member's contributions from second employment plus regular interest (currently 0.25%);
  - no service credit for second employment;
  - start same benefit amount the month following termination; and,
  - GABA starts again in the January immediately following second retirement.
- 4) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:
  - member receives same retirement benefit as prior to return to service;
  - member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
  - GABA starts on both benefits in January after member receives original and new benefit for 12 months

Revise DC Funding Laws - House Bill 107, effective July 1, 2015

**Employer Contributions and the Defined Contribution Plan** – for PERS and MUS-RP

The PCR was paid off effective March 2016 and the contributions of 2.37%, .47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

***Changes in Actuarial Assumptions and Methods***

**Method and Assumptions Used in Calculations of Actuarially Determined Contributions**

The following addition was adopted in 2014 based on implementation of GASB Statement 68:

Admin Expense as % of Payroll	0.27%
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There were no changes following the 2013 Economic Experience study.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION (CONTINUED)  
June 30, 2017

***Public Employees Retirement System (Continued)***

**Method and Assumptions Used in Calculations of Actuarially Determined Contributions (Continued)**

The following Actuarial Assumptions are from the June 2010 Experience Study:

General Wage Growth*	4.00%
*Includes inflation at	3.00%
Merit increase	0% to 6.0%
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open

OTHER SUPPLEMENTAL SCHEDULES

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
SCHEDULE OF REVENUES AND EXPENDITURES - ALL FUND ACCOUNTS -  
EXTRACURRICULAR FUND  
For the Year Ended June 30, 2017

	Beginning Balance	Revenues	Expenditures	Ending Balance
Administration Building				
Unallocated increase in fair market value of investments	\$ 22,408	\$ (1,814)	\$ -	\$ 20,594
Alternative education	71,471	27,132	42,585	56,018
Indian education	3,695	10,057	7,063	6,689
Special education	<u>894</u>	<u>1,503</u>	<u>1,857</u>	<u>540</u>
	<u>98,468</u>	<u>36,878</u>	<u>51,505</u>	<u>83,841</u>
Elementary Schools				
Lewis & Clark School	386	2	-	388
Lincoln School	1,916	7	851	1,072
Longfellow School	401	2	-	403
Loy School	1,868	2,375	1,457	2,786
MeadowLark School	1,541	873	1,621	793
Morningside School	5,671	580	1,553	4,698
Mountain View School	3,192	337	61	3,468
Roosevelt School	1,832	199	336	1,695
Sacajawea School	1,671	3,205	1,995	2,881
Sunnyside School	465	2	-	467
Valleyview School	5,598	21	1,601	4,018
Whittier School	<u>3,457</u>	<u>2,767</u>	<u>2,331</u>	<u>3,893</u>
	<u>27,998</u>	<u>10,370</u>	<u>11,806</u>	<u>26,562</u>
Middle Schools				
East Middle School	40,467	34,268	30,483	44,252
North Middle School	<u>51,461</u>	<u>92,699</u>	<u>107,639</u>	<u>36,521</u>
	<u>91,928</u>	<u>126,967</u>	<u>138,122</u>	<u>80,773</u>
High Schools				
Great Falls High School	410,381	964,552	951,654	423,279
C.M. Russell High School	<u>653,284</u>	<u>1,041,381</u>	<u>1,018,325</u>	<u>676,340</u>
	<u>1,063,665</u>	<u>2,005,933</u>	<u>1,969,979</u>	<u>1,099,619</u>
Total	<u>\$ 1,282,059</u>	<u>\$ 2,180,148</u>	<u>\$ 2,171,412</u>	<u>\$ 1,290,795</u>

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
GREAT FALLS, MONTANA  
SCHEDULE OF ENROLLMENT  
Fiscal Year Ended June 30, 2017

	Elementary <u>District</u>	High School <u>District</u>
<u>Fall Enrollment 10/16</u>		
Reported Enrollment Totals per "2016-2017 School Fall Reports"	<u>7,267</u>	<u>2,992</u>
Reported Enrollment Totals per 2016-2017 School Attendance Enrollment Counts	<u>7,267</u>	<u>2,992</u>
<u>Spring Enrollment 2/17</u>		
Reported Enrollment Totals per "2016-2017 School Spring Reports"	<u>7,226</u>	<u>2,887</u>
Reported Enrollment Totals per 2016-2017 School Attendance Enrollment Counts	<u>7,226</u>	<u>2,887</u>

SINGLE AUDIT SECTION

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

Board of Trustees  
Great Falls School District 1 & A  
Cascade County  
Great Falls, Montana

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Great Falls School District 1 & A, Cascade County, Great Falls, Montana (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 18, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

   
Great Falls, Montana  
December 18, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE

Board of Trustees  
Great Falls School District 1 & A  
Cascade County  
Great Falls, Montana

**Report on Compliance for Each Major Federal Program**

We have audited Great Falls School District 1 & A, Cascade County, Great Falls, Montana's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for the compliance with the requirements of laws, regulations, contracts and grants applicable its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District'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 on compliance for each major federal program. However, our audit does not provide a legal determination on the District's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

### **Report on Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control and compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

  
Great Falls, Montana  
December 18, 2017

**GREAT FALLS SCHOOL DISTRICT 1 & A**  
**CASCADE COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2017**

<u>Project</u>	<u>Federal CFDA Number</u>	<u>Project Number</u>	<u>Award</u>	<u>Cash Balance 07/01/16</u>	<u>Cash Receipts</u>	<u>Cash Disbursements</u>	<u>Cash Balance 06/30/17</u>
<b>U. S. Department of Education</b>							
Passed Through State of Montana							
Office of Public Instruction							
<i>Title I - Part A Cluster</i>							
Title I - Part A (Elem)	84.010	07-00-9831-17	\$ 59,568	\$ -	\$ 51,649	\$ 59,568	\$ (7,919)
Title I - Part A (Elem)	84.010	07-00-9832-17	3,465,411	-	3,005,647	3,439,825	(434,178)
Title I - Part A (Elem)	84.010	07-00-9831-16	425,070	(50,856)	50,856	-	-
Title I - Part A (Elem)	84.010	07-00-9832-16	2,751,556	(26,255)	26,255	-	-
Title I - Part A (Elem)	84.010	07-00-9833-17	88,106	-	88,106	88,106	-
<i>Subtotal Title I - Part A Cluster</i>				<u>(77,111)</u>	<u>3,222,513</u>	<u>3,587,499</u>	<u>(442,097)</u>
<i>Special Education Cluster (IDEA)</i>							
Idea B (Elem)	84.027	07-00-9877-17	3,170,259	-	2,024,528	2,445,483	(420,955)
Idea B (Elem)	84.027	07-00-9879-16	75,116	(976)	976	-	-
Idea B (Elem)	84.173	07-00-9879-17	77,695	-	77,695	77,695	-
<i>Subtotal Special Education Cluster (IDEA)</i>				<u>(976)</u>	<u>2,103,199</u>	<u>2,523,178</u>	<u>(420,955)</u>
Title I - Part D (HS)	84.013	07-00-9942-17	129,824	-	101,394	129,824	(28,430)
Title I - Part D (HS)	84.013	07-00-9942-16	106,436	(10,301)	10,301	-	-
<i>Subtotal Title I Part D</i>				<u>(10,301)</u>	<u>111,695</u>	<u>129,824</u>	<u>(28,430)</u>
Title I - Part E (Elem)	84.371	07-00-9835-16	1,424,103	2,490	532,406	534,896	-
Title I - Part E (Elem)	84.371	07-00-9835-15	1,364,471	2,247	-	2,247	-
<i>Subtotal Title I Part E</i>				<u>4,737</u>	<u>532,406</u>	<u>537,143</u>	<u>-</u>
Title II - Part A (Elem)	84.367	07-00-9814-17	724,309	-	724,309	724,309	-
<i>Subtotal Title II Part A</i>				<u>-</u>	<u>724,309</u>	<u>724,309</u>	<u>-</u>
Title III - Part A (Elem)	84.365A	07-00-9841-16	140,266	(7,628)	7,628	-	-
Title III - Part A (Elem)	84.365A	07-00-9841-17	108,302	-	73,370	89,758	(16,388)
Title III - Part A (Elem)	84.365A	07-00-9841-17	35,172	-	13,796	23,659	(9,863)
<i>Subtotal Title III</i>				<u>(7,628)</u>	<u>94,794</u>	<u>113,417</u>	<u>(26,251)</u>
Vo Ed Carl D Perkins - Basic (HS)	84.048	07-00-9981-17	187,355	-	187,355	187,355	-
Vo Ed Carl D Perkins - Basic (HS)	84.048	07-00-9981-16	202,636	(10,133)	10,133	-	-
<i>Subtotal Vo Ed Carl Perkins</i>				<u>(10,133)</u>	<u>197,488</u>	<u>187,355</u>	<u>-</u>
Title X - Part C (Elem)	84.196	07-00-9857-17	12,834	-	12,834	12,834	-
<i>Subtotal Title X Part C</i>				<u>-</u>	<u>12,834</u>	<u>12,834</u>	<u>-</u>
PL 81-874 (Elem)	84.041	N/A	N/A	8,562,816	460,303	482,684	8,540,435
PL 81-874 (HS)	84.041	N/A	N/A	665,377	46,143	15,217	696,303
<i>Subtotal PL 81-874</i>				<u>9,228,193</u>	<u>506,446</u>	<u>497,901</u>	<u>9,236,738</u>
<b>Total U. S. Department of Education</b>				<u>9,126,781</u>	<u>7,505,684</u>	<u>8,313,460</u>	<u>8,319,005</u>
<b>U. S. Department of Agriculture</b>							
Passed Through State of Montana							
Office of Public Instruction							
National School Lunch Program							
Federal Reimbursement (Elem)	10.555	N/A	N/A	-	3,255,922	3,255,922	-
Commodities (Elem)	10.555	N/A	N/A	133,747	246,528	267,196	113,079
<b>Total U. S. Department of Agriculture</b>				<u>133,747</u>	<u>3,502,450</u>	<u>3,523,118</u>	<u>113,079</u>
<b>Total Federal Awards</b>				<u>\$ 9,260,528</u>	<u>\$ 11,008,134</u>	<u>\$ 11,836,578</u>	<u>\$ 8,432,084</u>

See accompanying Notes to Schedule.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2017

**NOTE 1. REPORTING ENTITY**

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of Great Falls School District 1 & A, Cascade County, Great Falls, Montana. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Guidance Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The School District's reporting entity is defined in Note 1 to the School District's basic financial statements. Federal awards received directly from federal agencies as well as federal financial assistance passed through other government agencies are included in the schedule.

**NOTE 2. BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditure of Federal Awards is presented using the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. All federal awards received, cash and noncash, is included, as well as all federal awards expended or consumed. Such expenditures are recognized following the cost principles contained in the Uniform Guidance from Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Guidance Administrative Requirements, Subpart E Cost Principles*.

**NOTE 3. INDIRECT COSTS**

The District did not elect to use the 10% de minimis indirect cost rate from Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Guidance Administrative Requirements, Subpart E Cost Principles*.

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2017

**Summary of Auditor Results**

*Financial Statements:*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness identified? None

Significant deficiencies identified that are not considered  
to be material weaknesses? None reported

Noncompliance material to financial statements? No

*Federal Awards:*

Internal control over major programs:

Material weakness identified? None

Significant deficiencies identified that are not considered  
to be material weaknesses? None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported  
in accordance with 2 CFR 200.516(a)? None

The major programs for the year ended June 30, 2017, are as follows:

	<u>CFDA#</u>
Title I Part A/Schoolwide	84.010

Dollar threshold used to distinguish Type A programs: \$750,000

Auditee qualified as low-risk auditee? Yes

**Findings Relating to Financial Statements**

None

**Findings Relating to Federal Awards**

None

GREAT FALLS SCHOOL DISTRICT 1 & A  
CASCADE COUNTY  
STATUS OF PRIOR AUDIT FINDINGS  
June 30, 2017

Previously noted deficiencies of Great Falls School District 1 & A, Cascade County, Great Falls, Montana, and their current status are as follows:

Finding

Current Status of Recommendation

None

None



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