



Independent Auditor's Report and  
Financial Statements

**Ekalaka Public Schools**

Carter County  
Ekalaka, Montana  
June 30, 2017

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June 30, 2017

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## ORGANIZATION – BOARD OF TRUSTEES AND OFFICIALS

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For the Year Ended June 30, 2017

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### BOARD OF TRUSTEES

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Helen King  
Dennis Bishop  
Arnold Rychner  
Samantha Harris  
Cassidy Jespersion  
Jeff Elmore  
Tim McInerney

Chairman  
Vice Chairman  
Trustee  
Trustee  
Trustee  
Trustee  
Trustee

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### OFFICIALS

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Dan Schrock  
Lora Tauck  
Darcy Wassmann  
Tracey Walker  
Jesi Strub

District Superintendent  
District Clerk  
County Attorney  
County Superintendent of Schools  
County Treasurer

**INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Ekalaka Public Schools  
Carter County  
Ekalaka, 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 Ekalaka Public Schools, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Ekalaka Public Schools' basic financial statements as listed in the table of contents.

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

Ekalaka Public Schools' management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; 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 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 above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Ekalaka Public Schools, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States require that the budgetary comparison schedule, schedules of proportionate share of the net pension liability, and schedules of contributions 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 required supplementary information in accordance with auditing standards generally accepted in the United States, 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ekalaka Public Schools' basic financial statements. The combining balance sheet – general fund, combining schedule of revenues, expenditures and changes in fund balance – general fund, extracurricular fund – schedule of cash receipts, disbursements and changes in net position, and schedule of reported enrollment are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining balance sheet – general fund, combining schedule of revenues, expenditures and changes in fund balance – general fund, extracurricular fund – schedule of cash receipts, disbursements, and changes in net position, and schedule of reported enrollment 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the combining balance sheet – general fund, combining schedule of revenues, expenditures and changes in fund balance – general fund, extracurricular fund – schedule of cash receipts, disbursements and changes in net position, and schedule of reported enrollment are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2018 on our consideration of Ekalaka Public Schools' 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 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 Ekalaka Public Schools' internal control over financial reporting and compliance.

Wipfli LLP



Billings, Montana  
May 31, 2018

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## BASIC FINANCIAL STATEMENTS

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### Government-Wide Financial Statements:

#### STATEMENT OF NET POSITION

June 30, 2017

	<b>Governmental Activities</b>
<b>ASSETS:</b>	
Cash and cash equivalents	1,695,327
Taxes receivable	3,817
Inventories	70,516
Capital assets:	
Land	12,900
Other capital assets, net of depreciation	7,152,918
Total capital assets	<u>7,165,818</u>
Total assets	<u>8,935,478</u>
 <b>DEFERRED OUTFLOW OF RESOURCES</b>	
Pension contributions and related differences and changes	<u>251,599</u>
Total deferred outflow of resources	<u>251,599</u>

The accompanying notes are an integral part of these financial statements.



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## BASIC FINANCIAL STATEMENTS

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### STATEMENT OF NET POSITION - CONTINUED

June 30, 2017

<b>LIABILITIES:</b>	
Accounts payable	55,651
Long-term liabilities:	
Due within one year:	
Bond payable	540,000
Due in more than one year:	
Bond payable	3,510,000
Compensated absences	30,701
Net pension liability	1,424,080
Total liabilities	<u>5,560,432</u>
<b>DEFERRED INFLOW OF RESOURCES</b>	
Pension related differences and changes	<u>20,487</u>
Total deferred inflow of resources	<u>20,487</u>
<b>NET POSITION:</b>	
Net investment in capital assets	3,115,818
Restricted for:	
Compensated absences	391
Other fund activities	788,857
Capital projects	64,122
Debt Service	3,599
Unrestricted	<u>(366,629)</u>
Total net position	<u>3,606,158</u>

The accompanying notes are an integral part of these financial statements.

## BASIC FINANCIAL STATEMENTS

### STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

	Expenses	Program Revenue		Net (Expense) Revenue
		Charges for Services	Operating Grants	
<b>Primary government</b>				
Instruction:				
Regular programs	1,127,544	0	121,869	(1,005,675)
Special programs	61,982	0	17,321	(44,661)
Vocational programs	126,201	0	0	(126,201)
Adult Education	9,512	0	0	(9,512)
Traffic education	2,114	1,500	0	(614)
Supporting services	504,902	0	0	(504,902)
Operations and maintenance	405,289	0	0	(405,289)
Student transportation	238,346	0	123,697	(114,649)
Food services	124,253	25,307	46,982	(51,964)
Extracurricular	85,689	0	0	(85,689)
Interest on Long-term debt	105,338	0	0	(105,338)
Unallocated depreciation	21,931	0	0	(21,931)
Total governmental activities	<u>2,813,101</u>	<u>26,807</u>	<u>309,869</u>	<u>(2,476,425)</u>
<b>General revenues:</b>				
Property taxes				1,551,219
County retirement distribution				210,164
State aid				964,828
Interest				18,335
Miscellaneous				26,638
Special items:				
Insurance recoveries				26,457
Total general revenues				<u>2,797,641</u>
Change in net position				321,216
Net position - beginning				3,112,889
Prior period adjustment				172,053
Net position - beginning, restated				<u>3,284,942</u>
Net position - ending				<u>3,606,158</u>

The accompanying notes are an integral part of these financial statements.

## BASIC FINANCIAL STATEMENTS

### Fund Financial Statements:

#### BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2017

	General Fund	High School Bus Depreciation Fund	Elementary Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	890,748	404,772	1,852	397,955	1,695,327
Taxes receivable	1,427	109	1,747	534	3,817
Due from other funds	0	0	0	75,000	75,000
Inventories	70,516	0	0	0	70,516
Total assets	<u>962,691</u>	<u>404,881</u>	<u>3,599</u>	<u>473,489</u>	<u>1,844,660</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	55,651	0	0	0	55,651
Due to other funds	50,000	5,000	0	20,000	75,000
Total liabilities	<u>105,651</u>	<u>5,000</u>	<u>0</u>	<u>20,000</u>	<u>130,651</u>
Deferred inflows of resources:					
Unavailable tax revenues	1,427	109	1,747	534	3,817
Total deferred inflows of resources	<u>1,427</u>	<u>109</u>	<u>1,747</u>	<u>534</u>	<u>3,817</u>
Fund balances:					
Nonspendable					
Inventory	70,516	0	0	0	70,516
Restricted for:					
Compensated absences	0	0	0	391	391
Other fund activities	0	399,772	0	388,442	788,214
Capital projects funds	0	0	0	64,122	64,122
Debt service funds	0	0	1,852	0	1,852
Unassigned	785,097	0	0	0	785,097
Total fund balances	<u>855,613</u>	<u>399,772</u>	<u>1,852</u>	<u>452,955</u>	<u>1,710,192</u>
Total liabilities, deferred inflows of resources and fund balances	<u>962,691</u>	<u>404,881</u>	<u>3,599</u>	<u>473,489</u>	<u>1,844,660</u>

The accompanying notes are an integral part of these financial statements.

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## BASIC FINANCIAL STATEMENTS

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### RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2017

Total fund balance, governmental funds	1,710,192
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the statement	7,165,818
Property taxes receivable that are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the statement of net position.	3,817
Deferred outflow and inflow of resources are not current financial resources and therefore are no reported in this fund financial statement, but are reported in the governmental activities of the statement of net	231,112
Some liabilities such as compensated absences, bonds payable and net pension liability, are not included in the fund financial statement, but are included in the governmental activities of the statement of net position.	(5,504,781)
Net position of governmental activities in the statement of net position	<u><u>3,606,158</u></u>

The accompanying notes are an integral part of these financial statements.

## BASIC FINANCIAL STATEMENTS

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

For the Year Ended June 30, 2017

	General	High School Bus Depreciation Fund	Elementary Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Property taxes for general purposes	635,629	63,239	626,663	227,390	1,552,921
Tuition	0	0	0	1,500	1,500
Intergovernmental:					
County	0	0	0	278,254	278,254
State	824,875	10,755	0	114,350	949,980
Federal	0	0	0	168,755	168,755
Interest on investments	8,779	3,861	2,091	3,604	18,335
Food services	0	0	0	25,307	25,307
Other	6,607	0	0	20,031	26,638
Total revenues	<u>1,475,890</u>	<u>77,855</u>	<u>628,754</u>	<u>839,191</u>	<u>3,021,690</u>
<b>EXPENDITURES</b>					
Current:					
Instruction	801,533	0	0	256,919	1,058,452
Supporting services	307,954	0	0	159,363	467,317
Operations and maintenance	212,097	0	0	180,202	392,299
Student transportation	2,306	0	0	203,927	206,233
Food services	50,908	0	0	73,345	124,253
Extracurricular	79,422	0	0	6,267	85,689
Capital outlay	55,651	64,830	0	127,875	248,356
Debt Service	0	0	635,338	0	635,338
Total expenditures	<u>1,509,871</u>	<u>64,830</u>	<u>635,338</u>	<u>1,007,898</u>	<u>3,217,937</u>
Excess (deficiency) of revenues over expenditures	<u>(33,981)</u>	<u>13,025</u>	<u>(6,584)</u>	<u>(168,707)</u>	<u>(196,247)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from insurance recoveries	0	0	0	26,457	26,457
Transfers in	0	0	0	75,000	75,000
Transfers out	(50,000)	(5,000)	0	(20,000)	(75,000)
Total other financing sources and uses	<u>(50,000)</u>	<u>(5,000)</u>	<u>0</u>	<u>81,457</u>	<u>26,457</u>
Net change in fund balances	<u>(83,981)</u>	<u>8,025</u>	<u>(6,584)</u>	<u>(87,250)</u>	<u>(169,790)</u>
Fund balances - beginning	913,867	391,747	8,436	393,879	1,707,929
Prior period adjustment	25,727	0	0	146,326	172,053
Fund balances - beginning, as restated	<u>939,594</u>	<u>391,747</u>	<u>8,436</u>	<u>540,205</u>	<u>1,879,982</u>
Fund balances - ending	<u>855,613</u>	<u>399,772</u>	<u>1,852</u>	<u>452,955</u>	<u>1,710,192</u>

The accompanying notes are an integral part of these financial statements.

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## BASIC FINANCIAL STATEMENTS

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### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

Net change in fund balances - total governmental funds:	(169,790)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.	(265,923)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned.	(1,702)
Statement of activities reports expenses that the governmental funds do not and are not reported as expenditures in the governmental funds:	
Compensated absences expense	5,724
Pension expense, net of state on behalf payments	(25,449)
Governmental funds report expenses that the statement of activities does not and are not reported as expenditures in statement of activities:	
Capital outlays	248,356
Principal payments on debt	530,000
Change in net position of governmental activities	<u>321,216</u>

The accompanying notes are an integral part of these financial statements.

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## BASIC FINANCIAL STATEMENTS

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### STATEMENT OF FIDUCIARY NET POSITION AND CHANGES IN FIDUCIARY NET POSITION

For the Year Ended June 30, 2017

	<u>PRIVATE PURPOSE TRUST FUND</u>	<u>AGENCY FUND</u>
<b>ASSETS</b>		
Cash and cash equivalents	79,173	228,743
Total assets	<u>79,173</u>	<u>228,743</u>
<b>LIABILITIES</b>		
Warrants payable	0	224,952
Due to others	0	3,791
Total liabilities	<u>0</u>	<u>228,743</u>
<b>NET POSITION</b>		
Held in trust for student activities	66,361	0
Reserved for scholarships	12,812	0
Total net position	<u>79,173</u>	<u>0</u>
<b>CHANGE IN FIDUCIARY NET POSITION</b>		
<b>ADDITIONS</b>		
Revenue from student activities	113,055	
Contributions	2,050	
Interest	149	
Total additions	<u>115,254</u>	
<b>DEDUCTIONS</b>		
Expenses for student activities	103,418	
Scholarships	4,550	
Total deductions	<u>107,968</u>	
Change in net position	<u>7,286</u>	
Net position - beginning	218,213	
Prior period adjustment	(146,326)	
Net position - beginning, as restated	<u>71,887</u>	
Net position - ending	<u>79,173</u>	

The accompanying notes are an integral part of these financial statements.

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

#### Note A. Description of the School District and Reporting Entity

##### 1. Reporting Entity

Ekalaka Public Schools was established under Montana law to provide educational services below the college and university level to residents of the District. The District actually consists of two separate legal entities, high school and elementary districts. Accounting records of both districts must be maintained separately per State Law because of differences in funding and tax base. Each district is managed by a Board of Trustees, elected by the citizens and by a central administration appointed by and responsible to the Boards.

The criteria for including organizations within the District's reporting entity are set forth in Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity." This statement defines the financial reporting entity as the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the District. The District has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a component unit in the District's financial statements. In addition, the District is not aware of any entity that would exercise such financial accountability that would result in the District being considered a component unit of the entity.

Carter County provides substantial services to the District; tax billings, cash collections, debt payments and warrant redemption all flow through the office of the County Treasurer. This office also maintains the District's cash and invests funds at the direction of the District. The County Commissioners have the legal obligation to set levy amounts to finance the budget of the District, as directed by the Board of Trustees. Despite the degree of services rendered, the District has determined that neither Carter County nor any other outside agency meets the criteria set forth in the preceding paragraph and therefore, no other agency has been included as a component unit of the District's financial statements.

The District functions in a fiduciary capacity relating to the student extracurricular fund and scholarship fund.



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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

#### Note B. Summary of Significant Accounting Policies

The financial statements of Ekalaka Public Schools have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below:

##### 1. Basis of Presentation

###### a. Government-Wide Financial Statements

The statement of net position and the statement of activities show information about the overall financial position and activities of the District with the exception of the extracurricular and scholarship funds. The extracurricular fund, which accounts for the extracurricular activities of the District's students, and the scholarship fund, which accounts for scholarship activity, are reported as private purpose trust funds in the statement of fiduciary net position and changes in fiduciary net position.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to students or the public who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues.

###### b. Fund Financial Statements

The District uses funds to report on its financial position and results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate 'fund types.'

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category) for the determination of major funds.

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

#### 2. Governmental Funds

The District reports the following major governmental funds:

**General Fund** - The general fund is the general operating fund of the District. It accounts for resources traditionally associated with government operations which are not required to be accounted for in another fund. The District maintains the general fund to account for most of the instructional and administrative aspects of the District's operations and to account for repair and maintenance of District property.

**Elementary and High School Flex Fund** - The flex fund is authorized by section 20-9-505, MCA, for the purpose of accounting for activities of the district in non-operating status. The fund is established through residual equity transfers from all other funds except the debt service fund and the miscellaneous programs fund.

The general fund has been blended with the elementary and high school flex funds on the governmental fund financial statements for financial reporting purposes under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

**High School Bus Depreciation Fund** – The bus depreciation fund is authorized by Section 20-10-147, MCA, for the purpose of financing the replacement of buses and two-way radio equipment owned by a school district. Fund may be used to replace route buses or athletics/activities buses and to purchase additional yellow school buses for routes. However, the bus depreciation fund may not be used to purchase additional athletics/activities buses. Districts wishing to purchase these buses can do so from their general fund, extracurricular fund, or impact aid fund.

**Elementary Debt Service Fund** – The debt service fund is authorized by Section 20-9-438, MCA, for the purpose of paying interest and principal on outstanding bonds and special improvement district (SID) assessments. This fund is also used to account for the proceeds of bonds sold for the purposes provided in Section 20-9-43 (c) and (d), MCA, The debt service fund is a budgeted fund.

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

#### 3. Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee capacity for others and are therefore not available to support District programs. The reporting focus is on net position and changes in net position and are reported using generally accepted accounting principles similar to business in the private sector.

The District's fiduciary funds are presented in the statement of fiduciary net position and statement of changes in fiduciary net position by type (private purpose and agency). Because by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide financial statements.

#### 4. Basis of Accounting and Measurement Focus

##### a. Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

##### b. Fund Financial Statements

Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

The District recognizes property taxes as a receivable at the time an enforceable legal claim is established and considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Those revenues susceptible to accrual are property taxes, special assessments, grants, interest revenue, and charges for services. Capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The District reports unavailable revenue as deferred inflows of resources and advances from grantors as liabilities on its government-wide statement of net position and on its balance sheet - governmental funds. Unavailable revenues and advances from grantors arise when potential revenue does not meet both the 'measurable' and 'available' criteria for recognition in the current period. Unavailable revenues and advances from grantors also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to resources, the deferred inflow of resources for unavailable revenue and the liability for advances from grantors are removed from the balance sheet and revenue is recognized.

#### 5. Cash and Investments

Cash resources of the District for all funds other than the extracurricular fund, are combined with cash resources of other school districts within Carter County to form a pool of cash and cash equivalents that is managed by the Carter County Treasurer. Investments of the pooled cash consist primarily of certificates of deposit and repurchase agreements and are carried at cost, which approximates fair value. Among the instruments which state statutes authorize the District to invest in are 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 insured by the FDIC, FSLIC, or NCUA located in the state; in a repurchase agreement or Montana short-term investment pool. Interest income received as a result of pooling is distributed to the appropriate governmental entity utilizing a formula based on the respective entity's previous month's ending balance of cash and cash equivalents. The County Treasurer then distributes interest income to each fund utilizing a formula based on the fund's previous month's ending balance of cash and cash equivalents.

The District issues warrants in payment of its obligations. When the warrants are presented to the County Treasurer, the District's cash balance is reduced to pay the warrant. The cash and warrants payable for the payroll and claims clearing agency funds are netted for reporting purposes.

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

The cash and warrants payable in the payroll and claims clearing accounts are as follows:

	<u>Payroll Clearing</u>	<u>Claims Clearing</u>
Cash	<u>224,952</u>	<u>0</u>
Warrants payable	<u>224,952</u>	<u>0</u>

Information regarding the collateral and security for cash and cash equivalents is not available to the District. Montana state statute requires that collateral to secure deposits of public funds be held in direct obligations of the United States government or its agencies.

Extracurricular fund cash of \$70,989 at June 30, 2017, is held at Summit National Bank. The Summit National Bank balance is insured by the FDIC up to \$250,000.

#### 6. Inventories

Inventories are valued at the lower of cost or market using the first-in, first-out (FIFO) method.

#### 7. Capital Assets

Capital assets, including land, buildings, improvements, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an initial useful life of one year or more. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

Buildings, improvements, and equipment are depreciated using the straight-line depreciation method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	20 Years
Buildings and building improvements	15-50 Years
Machinery and equipment	7-25 Years

#### 8. Short-term Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as 'due from other funds' or 'due to other funds' on the balance sheet.

#### 9. Compensated Absences

All full-time District employees accumulate vacation and/or sick leave hours for later use or for payment upon termination, death or retirement. Vacation and sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the District will compensate the employees for the benefits through paid time off or some other means. The compensated absence liability fund is used to pay the accumulated vacation and/or sick leave of a non-teaching employee upon termination, death or retirement. Such reserve may not exceed 30% of the District's recorded liability for accumulated sick leave and 30% of accumulated vacation leave for non-teaching or administrative employees.

#### 10. Pensions

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the State of Montana's Teachers Retirement System and the State of Montana's Public Employee Retirement System 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, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

#### 11. Deferred Outflow of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflow of resources, represents an expenditure of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditures) until that time. The District has only one type of item, which arises only under the accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, pension contributions and related differences and changes, is reported in the government-wide statement of net position. This amount is deferred and recognized as an outflow of resources in the period that the plans recognize the contributions and related differences and changes.

#### 12. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of items, one which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable tax revenue, is reported in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The second relates to the differences and changes related to investment returns and assumptions in the Teachers Retirement System of Montana and the Montana Public Employee Retirement System which is reported in the government-wide statement of net position. The amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

#### 13. Fund Balances

The Governmental Accounting Standards Board (GASB) has issued Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*, requires the fund balance amounts to be reported within one of the fund balance categories listed below.

**Nonspendable** - Amounts that cannot be spent because they are either (1) not in spendable form (e.g. inventories and prepaid amounts) or (2) legally or contractually required to be maintained intact (e.g. the corpus or principal of a permanent fund).

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

**Restricted** – Amounts that can be spent only for a specific purpose pursuant to state law, enabling legislation, grant agreement, or donor agreement.

**Committed** – Amounts that can be used only for specific purposes determined by a formal action of the School District’s Board of Trustees (the District’s highest level of decision making authority).

**Assigned** – Amounts that are intended to be used by the government for specific purposes under the direction of the District Clerk by authority granted by the Board of Trustees.

**Unassigned** – The residual classification for the government’s general fund that includes all amounts that are not contained in the other classifications.

It is the District’s policy that for purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance.

Encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. All encumbrances are classified as either assigned fund balance or committed fund balance. At June 30, 2017, there were no encumbrances.

#### 14. Net Position

Net position represents the residual of assets plus deferred outflows less liabilities and deferred inflows. Net investment in capital assets, represents net position in the form of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District’s policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

#### 15. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.



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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

#### 16. Date of Management Review

Management has evaluated the activities and transactions subsequent to June 30, 2017 to determine the need for any adjustments to and/or disclosure within the audited financial statements for the year ended June 30, 2017. Management has performed this evaluation through May 31, 2018, the date the financial statements were available to be issued. There were no subsequent events identified by management that are required to be disclosed.

#### Note C. Property Taxes

Property taxes are collected by Carter County who remits to the District their respective share of the collections. The 2016 property tax levy, which was perfected and became a receivable in October 2016, was levied to finance District operations during the year ended June 30, 2017. The tax levy was collectible in November 2016 and May 2017. As of May 31, 2017 uncollected property taxes became delinquent. Property taxes are attached as an enforceable lien on the underlying property. After a period of three years, Carter County, the collecting agent, may begin foreclosure proceedings and sell the property at auction. The District receives its share of the sale proceeds from Carter County. All property taxes are recognized in compliance with GASB interpretation "Property Tax Revenue Recognition in Government Funds," which states that such revenue is recorded when it becomes measurable and available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

#### Note D. Capital Assets

A summary of changes in capital assets for the year ended June 30, 2017 is as follows:

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2017</u>
Governmental Activities				
CAPITAL ASSETS BEING DEPRECIATED AT COST:				
Land improvements	175,633	32,420	0	208,053
Buildings and improvements	8,246,595	55,651	0	8,302,246
Machinery and equipment	1,134,131	160,285	295,469	998,947
	<u>9,556,359</u>	<u>248,356</u>	<u>295,469</u>	<u>9,509,246</u>
OTHER CAPITAL ASSETS:				
Land	12,900	0	0	12,900
	<u>12,900</u>	<u>0</u>	<u>0</u>	<u>12,900</u>
Total	<u>9,569,259</u>	<u>248,356</u>	<u>295,469</u>	<u>9,522,146</u>
LESS ACCUMULATED DEPRECIATION FOR:				
Land improvements	7,947	9,338	0	17,285
Buildings and improvements	1,473,178	199,776	0	1,672,954
Machinery and equipment	904,749	56,809	295,469	666,089
Total accumulated depreciation	<u>2,385,874</u>	<u>265,923</u>	<u>295,469</u>	<u>2,356,328</u>
Total	<u>7,183,385</u>			<u>7,165,818</u>

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

Depreciation expense was allocated as follows:

Instruction	198,889
Operations & maintenance	12,990
Student transportation	32,113
Unallocated	21,931
Total depreciation expense	<u>265,923</u>

#### Note E. Long-Term Liabilities

The following is a summary of changes in current and long-term obligations for the year ended June 30, 2017:

	July 1, 2016	Additions	Reductions	June 30, 2017	Due Within One Year	Due Within More Than One Year
Bond payable	4,580,000	0	530,000	4,050,000	540,000	3,510,000
Compensated absences payable	36,425	0	5,724	30,701	0	30,701
Net pension liability	1,250,508	173,572	0	1,424,080	0	1,424,080
Total	<u>5,866,933</u>	<u>173,572</u>	<u>535,724</u>	<u>5,504,781</u>	<u>540,000</u>	<u>4,964,781</u>

The current portion of compensated absences has not been separately stated due to the indeterminable nature of the liability. The compensated absences liability will be liquidated by several of the governmental funds.

The elementary district issued a general obligation school building bond, series 2014, September 26, 2014. The amount of the bond issued was \$5,600,000 for the purpose of building a new elementary school.

The first principal payment was due July 1, 2015, and annually thereafter, with the final payment due July 1, 2024. The principal payments range from \$500,000 to \$620,000. Interest is due semi-annually starting January 1, 2015. Interest rate on the bond range from 2.000% to 2.625%. Starting July 1, 2019 the bonds may be called paying par value plus accrued interest.

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

Future bond obligations are as follows:

Year	Principal	Interest	Total
2018	540,000	94,388	634,388
2019	550,000	83,587	633,587
2020	565,000	72,588	637,588
2021	580,000	58,462	638,462
2022	590,000	45,413	635,413
Thereafter	1,225,000	47,675	1,272,675
Total	<u>4,050,000</u>	<u>402,113</u>	<u>4,452,113</u>

#### Note F. Employee Benefit Pension Plans

##### 1 Teachers Retirement System of Montana

###### a. Plan Description

Teachers' Retirement System (TRS or the System) 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).

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

#### b. 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)
- 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 1. 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.

#### c. 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 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 State and University Employers. Finally, the State is also required to contribute \$25 million in perpetuity payable July 1st of each year.

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

The following tables show the history of legislated contributions for TRS members, employers and the State.

#### School District and Other Employers

	<u>Members</u>	<u>Employers</u>	<u>General Fund</u>	<u>Total Employee &amp; Employer</u>
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%

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

#### State and University Employers

	<u>Members</u>	<u>Employers</u>	<u>General Fund</u>	<u>Total Employee &amp; Employer</u>
Prior to July 1, 2007	7.15%	7.47%	0.11%	14.73%
July 1, 2007 to June 30, 2009	7.15%	9.47%	0.11%	16.73%
July 1, 2009 to June 30, 2013	7.15%	9.85%	0.11%	17.11%
July 1, 2013 to June 30, 2014	8.15%	10.85%	0.11%	19.11%
July 1, 2014 to June 30, 2015	8.15%	10.95%	0.11%	19.21%
July 1, 2015 to June 30, 2016	8.15%	11.05%	0.11%	19.31%
July 1, 2016 to June 30, 2017	8.15%	11.15%	0.11%	19.41%
July 1, 2017 to June 30, 2018	8.15%	11.25%	0.11%	19.51%
July 1, 2018 to June 30, 2019	8.15%	11.35%	0.11%	19.61%
July 1, 2019 to June 30, 2020	8.15%	11.45%	0.11%	19.71%
July 1, 2020 to June 30, 2021	8.15%	11.55%	0.11%	19.81%
July 1, 2021 to June 30, 2022	8.15%	11.65%	0.11%	19.91%
July 1, 2022 to June 30, 2023	8.15%	11.75%	0.11%	20.01%
July 1, 2023 to June 30, 2024	8.15%	11.85%	0.11%	20.11%

#### d. 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>.

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

#### e. Actuarial Assumptions

The total pension liability 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 total pension liability. 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 increase\*                                      4%-8.51% for non-university members and 5% for university members
- Investment return    7.75%
- Price inflation    3.25%
- Postretirement Benefit Increases
  - Tier One Members: If the retiree has received benefits for the 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 .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 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.

\*Total wage Increases include 4.00% general wage increase assumption.



## BASIC FINANCIAL STATEMENTS

### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

#### f. Discount Rate

The discount rate used to measure the total pension liability 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.

#### g. Target Allocations

Asset Class	Target Asset Allocation (a)	Real Rate of Return Arithmetic Basis (b)	Long-Term Expected Portfolio Real Rate of Return* (a) x (b)
Broad US 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%
	100.00%		4.75%
		Inflation	3.25%
		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%.

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

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.

#### h. Sensitivity Analysis

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
The District's proportionate share of net pension liability	1,469,457	1,095,202	780,121

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability 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.

## BASIC FINANCIAL STATEMENTS

### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

#### i. 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 net pension liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position of the Teachers' Retirement System (TRS) 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>

#### j. 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. 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 net pension liability that is associated with the employer. The following table displays the amounts and the percentages of net pension liability for the fiscal years ended June 30, 2017 and June 30, 2016 (reporting dates).

	Net Pension Liability as of 6/30/2017	Net Pension Liability as of 6/30/2016	Percent of Collective NPL As of 6/30/2017	Percent of Collective NPL As of 6/30/2016	Change in Percent of Collective NPL
The District's proportionate share	1,095,202	979,410	0.0600%	0.0596%	0.0004%
State of Montana proportionate share associated with the District	716,845	663,044	0.0392%	0.0404%	-0.0012%
Total	<u>1,812,047</u>	<u>1,642,454</u>	<u>0.0992%</u>	<u>0.1000%</u>	<u>-0.0008%</u>

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

At June 30, 2017, The District recorded a liability of \$1,095,202 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. Therefore, no update procedures were used to roll forward the total pension liability to the measurement date. The District's proportion of the net pension liability was based on the District'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 0.0600 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.

**Change in proportionate share:** There were no changes between the measurement date of the collective net pension liability and the reporting date. However, each employer may have unique circumstances that will impact the employer's proportionate share of the collective net pension liability. Ekalaka Public Schools experienced no changes that are expected to have an impact on the net pension liability.

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

#### k. Pension Expense

	<u>Pension Expense as of 6/30/2017</u>
The District's proportionate share	92,626
State of Montana's proportionate share associated with the District	<u>52,180</u>
Total	<u><u>144,806</u></u>

At June 30, 2017, the District recognized pension expense of \$144,806 for its proportionate share of the TRS' pension expense. The District also recognized grant revenue of \$52,180 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the District.

#### l. Deferred Inflows and Outflows

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	5,856	2,328
Changes in actuarial assumptions	6,970	6,884
Difference between projected and actual investment earnings	70,526	0
Changes in proportion & differences between actual and expected contributions	28,822	10,186
*Contributions paid to TRS subsequent to the measurement date - FY 2017 contributions	71,932	0
Total	<u>184,106</u>	<u>19,398</u>

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

\*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.

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 Inflow of Resources (b)	Amount recognized in Pension Expense as an increase or (decrease) in Pension Expense (a-b)
2018	29,913	10,766	19,147
2019	18,059	4,960	13,099
2020	38,885	3,672	35,213
2021	25,316	0	25,316
2022	0	0	0
Thereafter	0	0	0

## 2 Montana Public Employee Retirement System

### a. 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 benefit and defined contribution 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.

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

#### b. 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 service;
  - Age 70, regardless of membership service.

##### 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.

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

#### 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.

#### 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 members benefit.

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and July 30, 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.



## BASIC FINANCIAL STATEMENTS

### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

#### c. 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 &	Local Governments		School Districts	
	Hired <7/01/11	Hired >7/01/11	Universities Employer	Employer	State	Employer	State
2017	7.900%	7.900%	8.470%	8.370%	1.000%	8.100%	0.370%
2016	7.900%	7.900%	8.370%	8.270%	0.100%	8.000%	0.370%
2015	7.900%	7.900%	8.270%	8.170%	0.100%	7.900%	0.370%
2014	7.900%	7.900%	8.170%	8.070%	0.100%	7.800%	0.370%
2012-2013	6.900%	7.900%	7.170%	7.070%	0.100%	6.800%	0.370%
2010-2011	6.900%		7.170%	7.070%	0.100%	6.800%	0.370%
2008-2009	6.900%		7.035%	6.935%	0.100%	6.800%	0.235%
2000-2007	6.900%		6.900%	6.800%	0.100%	6.800%	0.100%

- 1) Members’ 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.
- 2) Employer contribution to the system:
  - a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% per 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 the 25 years following the reduction of both the additional employer and member contribution 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 Plan Choice Rate (PCR), that directed a portion of the employer contributions for DC members to defund benefit plan, are included in the employer reporting. The PCR was paid off effective March 2016 and contributions previously directed to the PCR are now directed to member accounts.

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

- 3) Non Employer Contributions;
  - a. Special Funding
    - i. The State contributed 0.1% of members' compensation on behalf of local government entities.
    - ii. The State contributed 0.37% of members' compensation on behalf of school district entities.
  - b. Not Special Funding
    - i. The State contributed a portion of Coal Severance Tax income and earnings from the Coal Severance Tax fund.

#### d. Stand-Alone Statements

The financial statements of the Montana Public Employees Retirement Board (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>.

#### e. Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by taking the results of the June 30, 2016 actuarial valuation and applying standard roll forward procedures to update the total pension liability to June 30, 2017. There were several significant assumptions and other inputs used to measure the total pension liability. 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. Among those assumptions were the following:

- |  |             |
|--|-------------|
| • Investment Return (net of admin expense) | 7.75%       |
| • Admin Expense as % of Payroll            | 0.27%       |
| • General Wage Growth*                     | 4.00%       |
| *includes inflation at                     | 3.00%       |
| • Merit Increase                           | 0% to 6.00% |
| • Postretirement Benefit Increases         |             |

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

#### **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% 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 were 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 improvement is assumed.

#### **f. Discount Rate**

The discount rate used to measure the total pension liability 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 established the contractually required rates under Montana Code Annotated. The State contributed 0.1% of salaries paid by local governments and 0.37% paid by school districts. In addition, the State contributed 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 total pension liability. A municipal bond rate was not incorporated in the discount rate.

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

#### g. Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the Plan. The experience study, performed for the period of fiscal years 2003 through 2009, was outlined in a report dated June 2010 and is located on the MPERA website. 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 by 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 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, 2017 are summarized below.

<u>Asset Class</u>	<u>Target Asset Allocation (a)</u>	<u>Real Rate of Return Arithmetic Basis (b)</u>	<u>Long term Expected Real Rate of Return (a x b)</u>
Cash Equivalents	2.60%	4.00%	0.10%
Domestic Equity	36.00%	4.55%	1.64%
Foreign Equity	18.00%	6.35%	1.14%
Fixed Income	23.40%	1.00%	0.23%
Private Equity	12.00%	7.75%	0.93%
Real Estate	8.00%	4.00%	0.32%
Total	<u>100.00%</u>		<u>4.37%</u>
		Inflation	<u>3.00%</u>
		Portfolio Return Expectation	<u>7.37%</u>

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

#### h. Sensitivity Analysis

The sensitivity of the net pension liability 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 net pension liability was calculated using the discount rate of 7.75%, as well as what the net pension liability 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 portion of net pension liability	477,225	328,878	201,090

#### i. Summary of Significant Accounting Policies

The Montana Public Employee Retirement Administration (MPERA) prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the net pension liability; 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. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

#### j. Net Pension Liability

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, 2017, was determined by taking the results of the June 30, 2016 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.

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

#### **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.

The proportionate shares of the District's and the state of Montana's NPL for June 30, 2017, and 2016, are displayed below. 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 \$328,878 and the District's proportionate share was 0.0193 percent.

	Net Pension Liability as of 6/30/2017	Net Pension Liability as of 6/30/2016	Percent of Collective NPL as of 6/30/17	Percent of Collective NPL as of 6/30/16	Change in Percent of Collective NPL
The District's proportionate share	328,878	271,097	0.0193%	0.0194%	-0.0001%
State of Montana proportionate share associated with employer	15,370	12,739	0.0009%	0.0009%	0.0000%
Total	<u>344,248</u>	<u>283,836</u>	<u>0.0202%</u>	<u>0.0203%</u>	<u>-0.0001%</u>

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

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

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

**Changes proportionate share:** Between the measurement date of the collective net pension liability 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 net pension liability since the previous measurement date.

#### k. Pension Expense

	Pension Expense as of 6/30/2017	Pension Expense as of 6/30/2016
The District's proportionate share	28,642	17,063
State of Montana proportionate share associated with the District	1,288	792
State of Montana Coal Tax for District	5,762	6,506
Total	35,692	24,361

At June 30, 2017, the District recognized \$28,642 for its proportionate share of the Plan's pension expense and recognized grant revenue of \$1,288 for the state of Montana proportionate share of the pension expense associated with the District. Additionally, the District recognized grant revenue of \$5,762 from the Coal Severance Tax fund.

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

#### I. Recognition of Deferred Inflows and Outflows

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. expected experience	1,775	1,089
Projected investment earnings vs actual investment earnings	30,941	0
Changes in assumptions	0	0
Changes in proportion and differences between District contributions and proportionate share of contributions	11,070	0
District contributions subsequent to the measurement date - FY 2017 contributions	23,707	0
Total	67,493	1,089

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 recognized in Pension Expense as an increase or (decrease) in Pension Expense
2018	1,498
2019	1,498
2020	17,583
2021	11,048
2022	0
Thereafter	0



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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

**m. 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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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

#### **Note G. Risk Management**

The District is exposed to a considerable number of risks of loss, including: (1) damage to and loss of property and contents, (2) employee torts, (3) professional liability (e.g. errors and omissions), (4) environmental damage, (5) workers' compensation, (e.g. employee injuries), (6) and medical insurance costs of employees. Commercial policies transferring the risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, employee torts, and professional liabilities. Given the lack of coverage available, the District has no coverage for potential losses from environmental damages.

Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years, except for property and content coverage where the guaranteed values have been increased to approximate replacement cost of the assets. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years. The District is a participant in the Montana Schools Group Insurance Authority (MSGIA), Workers' Compensation Risk Retention Program, a public entity risk pool governed by schools for the benefit of schools and educational cooperatives located within the State of Montana. The District pays premiums on an experience-rated basis calculated actuarially to spread and moderate the costs of claims loss to each member of the pool. If the MSGIA experiences an unusually large number of losses under the workers' compensation programs during a policy year, such that notwithstanding reinsurance coverage for large individual losses, the joint insurance funds for the program may be exhausted before the next annual premiums are due, the Board of Trustees may, upon consultation with an actuary, impose premium surcharges on all participating entities, which, in total amount, will assure adequate funds to the MSGIA for the payment of all such losses.

The District is also a participant in the Montana Schools Unemployment Insurance Program (MSUIP), sponsored by the Montana School Boards Association and the Montana Association of School Business Officials, for the benefit of schools and cooperatives located within the State of Montana. The program was created pursuant to the Montana Interlocal Cooperation Act by execution of an Interlocal Agreement. The program is responsible for reimbursing the Department of Labor for all valid unemployment benefit claims of the member school districts. Each member of the program is jointly and severally liable for the full amount of any and all known or unknown claims of each member arising during the member's participation in the program.

#### **Note H. Non-Monetary Transactions**

The District received \$7,290 in USDA Commodities during the 2016-2017 fiscal year. The commodities received are valued at the average wholesale price as determined by the distributing agency. All commodities received by the District were treated as revenue and an expense of the fund receiving the commodities.

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2017

#### **Note I. Resource Transfers**

During the year ended June 30, 2017, the District made resource transfers of \$50,000 from the general fund, to the high school building reserve fund to finance building maintenance. The District also made resource transfers of \$5,000, and \$20,000 from high school bus depreciation, and remaining aggregate funds, respectively, to the high school interlocal agreement fund pursuant to Montana code annotated section 20-9-704.

#### **Note J. Contingent Liabilities**

The District participates in a number of federally assisted grant programs that are subject to audit and adjustment by the grantors. Such grantor audits of these programs, if any, for or including the year ended June 30, 2017, have not yet been conducted. Accordingly, the District's compliance with applicable grant requirements for those programs if audited by grantor agencies will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

#### **Note K. Prior Period Adjustment**

During the year ended June 30, 2017, it was determined that the prior year audit report incorrectly included the interlocal agreement fund activity in the fiduciary fund financial statement. To correctly present the interlocal agreement fund, which is a governmental fund due to the purpose of the fund, a prior period adjustment was made to remove the prior fund balance and net position from the fiduciary fund financial statement and to add it to the government-wide and fund financial statements. The overall effect of this adjustment was to remove \$146,326 from net position on the statement of fiduciary net position and changes in net position and to add this amount to the net position on the government-wide statement of activities and to the fund balance on the statement of revenues, expenditures, and change in fund balances – governmental funds.

In addition, in the prior year the elementary general funds inventory was excluded from the report and a prior period adjustment was made to the prior fund balance in the elementary general fund on the government-wide and fund financial statements. The overall effect of this adjustment was to increase government-wide net position by \$25,727 in the statement of activities to account for the total inventory and the change that should have been booked in the prior year. On the elementary general fund, fund balance was increased by \$25,727, the amount that was excluded from the prior year on the statement of revenues, expenditures, and change in fund balances – governmental funds.



**REQUIRED SUPPLEMENTAL INFORMATION**

**Ekalaka Public Schools**

Carter County  
Ekalaka, Montana  
June 30, 2017

## REQUIRED SUPPLEMENTAL INFORMATION

### BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2017

	GENERAL FUND		ELEMENTARY FLEX FUND		HIGH SCHOOL FLEX FUND	
	ORIGINAL AND FINAL		ORIGINAL AND FINAL		ORIGINAL AND FINAL	
	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL
<b>REVENUES</b>						
Taxes	637,951	635,629	0	0	0	0
Intergovernmental revenues						
State	732,378	805,188	10,949	10,949	8,738	8,738
Interest on investments	1,059	2,090	0	2,044	0	4,645
Other revenue	0	5,721	0	881	0	5
Total revenues before reappropriations	<u>1,371,388</u>	<u>1,448,628</u>	<u>10,949</u>	<u>13,874</u>	<u>8,738</u>	<u>13,388</u>
Budgeted reappropriations	45,491		219,997		493,209	
Total revenues and reappropriations	<u>1,416,879</u>		<u>230,946</u>		<u>501,947</u>	
<b>EXPENDITURES</b>						
Current:						
Instruction	1,416,879	777,690	230,946	7,174	501,947	16,669
Supporting services	0	303,722	0	684	0	3,548
Operations and maintenance	0	189,048	0	12,098	0	10,951
Student transportation	0	1,665	0	0	0	641
Food services	0	44,060	0	0	0	6,848
Extracurricular	0	79,422	0	0	0	0
Capital outlay	0	0	0	0	0	55,651
Total expenditures	<u>1,416,879</u>	<u>1,395,607</u>	<u>230,946</u>	<u>19,956</u>	<u>501,947</u>	<u>94,308</u>
Excess (deficiency) of revenues over expenditures	<u>0</u>	<u>53,021</u>	<u>0</u>	<u>(6,082)</u>	<u>0</u>	<u>(80,920)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Resource transfers in (out)		(50,000)		0		0
Total other financing sources (uses)		<u>(50,000)</u>		<u>0</u>		<u>0</u>
Excess (deficiency) of revenues and other sources over expenditures		3,021		(6,082)		(80,920)
Fund balances, beginning (Non-GAAP budgetary basis)		200,661		219,997		493,209
Prior period adjustment		25,727		0		0
Fund balance, beginning, restated, (Non GAAP budgetary basis)		<u>226,388</u>		<u>219,997</u>		<u>493,209</u>
Fund balances, ending (Non-GAAP budgetary basis)		<u>229,409</u>		<u>213,915</u>		<u>412,289</u>
Adjustments to generally accepted accounting principles						
Current year encumbrances included in expenditures		0		0		0
Fund balances, ending (GAAP basis)		<u>229,409</u>		<u>213,915</u>		<u>412,289</u>

See independent auditor's report.

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## REQUIRED SUPPLEMENTAL INFORMATION

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### BUDGETARY COMPARISON SCHEDULE - CONTINUED

For the Year Ended June 30, 2017

	HIGH SCHOOL BUS DEPRECIATION	
	ORIGINAL AND FINAL BUDGET	ACTUAL
REVENUES		
Taxes	63,339	63,239
Intergovernmental revenues		
State	0	10,755
Interest on investments	0	3,861
Total revenues before reappropriations	63,339	77,855
Budgeted reappropriations	391,747	
Total revenues and reappropriations	455,086	
EXPENDITURES		
Current:		
Capital outlay	455,086	64,830
Debt service	0	0
Total expenditures	455,086	64,830
Excess (deficiency) of revenues over expenditures	0	13,025
OTHER FINANCING SOURCES (USES)		
Resource transfers in (out)		(5,000)
Total other financing sources (uses)		(5,000)
Special Item		
Excess (deficiency) of revenues and other sources over expenditures		8,025
Fund balances, beginning (Non-GAAP budgetary basis)		391,747
Fund balances, ending (Non-GAAP budgetary basis)		399,772
Adjustments to generally accepted accounting principles		
Current year encumbrances included in expenditures		0
Fund balances, ending (GAAP basis)		399,772

See independent auditor's report.

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## REQUIRED SUPPLEMENTAL INFORMATION

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### NOTES TO BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2017

#### 1. Budgetary Process

State Law requires that the District adopt budgets for certain funds, generally those supported by property taxes. Budgeted and non-budgeted funds are as follows:

<u>Fund</u>	<u>Budgeted</u>	<u>Non-Budgeted</u>
Governmental Funds		
General	X	
Transportation	X	
Bus Depreciation	X	
School Food Services		X
Tuition	X	
Retirement	X	
Miscellaneous Programs		X
Adult Education	X	
Traffic Education		X
Lease rental		X
Compensated Absences		X
Impact Aid		X
Technology	X	
Flex Fund	X	
Interlocal		X
Debt Service	X	
Building		X
Building Reserve	X	
Endowment		X
Fiduciary Funds		
Extracurricular		X
Scholarship Fund		X
Payroll Clearing		X
Claims Clearing		X
Retirement/Cobra		X

See independent auditor's report.

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## REQUIRED SUPPLEMENTAL INFORMATION

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### NOTES TO BUDGETARY COMPARISON SCHEDULE - CONTINUED

For the Year Ended June 30, 2017

The District's budget is prepared on the modified accrual basis of accounting, including encumbrances, which results in the accounting for certain transactions to be on a basis other than accounting principles generally accepted in the United States (modified accrual). The District's accounting records are maintained on the basis of cash receipts and disbursements during the year. At year end, certain adjustments are made to the District's accounting records to reflect the basis of accounting described above. Reported budget amounts represent the originally adopted budget. Total fund expenditures may not legally exceed the budgeted expenditures. The budget lapses at the end of each year. The results of operations, on the budget basis of accounting, described above, are presented in the budgetary comparison schedule to provide a meaningful comparison of actual results with the budget.

General fund budgets are based on the State of Montana's Foundation Program, which is based primarily on enrollment. Budgets of other funds are based on expected revenues and expenditures. Budgeted fund expenditures are limited by State Law to budgeted amounts which may be amended for emergencies as defined by State Law. Budget authority may be transferred between expenditure classifications within the same fund.

#### 2. Budgetary policy follows:

- By the second Monday in July, the County Assessor transmits a statement of the assessed valuation and taxable valuation of all property to the County Superintendent of Schools.
- Before the second Monday in August, the County Superintendent estimates revenue by fund and provides this information to the Board of Trustees prior to the final budget meeting.
- On the second Monday in August, the Board of Trustees must meet to legally adopt the final budget. This budget is adopted consistent with the District's basis of accounting, except for encumbrances discussed below.
- Upon adoption of the final budget, expenditures and operating transfers are limited to the total fund budget. Unexpended and unencumbered appropriations lapse at year end. Under State Law and District Policy, management may amend the budget without seeking Board approval as long as the total individual fund budget is not exceeded.
- Individual fund budgets may only be increased with Board approval, in a manner prescribed by State Law (MCA 20-9-161 through MCA 20-9-166).

See independent auditor's report.



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## REQUIRED SUPPLEMENTAL INFORMATION

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### NOTES TO BUDGETARY COMPARISON SCHEDULE - CONTINUED

For the Year Ended June 30, 2017

Encumbrances outstanding at year-end represent the estimated amount of expenditures ultimately to result if unperformed purchase orders or contracts in process at year-end were completed. They do not constitute expenditures or liabilities, and will not until performance is essentially complete. The District has no encumbrances at June 30, 2017.

See independent auditor's report.

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## REQUIRED SUPPLEMENTAL INFORMATION

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### SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - TEACHERS RETIREMENT SYSTEM OF MONTANA

For the Year Ended June 30, 2017

Determined as of the measurement date

	2017	2016	2015
District's proportion of net pension liability	0.0600%	0.0596%	0.0555%
District's proportionate share of the net pension liability associated with the District	1,095,202	979,410	853,693
State of Montana's proportionate share of the net pension liability associated with the District	716,845	663,044	587,324
Total	1,812,047	1,642,454	1,441,017
District's covered payroll	778,106	760,863	699,604
District's proportionate share of the net pension liability as a percentage of its covered payroll	140.75%	128.72%	122.03%
Plan fiduciary net position as a percentage of the total pension liability	66.69%	69.30%	70.36%

The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See independent auditor's report.

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## REQUIRED SUPPLEMENTAL INFORMATION

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### SCHEDULE OF CONTRIBUTIONS - TEACHERS RETIREMENT SYSTEM OF MONTANA

For the Year Ended June 30, 2017

Determined as of the reporting date

	2017	2016	2015
Contractually required contributions	71,932	67,468	65,204
Contributions in relation to the contractually required contributions	71,932	67,468	65,204
Contribution deficiency (excess)	0	0	0
District's covered payroll	820,212	778,106	760,863
Contributions as a percentage of covered payroll	8.77%	8.67%	8.57%

The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See independent auditor's report.

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## REQUIRED SUPPLEMENTAL INFORMATION

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### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - TEACHERS RETIREMENT SYSTEM OF MONTANA

For the Year Ended June 30, 2017

#### Changes of Benefit Terms:

The following changes to the plan provision 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 benefits structure for members hired on or after July 1, 2013 is summarized below.

- **Final Average Compensation:** average of earned compensation paid in five consecutive years of full-time service that yields the highest average.
- **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.
- **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.
- **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%.
- **Annual Contribution:** 8.15% of member's earned compensation.
- **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:
  - The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and
  - The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and
  - 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.
- **Disability Retirement:** A member will not be eligible for a disability retirement if the member is or will eligible for a service retirement on the date of termination.

See independent auditor's report.

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## REQUIRED SUPPLEMENTAL INFORMATION

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### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – TEACHERS RETIREMENT SYSTEM OF MONTANA - CONTINUED

For the Year Ended June 30, 2017

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

- 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:**

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

- The normal cost method has been updated to align to 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 cost over future compensation.

See independent auditor’s report.

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## REQUIRED SUPPLEMENTAL INFORMATION

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### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – TEACHERS RETIREMENT SYSTEM OF MONTANA - CONTINUED

For the Year Ended June 30, 2017

The following changes to the actuarial assumption 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.
- 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 assumption 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 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.

See independent auditor’s report.

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## REQUIRED SUPPLEMENTAL INFORMATION

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### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – TEACHERS RETIREMENT SYSTEM OF MONTANA - CONTINUED

For the Year Ended June 30, 2017

**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
Salary increase	4.00% to 8.51%, including inflation for non-university members and 5.00% for university members;
Investment rate of return	7.75%, net of pension plan investment expense, and including Inflation

See independent auditor's report.

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**REQUIRED SUPPLEMENTAL INFORMATION**

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**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - MONTANA PUBLIC EMPLOYEES RETIREMENT SYSTEM**

For the Year Ended June 30, 2017

Determined as of the measurement date

	2017	2016	2015
District's proportion of net pension liability (percentage)	0.0193%	0.0194%	0.0182%
District's proportionate share of the net pension liability (amount)	328,877	271,097	226,314
State of Montana's proportionate share of the net pension liability associated with the District (amount)	15,370	12,739	10,579
Total	344,247	283,836	236,893
District's covered payroll	239,078	234,004	218,875
District's proportionate share of the net pension liability as a percentage of its covered payroll	137.56%	115.85%	111.22%
Plan fiduciary net position as a percentage of the total pension liability	74.71%	78.40%	79.87%

The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See independent auditor's report.



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## REQUIRED SUPPLEMENTAL INFORMATION

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### SCHEDULE OF CONTRIBUTIONS - MONTANA PUBLIC EMPLOYEES RETIREMENT SYSTEM

For the Year Ended June 30, 2017

Determined as of the reporting date

	2017	2016	2015
Contractually required contributions	23,707	21,159	21,459
Contributions in relation to the contractually required contributions	23,707	21,159	21,459
Contribution deficiency (excess)	0	0	0
District's covered payroll	292,683	239,078	234,004
Contributions as a percentage of covered payroll	8.10%	8.85%	9.17%

The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See independent auditor's report.

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## REQUIRED SUPPLEMENTAL INFORMATION

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### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – MONTANA PUBLIC EMPLOYEES RETIREMENT SYSTEM

For the Year Ended June 30, 2017

#### 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) – for PERS

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

- 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.

See independent auditor's report.

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## REQUIRED SUPPLEMENTAL INFORMATION

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### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – MONTANA PUBLIC EMPLOYEES RETIREMENT SYSTEM - CONTINUED

For the Year Ended June 30, 2017

- 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.
- 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.
- 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;
  - 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 Defined Contribution Plan** – for PERS and MUS-RP

The PCR was paid off effective March 2016 and the contributions of 2.37%, 0.47% and the 1.0% increase previously directed to PCR are now directed to the Defined Contribution or MUS-RP member's account.

See independent auditor's report.

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## REQUIRED SUPPLEMENTAL INFORMATION

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### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – MONTANA PUBLIC EMPLOYEES RETIREMENT SYSTEM - CONTINUED

For the Year Ended June 30, 2017

#### Changes in Actuarial Assumptions and Methods

##### Method and assumptions used in calculation of actuarial determined contributions

The following addition to the actuarial assumptions in 2014 based upon implementation of GASB Statement 68:

Admin expense as percent of payroll	.027%
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There were no changes following the 2013 Economic Experience study.

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

General wage growth	4.00%
*Including inflation at	3.00%
Merit increase	0.00% to 6.00%
Investment rate of return	7.75%, net 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

See independent auditor's report.



**SUPPLEMENTAL INFORMATION**

**Ekalaka Public Schools**

Carter County  
Ekalaka, Montana  
June 30, 2017

## SUPPLEMENTAL INFORMATION

### COMBINING BALANCE SHEET – GENERAL FUND

For the Year Ended June 30, 2017

	<u>General Fund</u>	<u>Elementary Flex Fund</u>	<u>High School Flex Fund</u>	<u>Total General Fund</u>
<b>ASSETS</b>				
Cash and cash equivalents	208,893	213,915	467,940	890,748
Taxes receivable	1,427	0	0	1,427
Inventories	70,516	0	0	70,516
Total assets	<u>280,836</u>	<u>213,915</u>	<u>467,940</u>	<u>962,691</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	0	0	55,651	55,651
Due to other funds	50,000	0	0	50,000
Total liabilities	<u>50,000</u>	<u>0</u>	<u>55,651</u>	<u>105,651</u>
Deferred inflows of resources:				
Unavailable tax revenues	1,427	0	0	1,427
Total deferred inflows of resources	<u>1,427</u>	<u>0</u>	<u>0</u>	<u>1,427</u>
Fund balances:				
Nonspendable				
Inventory	70,516	0	0	70,516
Unassigned	158,893	213,915	412,289	785,097
Total fund balances	<u>229,409</u>	<u>213,915</u>	<u>412,289</u>	<u>855,613</u>
Total liabilities, deferred inflows of resources and fund balances	<u>280,836</u>	<u>213,915</u>	<u>467,940</u>	<u>962,691</u>

See independent auditor's report.

## SUPPLEMENTAL INFORMATION

### COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GENERAL FUND

For the Year Ended June 30, 2017

	General Fund	Elementary Flex Fund	High School Flex Fund	Total General Fund
<b>REVENUES</b>				
Property taxes for general purposes	635,629	0	0	635,629
Intergovernmental:				
State	805,188	10,949	8,738	824,875
Interest on investments	2,090	2,044	4,645	8,779
Other	5,721	881	5	6,607
Total revenues	<u>1,448,628</u>	<u>13,874</u>	<u>13,388</u>	<u>1,475,890</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	777,690	7,174	16,669	801,533
Supporting services	303,722	684	3,548	307,954
Operations and maintenance	189,048	12,098	10,951	212,097
Student transportation	1,665	0	641	2,306
Food services	44,060	0	6,848	50,908
Extracurricular	79,422	0	0	79,422
Capital outlay	0	0	55,651	55,651
Total expenditures	<u>1,395,607</u>	<u>19,956</u>	<u>94,308</u>	<u>1,509,871</u>
Excess (deficiency) of revenues over expenditures	<u>53,021</u>	<u>(6,082)</u>	<u>(80,920)</u>	<u>(33,981)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(50,000)	0	0	(50,000)
Total other financing sources and uses	<u>(50,000)</u>	<u>0</u>	<u>0</u>	<u>(50,000)</u>
Net change in fund balances	3,021	(6,082)	(80,920)	(83,981)
Fund balances - beginning	200,661	219,997	493,209	913,867
Prior period adjustment	25,727	0	0	25,727
Fund balances - beginning, restated	<u>226,388</u>	<u>219,997</u>	<u>493,209</u>	<u>939,594</u>
Fund balances - ending	<u>229,409</u>	<u>213,915</u>	<u>412,289</u>	<u>855,613</u>

See independent auditor's report.

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## SUPPLEMENTAL INFORMATION

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### EXTRACURRICULAR FUND - SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN NET POSITION

For the Year Ended June 30, 2017

<u>Student Activity</u>	<u>Net Position July 1, 2016</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Net Position June 30, 2017</u>
EGS-Student Supplies	996	0	0	996
EGS-K-6 Music	51	0	40	11
C-Club	1,455	1,900	268	3,087
Annual	4,137	121	185	4,073
Athletics	5,610	31,200	31,995	4,815
Class of 2016	1,615	0	1,615	0
Class of 2017	587	468	928	127
Class of 2018	3,355	3,536	3,249	3,642
Class of 2019	2,959	936	0	3,895
Class of 2020	2,230	1,404	0	3,634
Class of 2021	920	702	95	1,527
Class of 2022	0	1,638	0	1,638
Honor Society	(32)	673	385	256
Entrepreneurship	1,339	0	123	1,216
Concessions	2,095	22,051	22,947	1,199
Close-up	2,177	10,878	1,921	11,134
FCCLA	9,950	9,372	11,149	8,173
FFA	9,691	17,303	19,267	7,727
Music	3,364	1,411	2,695	2,080
Science Club	364	2,114	1,171	1,307
Speech	358	67	27	398
Student Council	3,503	7,281	5,358	5,426
	<u>56,724</u>	<u>113,055</u>	<u>103,418</u>	<u>66,361</u>

See independent auditor's report.



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## SUPPLEMENTAL INFORMATION

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### SCHEDULE OF REPORTED ENROLLMENT

For the Year Ended June 30, 2017

Grade	Fall		Spring	
	Enrollment Per FR-4	Enrollment Per District Record	Enrollment Per FR-4	Enrollment Per District Record
K-6	59	59	56	56
7-8	18	18	19	19
9-12	35	35	35	35
Totals	<u>112</u>	<u>112</u>	<u>110</u>	<u>110</u>

See independent auditor's report.



**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  
Ekalaka Public Schools  
Ekalaka, Montana

We have audited, in accordance with auditing standards generally accepted in the United States 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 Ekalaka Public Schools as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Ekalaka Public Schools' basic financial statements, and have issued our report thereon dated May 31, 2018.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Ekalaka Public Schools' 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 Ekalaka Public Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Ekalaka Public Schools' 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2017-001 that we consider to be a significant deficiency.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Ekalaka Public Schools' 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*.

### **Ekalaka Public Schools' Response to Findings**

Ekalaka Public Schools' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Ekalaka Public Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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.

Wipfli LLP



Billings, Montana

May 31, 2018

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## SCHEDULE OF FINDINGS AND RESPONSES

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### SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2017

#### Section I - Summary of Auditor's Results

##### Financial Statements

Type of auditor's report issued:

Unmodified Opinion

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ Yes  X  No

Significant deficiency(ies) identified not considered  
to be material weaknesses?

X  Yes \_\_\_\_\_ No

Noncompliance material to the financial statements noted?

\_\_\_\_\_ Yes  X  No

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## SCHEDULE OF FINDINGS AND RESPONSES

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### SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

For the Year Ended June 30, 2017

#### 2017-001 Internal Controls over Student Activity Fiduciary Fund

Criteria or Specific Requirement: The District should maintain sufficient internal controls and monitor their implementation over the student activity fund to ensure it is fulfilling its fiduciary duties.

Condition: The District has policies and procedures over the student activity fund expenditures; however, proper implementation of the controls was not always achieved.

Context: We tested 21 expenditures in the student activity fund to ensure that the expenditure was properly approved. We noted 9 student activity expenditures that were not properly approved.

Effect: Without proper approval of student activity expenditures, the District is not fulfilling its fiduciary duty over the student activity fund expenditures.

Cause: The District is not always following their procedure requiring all expenditures to be approved by the superintendent.

Recommendation: The District should follow the policies and procedures in place to ensure it is meeting its custodial obligations over the student activities funds.

View of Responsible Official: Staff will be properly trained in the policy and procedures over the student activity fund expenditures, including a review of Policy #7320-Purchasing and the Staff Handbook. Expenditures will only be processed with proper prior approval.

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## **SCHEDULE OF FINDINGS AND RESPONSES**

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### **SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

**For the Year Ended June 30, 2017**

#### **Section III - Prior Year Audit Findings**

None