EKALAKA PUBLIC SCHOOLS
EKALAKA, MONTANA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

COUNTY HIGH SCHOOL DISTRICT AND
ELEMENTARY SCHOOL DISTRICT #15
DISTRICT LEGAL ENTITY #0097 & #0087
CARTER COUNTY

JAMES J. WOSEPKA, PC
CERTIFIED PUBLIC ACCOUNTANT
BAKER, MONTANA

EKALAKA PUBLIC SCHOOLS
EKALAKA, MONTANA
JUNE 30, 2016

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Ekalaka Public Schools

Ekalaka, Montana
Management's Discussion and Analysis
For the Year Ended June 30, 2016

The Business Manager/Clerk of the District has provided this MD&A to give the reader of these statements an overview of Ekalaka Public Schools' financial performance and activities for the fiscal year ended June 30, 2016.

USING THIS FINANCIAL REPORT

Ekalaka Public Schools consists of Ekalaka Elementary District #15 and Carter County High School. Although these two districts operate separately from one another in regard to budgets, funds, assets and liabilities, they are reported together in the following Financial Statements as a Unified Board of Trustees governs them. These two schools will collectively be called "District" in this MD & A.

FINANCIAL HIGHLIGHTS

The Elementary District successfully passed a bond for $5.6 million dollars in order to build a new elementary school that included a full performance gymnasium. The initial estimate, which is the amount the bond was based upon, was substantially less than the actual cost. The District was fortunate in that we had two years of additional oil revenue held in the Flexibility Fund (29) as well as funds in our Interlocal Agreement Fund. This allowed us to complete the school without asking taxpayers for additional funds.

The provisions of Senate Bill 175 (the 'concentric circles' bill) sunset at the end of this fiscal year. We did not receive any oil and gas revenue in FY2016, as Baker K-12 Schools did not reach their maximum allowable amount of Oil revenue and therefore there was no 'spillover' to Carter County schools.

	FY14	FY15	FY16
Carter County High School	341,203	182,817	0
Ekalaka Elementary	355,774	200.455	0

Enrollment continues to show a slight increase.

CERTIFIED ANB	FY14	3 Year Average	FY15	3 Year Average	FY16	3 Year Average
Ekalaka K-6	62	58	66	61	65	65
Ekalaka 7-8	16	18	18	18	18	18
CCHS	38	40	36	38	45	40

We are still receiving Federal R.E.A.P. and Title I (Schoolwide) funds in both schools. This money is used to supplement many programs.

The following entitlements and components are calculated using current law:

Basic Entitlements	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
Elementary Basic	$40,000	$50,000	$50,895	$51,526	$52,093
Middle School Basic	$80,000	$100,000	$101,790	$103,052	$104,186
High School Basic	$290,000	$300,000	$305,370	$309,157	$312,558
Basic Entitlement Increments					
Elementary (Each 25 ANB > 250 ANB)	$2,000	$2,500	$2,545	$2,576	$2,605
Middle School (Each 45 ANB > 450 ANB)	$4,000	$5,000	$5,090	$5,153	$5,209
High School (Each 80 ANB past 800 ANB)	$12,000	$15,000	$15,269	$15,458	$15,628

Per ANB Entitlements	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
Elementary Per-ANB	$5,226	$5,348	$5,444	$5,512	$5,573
High School Per-ANB	$6,691	$6,847	$6,970	$7,056	$7,134
Direct State Aid (DSA) Percentage	44.7%	44.7%	44.7%	44.7%	44.7%

OVERVIEW OF THE ANNUAL FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic audited financial statements. The MD&A represents management's examination and analysis of the Districts financial condition and performance. Summary financial statement data, key financial and operational indicators used in the budget and other management tools were used for this analysis. The financial statements include a balance sheet, income statement, a statement of cash flow and notes to the financial statements.

Government-wide financial statements. The *Statement of Net Position* and the *Statement of Activities* provide information about the activities of the District as a whole and present a long-term view of the District's finances. For governmental activities, fund statements tell how these services were financed in the short term, as well as what remains for future spending. These government-wide statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. The basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the net position and changes in them. One can think of net position, the difference between assets and liabilities, as one way to measure the financial health, or financial position. Over time, increases, or decreases in net position are one indicator of whether the government's financial health is improving or deteriorating. One will need to consider other nonfinancial factors, however, such as changes in the property tax base, economy, enrollment increases and declines and changes in the State's funding formulas to assess the overall health.

Fund financial statements. The fund financial statements also report the government's operations in more detail than the government-wide statements by providing information about the most significant funds-not the government as a whole.

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. We utilize the following funds:

Governmental funds-Basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance programs.

Fiduciary funds-Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds use the accrual basis of accounting. We exclude these activities from the other financial statements because we cannot use these assets to finance our operations. We are responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the financial statement. The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

SUMMARY - THE SCHOOL DISTRICT AS A WHOLE

The Net Position Table presents a comparative summary of the District's net position for the fiscal years ended June 30, 2015 and 2016. Most of the District's net position are capital assets such as land, land improvements, buildings and improvements, machinery and equipment. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending.

Net Position

	2015	2016
ASSETS		
Current Assets	7,524,780	1,713,448
Capital assets-net	1,167,918	7,183,385
Total assets	8,692,698	8,896,833
Deferred Outflows	-	173,698
LIABILITIES		
Current	520,000	530,000
Noncurrent	5,695,878	5,336,933
Total liabilities	6,215,878	5,866,933
Deferred Inflows	-	90,709
NET POSITION		
Invested in Capital assets	1,167,918	2,603,385
Unrestricted	(124,446)	(278,848)
Restricted	1,433,348	788,352
Total Net Position	2,476,820	3,112,889

Revenues were down slightly.

Revenues	2015	2016	Change	%
Property Taxes	1,582,667	1,566,223	(16,444)	-1.04%
Earnings on investments	31,917	47,170	15,253	47.79%
School lunch sales	24,019	23,907	(112)	-0.47%
Other local sources	263,992	365,791	101,799	38.56%
State Aid	1,216,161	904,540	(311,621)	-25.62%
Federal Aid	80,806	143,241	62,435	77.27%
Bond Premium	103,271	-	(103,271)	-100.00%
Total Revenues	3,302,833	3,050,872	(251,961)	-7.63%

Expenditures as a whole were relatively the same as last year as shown in the following table, with the exception of Capital Outlay, as the District built a new elementary school.

These expenditures are for all *governmental* funds from the Statement of Activity.

Expenditures	2015	2016	$+/-	%+/-
Instructional services	497,403	1,010,828	513,425	103.22%
Students	53,124	65,199	12,075	22.73%
Instructional staff	50,296	51,169	873	1.74%
District administration	153,384	132,041	(21,343)	-13.91%
Business services	185,628	174,364	(11,264)	-6.07%
Operation & Maintenance of facilities	298,605	161,845	(136,760)	-45.80%
Transportation	235,346	219,333	(16,013)	6.80%
Special education	81,327	79,555	(1,772)	-2.18%
Adult education	1,426	2,529	1,103	77.35%
Vocational programs	164,806	156,062	(8,744)	-5.31%
Extracurricular programs	103,734	78,776	(24,958)	-24.06%
Food services	101,900	115,775	13,875	13.62%
Bond Issue costs	62,174	-	(62,174)	-100.00%
Capital Outlay	45,669	-	(45,669)	-100.00%
Unallocated Depreciation	53,117	51,939	(1,178)	-16.61%
Interest	95,782	115,388	19,606	20.47%
Total Expenditures	2,183,721	2,414,803	231,082	10.58%

THE FUTURE OF THE DISTRICT

*The elementary building currently does not have a generator. This will most likely need to be addressed, as the building cannot go for long periods of time without heat.

*There are several building design deficiencies that are being addressed. We hope that the general contractor and architect work with the District so that we avoid a lawsuit.

*The law concerning Oil and Gas revenue changed substantially. The 'concentric circles' expired. We hope that oil revenue will increase but we do not anticipate the District receiving the revenues we saw in FY2014 and FY2015. This will substantially impact the district.

*We hope to maintain a multi-district agreement fund between the two schools, allowing greater flexibility with the funds we have.

CONTACT FOR FURTHER INFORMATION

You may contact the school management and business staff, Superintendent Daniel Schrock, or District Clerk, Lora Tauck, at (406) 775-8765.

EKALAKA PUBLIC SCHOOLS
EKALAKA, MONTANA
JUNE 30, 2016

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Licensed in North Dakota and Montana

Independent Auditor's Report

Board of Trustees
Carter County High School
Ekalaka Elementary School District #15
Ekalaka, Montana 59324

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, Ekalaka, Montana, as of and for the year ended June 30, 2016, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to 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, Ekalaka, Montana, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i - v and 39 - 51 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 of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ekalaka Public Schools, Ekalaka, Montana's basic financial statements. The supplemental schedules on pages 52 - 57 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules on pages 52 - 57 is 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 of America. In our opinion, the supplemental schedules on pages 52 – 57 is fairly stated in all material respects in relation to the basic financial statements as a whole.

ther Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2017, on our consideration of Ekalaka Public Schools, Ekalaka, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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, Ekalaka, Montana's internal control over financial reporting and compliance.

James J. Wosepka, PC

By James J Wosepka CPA

Baker, Montana
January 3, 2017

EKALAKA PUBLIC SCHOOLS
STATEMENT OF NET POSITION
June 30, 2016

		Governmental Activities
ASSETS		
Cash and cash equivalents	$	1,677,383
Taxes receivable		5,519
Inventories		30,546
Capital assets not being depreciated		
Land		12,900
Capital assets being depreciated (net of accumulated depreciation)		7,170,485
Total Assets		8,896,833
DEFERRED OUTFLOWS OF RESOURCES		173,698
LIABILITIES		
Noncurrent liabilities:		
Due within one year		530,000
Due in more than one year		5,336,933
Total Liabilities		5,866,933
DEFERRED INFLOWS OF RESOURCES		90,709
NET POSITION		
Invested in capital assets		2,603,385
Unrestricted		(278,848)
Restricted:		
Transportation		42,500
Bus Depreciation		485,317
Retirement		42,560
Technology		18,846
Capital Projects		128,021
Debt Service		11,067
Other Educational Purposes		60,041
Total Net Position	$	3,112,889

The notes to the financial statements are an integral part of this statement.

EKALAKA PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues: Charges for Services, Fines, Forfeitures, etc.	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Primary government:				
Instructional services	$ 1,010,828	$ -	$ 119,683	$ (891,145)
Supporting services:				
Students	65,199	-	-	(65,199)
Instructional staff	51,169	-	624	(50,545)
District administration	132,041	-	-	(132,041)
Business services	174,364	-	-	(174,364)
Operation & maintenance of facility	61,845	-	-	(61,845)
Transportation	219,333	-	120,326	(99,007)
Special education	79,555	21,099	-	(58,456)
Adult education	2,529	-	-	(2,529)
Vocational education	156,062	-	9,245	(146,817)
Extracurricular programs	78,776	-	-	(78,776)
School lunch services	115,775	23,907	39,268	(52,600)
Unallocated depreciation	51,939	-	-	(51,939)
Interest	115,388	-	-	(115,388)
Total governmental activities	$ 2,314,803	$ 45,006	$ 289,146	$ (1,980,651)

General revenues:	
Property taxes	1,566,223
Unrestricted Federal/State shared revenues	233,195
Unrestricted grants and contributions	827,016
Unrestricted investment earnings	47,170
Miscellaneous	33,804
Gain on sale of assets	9,312
Transfers	(100,000)
Total general revenues and transfers	2,616,720
Change in net position	636,069
Total Net Position - July 1, 2015	2,476,820
Total Net Position - June 30, 2016	$ 3,112,889

The notes to the financial statements are an integral part of this statement.

EKALAKA PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

Description	General	Major Fund High School Bus Depreciation	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 883,321	$ 391,747	$ 402,315	$ 1,677,383
Taxes receivable	2,075	137	3,307	5,519
Due from other governments	-	-	-	-
Inventories	30,546	-	-	30,546
Total Assets	915,942	391,884	405,622	1,713,448
DEFERRED INFLOWS OF RESOURCES-				
Unavailable revenue-property taxes	2,075	137	3,307	5,519
FUND BALANCES				
Nonspendable	30,546	-	-	30,546
Spendable:				
Restricted	-	391,747	393,161	784,908
Assigned	-	-	9,154	9,154
Unassigned	883,321	-	-	883,321
Total fund balances	913,867	391,747	402,315	1,707,929
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 915,942	$ 391,884	$ 405,622	

Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	7,183,385
Certain property tax collections are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources in the funds.	5,519
Long-term liabilities, including bonds and pensions payable, are not due and payable in the current period and therefore are not reported in the funds.	(5,783,944)
Total Net Position - Governmental Funds	$ 3,112,889

The notes to the financial statements are an integral part of this statement.

EKALAKA PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

Description	General	Major Fund High School Bus Depreciation	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	$ 658,094	$ 63,827	$ 842,632	$ 1,564,553
Earnings on investments	13,231	3,779	30,160	47,170
School lunch sales	-	-	23,907	23,907
Other local sources	-	-	306,486	306,486
State revenue	808,000	10,419	86,121	904,540
Federal revenue	-	-	143,241	143,241
Total Revenues	1,479,325	78,025	1,432,547	2,989,897
EXPENDITURES				
Current:				
Instructional services	617,560	-	228,347	845,907
Supporting services:				
Students	50,912	-	14,287	65,199
Instructional staff	9,714	-	41,455	51,169
District administration	107,422	-	24,619	132,041
Business services	151,933	-	22,431	174,364
Operation & maintenance of facilities	195,118	-	21,470	216,588
Transportation	-	-	190,345	190,345
Special education	41,969	-	37,586	79,555
Adult education	-	-	2,529	2,529
Vocational programs	151,657	-	4,405	156,062
Extracurricular programs	70,812	-	750	71,562
Food services	43,504	-	71,401	114,905
Debt service	-	-	635,388	635,388
Capital outlay	583,649	-	5,368,539	5,952,188
Total Expenditures	2,024,250	-	6,663,552	8,687,802
Excess of revenues (under) over expenditures	(544,925)	78,025	(5,231,005)	(5,697,905)
OTHER FINANCING SOURCES (USES)				
Sale of assets	-	-	9,312	9,312
Transfers in	-	-	-	-
Transfers out	-	(45,000)	(55,000)	(100,000)
Total other financing sources (uses)	-	(45,000)	(45,688)	(90,688)
Net change in fund balances	(544,925)	33,025	(5,276,693)	(5,788,593)
Fund balances - July 1, 2015-as previously reported	193,430	358,722	6,968,779	7,520,931
Prior period reclassification	1,289,771	-	(1,289,771)	-
Fund balances - July 1, 2015-as reclassified	1,483,201	358,722	5,679,008	7,520,931
Change in inventory	(24,409)	-	-	(24,409)
Fund balances - June 30, 2016	$ 913,867	$ 391,747	$ 402,315	$ 1,707,929

The notes to the financial statements are an integral part of this statement.

EKALAKA PUBLIC SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds (page 8)	$ (5,788,593)
Amounts reported for governmental activities in the statement of activities (page 6) are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets purchased	6,128,422
Depreciation expense	(112,954)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Unavailable property taxes	1,670
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:	
Long-term bond principal payments	520,000
Adjust for Change in Inventory	24,409
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	
Pension expense GASB 68	(136,331)
Accrued compensated absences	(554)
Change in Net Position in Governmental Activities	$ 636,069

The notes to the financial statements are an integral part of this statement.

EKALAKA PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2016

Description	Trust Funds Private Purpose Trust Funds	Agency Funds Agency Composite
ASSETS		
Cash and cash equivalents	$ 218,213	$ 814,359
Total Assets	218,213	814,359
LIABILITIES		
Warrants payable	-	811,607
Due to others	-	2,752
Total Liabilities	-	814,359
NET POSITION		
Held in trust for student scholarships	15,163	
Held in trust for interlocal agreement	146,326	
Held in trust for student activities	56,724	
	$ 218,213	

The notes to the financial statements are an integral part of this statement.

EKALAKA PUBLIC SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2016

Description	Trust Funds Private Purpose Trust Funds
ADDITIONS:	
Miscellaneous revenue	$ 2,176
Student activities	145,002
Investment earnings	2,961
Donations	3,150
Transfers in	100,000
Total Additions	253,289
DEDUCTIONS:	
Student activities	145,921
Educational services	330,257
Student scholarships	1,400
Total Deductions	477,578
Change in net position	(224,289)
Net Position-July 1, 2015	442,502
Net Position-June 30, 2016	$ 218,213

The notes to the financial statements are an integral part of this statement.

1. Summary of Significant Accounting Principles

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

Reporting Entity

All operations of the District are controlled by a Board of Trustees, elected in district-wide elections, and responsible for all of the District's activities. The financial statements include all of the District's operations controlled by the Board of Trustees. The District is considered to be an independent reporting entity.

There are no other organizations that are financially dependent on the District or otherwise could be considered component units of the District.

Under state law, the District consists of two legally separate districts, high school and elementary. The high school district includes all of the area covered by the elementary district. The elementary district provides education from kindergarten through eighth grade and the high school provides education from grades nine through twelve.

All the districts are accounted for separately because of differences in funding and legal requirements, the two districts are combined for financial reporting purposes because both districts are managed by a central Board of Trustees and by a central administration appointed by and responsible to the Board. The elementary and high school general funds have been combined and reported as the General Fund in the accompanying financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of Interfund activity has been removed from these statements. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the fiscal year.

1. **Summary of Significant Accounting Principles – cont.**

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

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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 all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as 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, except expenditures related to compensated absences and claims and judgments, which are recorded only when payment is due.

Property taxes, intergovernmental grants and aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

1. **Summary of Significant Accounting Principles – cont.**

Major Governmental Funds

General Fund – This is the District's primary operating fund and it accounts for all financial resources of the District, except those required to be accounted for in other funds.

HS Bus Depreciation Reserve Fund – 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, if applicable.

The District reports the following fund types:

Trust Funds – The District also has private-purpose trust funds; its student activity fund, which accounts for the extracurricular activities of its students and a scholarship fund, which accounts for funds donated for college scholarships for its graduating seniors.

Inter-local Agreement Fund – The Inter-local Agreement Fund is authorized by sections 20-7-457, 20-9-511, 20-7-801, and 20-9-701, MCA, for the purpose of accounting for revenues and expenditures related to an inter-local agreement between two or more school districts or other local governments.

Cash and Investments

Except for the Extracurricular Fund (a private purpose trust fund), all cash and investments are held by the County Treasurer. All funds deposited are pooled and invested in accordance with state law. Interest earnings are allocated to the District based on average month-end balances. Funds are withdrawn as needed to pay warrants.

It is not practical for the District to determine the investment risk (including amounts invested in financial derivatives), collateral, or insurance coverage for its share of the County's pooled investments. Information as to the County's investment pool can be obtained from the County's annual financial report. The extracurricular funds are deposited in interest-bearing checking and savings accounts covered by FDIC insurance.

Warrants Payable

The District makes expenditures by means of warrants. These warrants are orders to the County Treasurer to pay a specified sum to the person named or to the bearer. Warrants issued by the District, but not yet paid by the County Treasurer amounted to $811,607.

1. **Summary of Significant Accounting Principles – cont.**

Fund Balance Reporting

Implementation of GASB 54 is required for fiscal years beginning after June 15, 2010. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the District's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and the principal (corpus) of an endowment fund. The District has inventories that are considered nonspendale. The District does not have any prepaid items or nonspendable funds related to endowments.

In addition to the nonspendable fund balances, GASB 54 has provided a hierarchy of spendable fund balances based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints by a formal action of the government from its highest level of decision making authority.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balances of the General Fund that is not constrained for any particular purpose.

Assigned and committed funds are at the determination of the Board of Trustees.

The General Fund beginning fund balance has been restated to include the High School and Elementary Flexibility funds.

1. Summary of Significant Accounting Principles – cont.

	Major Funds		Other	Total
	General Fund	HS Bus Depreciation	Governmental Funds	Governmental Funds
Nonspendable:				
Inventories	$ 30,546	$ -	$ -	$ 30,546
Restricted:				
Technology	-	-	18,741	18,741
Bus Depreciation	-	391,747	93,293	485,040
Food Service	-	-	278	278
Retirement	-	-	42,560	42,560
Adult Education	-	-	13,012	13,012
Transportation	-	-	42,070	42,070
Compensated Absences	-	-	387	387
Lease Rental	-	-	2,473	2,473
School Operations	-	-	43,890	43,890
Capital Projects	-	-	128,021	128,021
Debt Service	-	-	8,436	8,436
Assigned:				
Capital Projects	-	-	9,154	9,154
Unassigned	883,321	-	-	883,321
Total Fund Balance	$ 913,867	$ 391,747	$ 402,315	$ 1,707,929

Included with the General Fund unassigned fund balance is $493,209 from the HS Flexibility Fund and $219,997 from the EL Flexibility Fund.

Interfund Transactions
Interfund transactions are reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided deemed to be at market or near market rates are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefitting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are eliminated in the government-wide financial statements.

Capital Assets – Capital assets are carried at actual or estimated historical cost based on appraisals. Major additions and betterments with a cost in excess of $5,000 are recorded as additions to capital assets. Repair and maintenance costs are not capitalized. Depreciation is computed using the straight-line method and the estimated useful lives are as follows:

Buildings and improvements	15-50 years
Equipment	7-25 years

Taxes
An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts. Management does not believe that the accounting method being used results in any material differences.

1. Summary of Significant Accounting Principles – cont.

Inventories

Inventories of materials and supplies on hand as of June 30, 2016 are maintained and are stated at cost, first-in, first out. Reported inventories are equally offset by a fund balance reservation which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all investments of the nonexpendable fund types to be highly liquid investments and therefore, cash equivalents.

Vacation and Sick Leave

Liabilities incurred because of unused vacation and sick leave accumulated by employees, which is payable upon termination, are reflected in the financial statements. The liability for unused vacation and sick leave for governmental fund employees is recorded in the general long-term debt account group. Expenditures for these liabilities are recognized when paid.

Estimates

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources,* represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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.

New GASB Pronouncements

GASB Statement No. 72, *Fair Value Measurement and Application,* addresses accounting and financial reporting issues related to fair value measurements. The Statement provides guidance for determining fair value measurement for reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statement periods beginning after June 15, 2015. Earlier application is encouraged.

1. **Summary of Significant Accounting Principles – cont.**

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions,* as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans,* and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for transaction or other event is not specified within a source of authoritative GAAP. This Statement is effective for reporting periods beginning after June 15, 2015. Earlier application is permitted.

2. **Property Taxes**

Property tax levies are set in August, in connection with the budget process, and are based on taxable values listed as of January 1 for all property located in the District. Taxable values are established by the State Department of Revenue based on market values. A revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by state statute as a fixed percentage of market value.

Real property taxes are generally billed in October and are payable 50% by November 30 and 50% by May 31. After these dates, taxes become delinquent and become a lien on the property. Personal property is assessed and personal property taxes are billed throughout the year with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

2. **Property Taxes – cont.**

The District is permitted by state statutes to levy taxes for various purposes. The taxes levied by the District for the year ended June 30, 2016 were properly established and were within the legal limits or approved by the voters.

3. **Cash and Investments**

Cash and investments, except for those of the Extracurricular Fund, are held by the County Treasurer in an agency fund. The County Treasurer invests the cash as directed by the District.

Authorized investments allowed by Section 20-9-213, MCA, include direct obligations of the United States government; savings or time deposits in a state or national bank, building or loan association, or credit union insured by the FDIC or NCUA located in the state, repurchase agreements, and the state unified investment program.

At year end, the carrying amount of the District's bank deposits and bank balance for the Extracurricular Fund was $56,724. The bank balance was fully covered by Federal Depository Insurance.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. All of the deposits, either in the District's name or Carter County Treasurer's name, are held as authorized by the State of Montana.

Custodial Credit Risk

The investment policy of the District does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits other than the provision of state law.

Custodial risk for deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Montana law requires 50% security of deposits with financial institutions in excess of the depository insurance coverage limits. Governmental entities' money is insured for each "public unit" based on how the account is titled at the financial institution. The District's certificate of deposit is titled in the name of the County Treasurer as the Custodian for the District; therefore, the District has separate FDIC coverage from the other funds under the control of the Carter County Treasurer.

The Carter County government is considered to have $250,000 FDIC coverage for demand deposits and $250,000 FDIC coverage for time and savings deposits in each bank in the state.

All of the District deposits with financial institutions that are in excess of the Federal Depository Insurance limits are held by the investment counterparty, not in the name of the District.

3. **Cash and Investments – cont.**

Credit, Interest Rate, and Foreign Currency Risk
The District has no interest rate risk, credit risk, or foreign currency risk of debt securities, as there are no debt securities owned by the District nor does the District own any foreign investments.

4. **Long-term Debt**
The Elementary District issued a General Obligation School Building Bond, Series 2014, September 26, 2014. The amount of the bond issue 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 rates on the bonds range from 2% to 2.625%. Starting July 1, 2019, the bonds may be called paying par value plus accrued interest.

Future bond obligations are as follows:

	Principal	Interest	Total
2017	$ 530,000	$ 104,987	$ 634,987
2018	540,000	94,388	634,388
2019	550,000	83,587	633,587
2020	565,000	72,588	637,588
2021	580,000	58,463	638,463
	2,765,000	414,013	3,179,013
After 2021	1,815,000	93,087	1,908,087
	$ 4,580,000	$ 507,100	$ 5,087,100

Compensated absences payable represents vacation and sick leave earned by employees which is payable upon termination. Compensated absences are shown as a net change because changes in salary prohibit exact calculations of additions and reductions.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Accrued vacation payable	$ 35,871	$ 554	$ -	$ 36,425	$ -
Pensions payable	1,080,007	170,501	-	1,250,508	-
	$ 1,115,878	$ 171,055	$ -	$ 1,286,933	$ -

5. **Pending Litigation**
There was no pending or threatened litigation or unasserted claims or assessments against the District.

6. **Risk Management**
The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District participates in the Montana School Groups Worker's

6. **Risk Management – cont.**

Compensation Risk Retention Program, a statewide public risk pool currently operating as a common risk management and insurance program for the member school districts. The District pays quarterly premiums for its employer injury insurance coverage.

The agreement for formation of the pool provides that it will be self-sustaining through member premiums. There are no deductibles or maximum coverage limits in the plan.

The District carries commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

7. **Donated Commodities**

The District received donated commodities from the United States Department of Agriculture for use in the food program.

8. **Joint Venture**

Ekalaka Public Schools is a participant, with a number of other school districts, in the Big Country Special Education Cooperative. The Cooperative is governed by a board comprised of a member from each participating district. The Superintendent of Ekalaka Public Schools represents that District. The Big Country Special Education Cooperative is a joint venture established by an inter-local agreement to offer certain Special Education services to all handicapped students in compliance with state and federal law. Ekalaka Public Schools has an ongoing financial responsibility to fund their proportionate share of the total cooperative budget. Financial statement information can be obtained from the Cooperative.

9. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases/ Adjustments	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 12,900	$ -	$ -	$ 12,900
Construction in progress	298,022	-	298,022	-
Total capital assets, not being depreciated	310,922	-	298,022	12,900
Capital assets, being depreciated:				
Buildings and improvements	2,053,161	6,369,067	-	8,422,228
Furniture and equipment	1,076,755	57,376	-	1,134,131
Total capital assets, being depreciated	3,129,916	6,426,443	-	9,556,359
Accumulated depreciation for:				
Buildings and improvements	(1,434,773)	(46,352)	-	(1,481,125)
Furniture and equipment	(838,147)	(66,602)	-	(904,749)
Total accumulated depreciation	(2,272,920)	(112,954)	-	(2,385,874)
Total capital assets, being depreciated, net	856,996			7,170,485
Governmental activities capital assets, net	$ 1,167,918			$ 7,183,385

Depreciation expense was charged to functions of the District as follows:

Governmental activities:	
Instructional services	$ 2,452
Operation and maintenance of facilities services	7,514
Transportation services	28,988
Food service	870
Unallocated	51,939
Extracurricular	21,191
Total depreciation expense, governmental activities	$ 112,954

10. Statewide Retirement Plans

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

	The employer's proportionate share associated with TRS	The employer's proportionate share associated with PERS	The employer's Total Pension Amounts
Total Pension Liability	$ 3,190,012	$ 283,836	$ 3,473,848
Fiduciary Net Position	$ 2,210,602	$ 12,739	$ 2,223,341
Net Pension Liability	$ 979,410	$ 271,097	$ 1,250,507
Deferred Outflows of Resources	$ 135,728	$ 37,970	$ 173,698
Deferred Inflows of Resources	$ 66,118	$ 24,591	$ 90,709
Pension Expense	$ 109,857	$ 24,361	$ 134,218

10. Statewide Retirement Plans – cont.

Teachers Retirement System

Net Pension Liability

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Montana Teachers Retirement System (TRS or the System). Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability. 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 ending June 30, 2016 and June 30, 2015 (reporting dates).

	Net Pension Liability as of 6/30/2016	Net Pension Liability as of 6/30/2015	Percent of Collective NPL as of 6/30/2016	Percent of Collective NPL as of 6/30/2015	Change in Percent of Collective NPL
EKALAKA PUBLIC SCHOOLS Proportionate Share	$ 979,410	$ 853,693	0.0596%	0.0555%	0.0041%
State of Montana Proportionate Share associated with employer	$ 663,044	$ 587,324	0.0404%	0.0382%	0.0022%
Total	$ 1,642,454	$ 1,441,017	0.1000%	0.0937%	0.0063%

At June 30, 2016, the employer recorded a liability of $979,410 for its proportionate share of the Net Pension Liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. Therefore, no update procedures were used to roll forward the total pension liability to the measurement date. The employer's proportion of the net pension liability was based on the employer's contributions received by TRS during the measurement period July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of TRS participating employers. At June 30, 2016, the employer's proportion was 0.0596 percent.

Changes in actuarial assumptions and methods: Since the previous measurement date the following changes were made:

- 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.

10. <u>Statewide Retirement Plans – cont.</u>

- 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.

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

Changes in proportionate share: There were no changes between the measurement date of the collective net pension liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

Pension Expense

	Pension Expense as of 6/30/2016	
EKALAKA PUBLIC SCHOOLS Proportionate Share	$	67,162
State of Montana Proportionate Share associated with the Employer	$	42,695
Total	$	109,857

At June 30, 2016, the employer recognized a Pension Expense of $109,857 for its proportionate share of the TRS pension expense. The employer also recognized grant revenue of $42,695 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the employer.

Deferred Inflows and Outflows

At June 30, 2016, the employer reported its proportionate share of TRS' deferred outflows of resources and deferred inflows of resources related to TRS from the following sources:

10. Statewide Retirement Plans – cont.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 10,328	$ -
Changes in actuarial assumptions	$ 13,860	$ 2,068
Difference between projected and actual investment earnings	$ -	$ 52,593
Changes in proportion & differences between actual and expected contributions	$ 44,072	$ 11,457
*Contributions paid to TRS subsequent to the measurement date - FY 2016 Contributions	$ 67,468	$ -
Total	$ 135,728	$ 66,118

*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, 2017.

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

Year ended June 30:	Deferred Outflows of Resources (a)	Deferred Inflows of Resources (b)	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense (a) - (b)
2017	$ 26,685	$ 28,474	$ (1,789)
2018	$ 26,685	$ 28,471	$ (1,786)
2019	$ 14,889	$ 22,665	$ (7,776)
2020	$ 13,492	$ -	$ 13,492
2021	$ -	$ -	$ -
Thereafter	$ -	$ -	$ -

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 website at trs.mt.gov.

10. Statewide Retirement Plans – cont.

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% x AFC x 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 x AFC x years of creditable service)

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

Overview of Contributions

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

10. Statewide Retirement Plans – cont.

The table below shows the legislated contribution rates for TRS members and employers.

School District and Other Employers

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

TRS Stand-Alone Statements

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

Actuarial Assumptions

The Total Pension Liability as of June 30, 2015, is based on the results of an actuarial valuation date of July 1, 2015. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2015 valuation were based on the results of the last actuarial experience study, dated May 1, 2014. Among those assumptions were the following:

- Total Wage Increases* 4%-8.51% for Non-University Members
- Investment Return 7.75%
- Price Inflation 3.25%
- Postretirement Benefit Increases
  - Tier One Members: If retiree has received benefits for at least 3 years, the retirement allowance will be increased by 1.5% on January 1st.
  - Tier Two Members, the retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the System to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.
- Mortality among contributing members, service retired members, and beneficiaries

10. Statewide Retirement Plans – cont.

- For Males: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.

- For Females: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.

- Mortality among disabled members

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

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

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

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 2119. 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.

10. Statewide Retirement Plans – cont.

Target Allocations

Asset Class	Target Asset Allocation (a)	Real Rate of Return Arthmetic 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%.

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 2008 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 expenses 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, 2015, is summarized in the above table.

Sensitivity Analysis

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
The Employer's proportion of Net Pension Liability	$ 1,345,631	$ 979,410	$ 671,257

10. Statewide Retirement Plans – cont.

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.

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

Public Employees Retirement System – Defined Benefit

Pension Amount Totals

GASB Statement 68, paragraph 74 requires that when employees are provided benefits through more than one pension system, whether provided through cost-sharing, single-employer or agent pension plans, the employer must combine the amounts reported as a total or aggregate for all pensions.

Net Pension Liability

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers and the non-employer contributing entity are required to recognize and report certain amounts associated with their participation in the Public Employees Retirement System (PERS). Statement 68, which became effective June 30, 2015, includes requirements for employers to record and report their proportionate share of the collective Net Pension Liability (NPL), Pension Expense, and Deferred Inflows and Deferred Outflows of resources associated with pensions.

PERS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS on behalf of the employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government or school district's collective NPL that is associated with the non-State employer.

10. Statewide Retirement Plans – cont.

The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Tax Severance fund. All employers are required to report the portion of Coal Tax Severance income and earnings attributable to the employer.

The Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to the measurement date of June 30, 2015. For most employers, their June 30, 2016 reporting will use the 2016 reporting values presented in these notes.

As of reporting date	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/15	Percent of Collective NPL as of 6/30/2016	Percent of Collective NPL as of 6/30/2015	Change in Percent of Collective NPL
Employer proportionate Share	$ 271,097	$ 226,314	0.019394%	0.018163%	0.001231%
State of Montana Proportionate Share associated with Employer	$ 12,739	$ 10,579	0.000911%	0.000849%	0.000062%
Total	$ 283,836	$ 236,893	0.020305%	0.019012%	0.001293%

The table above displays the employer proportionate share of the NPL and the employer's proportion of NPL for June 30, 2015 and 2016. The employer's proportion of the NPL was based on the employer's contributions received by the PERS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERS' participating employers. As of the employer's reporting date the employer recorded a liability of $271,097 and the employer's proportionate share was 0.019394 percent.

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

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

Changes in proportionate share: Between the measurement date of the collective NPL and the employer's reporting date there were some changes in proportion that may have an effect on the employer's proportionate share of the collective NPL.

10. Statewide Retirement Plans – cont.

Pension Expense

As of reporting date	Pension Expense as of 6/30/2016	Pension Expense as of 6/30/2015
Employer's Proportionate Share of PERS	$ 23,569	$ 17,805
State of Montana Proportionate Share associated with the Employer	$ 792	$ 796
Total	$ 24,361	$ 18,601

At June 30, 2016, the employer recognized its proportionate share of the PERS' Pension Expense of $24,361. The employer also recognized grant revenue of $792 for the support provided by the State of Montana for the proportionate share of the Pension Expense that is associated with the employer, and grant revenue of $6,506 from the Coal Tax Fund.

Recognition of Deferred Inflows and Outflows

At June 30, 2016, the employer 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	$ -	$ 1,640
Changes in Assumptions	$ -	$ -
Actual vs. Expected Investment Earnings	$ -	$ 22,951
Changes in Proportion Share and differences between Employer Contributions and Proportionate Share of	$ 16,990	$ -
Employer contributions subsequent to the measurement date - # FY 2016 Contributions	$ 20,980	$ -
Total	$ 37,970	$ 24,591

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the NPL beginning in the year ended June 30, 2017.

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

For the Reporting Year ended June 30:	Amount of deferred outflows and deferred inflows recognized in future years as an increase or (decrease) to Pension Expense
2017	$ (4,335)
2018	$ (4,335)
2019	$ (4,900)
2020	$ 5,969
2021	$ -
Thereafter	$ -

10. Statewide Retirement Plans – cont.

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, MCA. This plan provides retirement benefits to covered employees of the State, and local governments, and 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.

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;

10. <u>Statewide Retirement Plans – cont.</u>

Compensation Cap

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

Monthly benefit formula

1) Members hired prior to July 1, 2011:
   i) Less than 25 years of membership service
      1.785% of HAC per year of service credit;
   ii) 25 years of membership service or more
      2% of HAC per year of service credit.

2) Members hired on or after July 1, 2011:
   i) Less than 10 years of membership service
      1.5% of HAC per year of service credit;
   ii) 10 years or more, but less than 30 years of membership service
      1.785% of HAC per year of service credit;
   iii) 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 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:
  (a) 1.5% for each year PERS is funded above 90%;
  (b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
  (c) 0% whenever the amortization period for PERS is 40 years or more.

Overview of Contributions

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

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

2. Employer contributions to the system:
   a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer

10. Statewide Retirement Plans – cont.

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 portion of employer contributions allocated to the PCR are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

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

Fiscal Year	Member Hired <07/01/11	Member Hired >07/01/11	School Districts Employer	School Districts State
2016	7.900%	7.900%	8.000%	0.370%
2015	7.900%	7.900%	7.900%	0.370%
2014	7.900%	7.900%	7.800%	0.370%
2012-2013	6.900%	7.900%	6.800%	0.370%
2010-2011	6.900%		6.800%	0.370%
2008-2009	6.900%		6.800%	0.235%
2000-2007	6.900%		6.800%	0.100%

Stand-Alone Statements

The PERS financial information is reported in the Public Employees Retirement Board's *Comprehensive Annual Financial Report* for the fiscal year ended. It is available from the PERB at 100 North Park, PO Box 200131, Helena MT 59620-0131, (406) 444-3154.

CAFR information including our stand alone financial statements can be found on our website at http://mpera.mt.gov/annualReports.shtml

The latest actuarial valuation and experience study can be found at our website at http://mpera.mt.gov/actuarialvaluations.shtml

10. Statewide Retirement Plans – cont.

Actuarial Assumptions

The TPL used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to June 30, 2015. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2015 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 Increases 0% to 6%
- Postretirement Benefit Increases

  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:
    (a) 1.5% for each year PERS is funded at or above 90%;
    (b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
    (c) 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the TPL was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under the Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

10. Statewide Retirement Plans – cont.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the System. The most recent analysis, performed for the period of fiscal years 2003 through 2009, is outlined in a report dated June 2010 and is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of 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 an 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 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. Summarized in the table below are best estimates of the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis

As of reporting date	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
Employer's Net Pension Liability	$ 417,973	$ 271,097	$ 147,064

The above table presents the NPL calculated using the discount rate of 7.75%, as well as what the NPL would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate.

Summary of Significant Account Policies

The Montana Public Employee Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the NPL; deferred inflows of resources and deferred outflows of resources related to pensions; Pension Expense; information about the fiduciary net position; and, additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member

10. Statewide Retirement Plans – cont.

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 when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

11. Subsequent Events

The District has evaluated subsequent events through the date of this report.

12. Transfers

The District made the following transfers:

HS Bus Depreciation	$	(45,000)	EL Bus Depreciation	$	(20,000)
HS Transportation		(10,000)	EL Transportation		(10,000)
HS Adult Ed		(15,000)	HS Interlocal		100,000

REQUIRED
SUPPLEMENTAL SCHEDULES

EKALAKA PUBLIC SCHOOLS
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended June 30, 2016

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Property taxes	$ 672,760	$ 672,760	$ 658,094	$ (14,666)
Earnings on investments	797	797	1,059	262
Other local sources	-	-	-	-
State revenue	734,379	734,379	788,313	53,934
Federal aid	-	-	-	-
Total revenues	1,407,936	1,407,936	1,447,466	39,530
Expenditures:				
Current:				
Instructional services	577,790	577,790	599,253	(21,463)
Supporting services:				
Students	49,305	49,305	50,912	(1,607)
Instructional staff	11,872	11,872	8,246	3,626
District administration	109,085	109,085	107,422	1,663
Business services	162,196	162,196	151,933	10,263
Operation and maintenance of facilities	200,495	200,495	195,118	5,377
Special education	46,090	46,090	41,969	4,121
Vocational programs	153,120	153,120	151,657	1,463
Extracurricular programs	78,460	78,460	70,812	7,648
Food services	28,720	28,720	38,504	(9,784)
Capital outlay	-	-	-	-
Total expenditures	1,417,133	1,417,133	1,415,826	1,307
Excess of revenues over (under) expenditures	(9,197)	(9,197)	31,640	40,837
Other financing sources (uses):				
Transfer out	-	-	-	-
Net change in fund balances	$ (9,197)	$ (9,197)	31,640	$ 40,837
Fund balances - beginning - Budget basis			193,430	
Fund balances - ending - Budget basis			225,070	
Change in inventory			(24,409)	
Fund balance - GAAP basis			$ 200,661	

EKALAKA PUBLIC SCHOOLS
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
High School Bus Depreciation
Year Ended June 30, 2016

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Property taxes	$ 63,340	$ 63,340	$ 63,827	$ 487
Earnings on investments	-	-	3,779	3,779
State revenue	-	-	10,419	10,419
Miscellaneous	-	-	-	-
Total revenues	63,340	63,340	78,025	14,685
Expenditures:				
Transportation	-	-	-	-
Capital outlay	422,062	422,062	-	422,062
Total expenditures	422,062	422,062	-	422,062
Excess of revenues over (under) expenditures	(358,722)	(358,722)	78,025	436,747
Other financing sources (uses):				
Transfer in	-	-	-	-
Transfer out	-	-	(45,000)	(45,000)
Total other financing sources (uses)	-	-	(45,000)	(45,000)
Net change in fund balances	$ (358,722)	$ (358,722)	33,025	$ 391,747
Fund balances - beginning - Budget and GAAP basis			358,722	
Fund balances - ending - Budget and GAAP basis			$ 391,747	

Budgets

An annual appropriated budget is adopted by the Board of Trustees each fiscal year for the General Fund and those other governmental fund types classified by state law as budgeted funds. All budgets are formulated in accordance with state law and are prepared on the basis of accounting described above for fund financial statements. The General Fund budgets are based on the State's Foundation Program which is designed to equalize taxing efforts throughout the state and bases the budgets primarily on enrollment. Budgets of other funds are based primarily on estimated revenues and expenditures. Budgeted fund expenditures are limited by state law to budgeted amounts, except that they can be increased for emergencies as defined by state law. Transfers may be made between expenditure objects and/or functions within the same fund. The budgeted amounts as shown in the financial statements are as originally adopted or as revised by legal budget transfers, if applicable.

Preliminary budgets must be adopted by August 15 and the final budget on the fourth Monday in August. Budget appropriations not expended or obligated (as described above) lapse at the end of the fiscal year.

Encumbrances

All appropriations, except for construction in progress, lapse at the end of the fiscal year. The District does utilize a formal encumbrance accounting system. Encumbrance accounting, which is an extension of the budgetary accounting in the General, Special Revenue, and Capital Projects Funds, enables the District to record purchase orders, contracts, and other commitments for the expenditure of monies in order to assign that portion of the applicable appropriation. Encumbrances at year end are shown as expenditures in the budget-to-actual statements and as assignments of fund balance on the balance sheet. The encumbrances have been recorded as expenditures since they meet the "valid obligation criteria" established by the Office of Public Instruction in the Montana School Accounting Manual and as defined in the Administrative Rules of Montana (ARM 10.10.101). The valid obligation criteria are:

1. The costs of personal property including materials, supplies, and equipment ordered, but not received, may be encumbered if a valid purchase order was issued prior to June 30.

2. The cost of commitments related to construction in progress may be encumbered if a legally binding contract was signed and effective or a valid purchase order was issued prior to June 30. If the contract is complete or virtually complete, the entire cost of the contract should be accrued.

As of June 30, 2016, the District incurred $0 encumbrances.

Notes to Required Supplemental Information – cont.

Reporting

The Statement of Revenues, Expenditures, and Changes in Fund Balances, on page 8, combines the General and Flexibility Funds.

	General	HS Flexibility	EL Flexibility	Total
Fund balance, beginning	$ 193,430	$ 651,857	$ 637,914	$ 1,483,201
Revenues	1,447,466	14,980	16,879	1,479,325
Expenditures	1,415,826	173,628	434,796	2,024,250
Inventory change	(24,409)	-	-	(24,409)
Fund balance, ending	$ 200,661	$ 493,209	$ 219,997	$ 4,962,367

Schedule of Proportionate Share of the Net Pension Liability
Teachers Retirement System of Montana
For the Year Ended June 30
Determined as of the Measurement Date

	2016	2015
Employer's proportion of the net pension liability	0.0596%	0.0555%
Employer's proportionate share of the net pension liability associated with the Employer	$ 979,410	$ 853,693
State of Montana's proportionate share of the net pension liability associated with the Employer	$ 663,044	$ 587,324
Total	$ 1,642,454	$ 1,441,017
Employer's covered-employee payroll	$ 760,863	$ 669,604
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	128.72%	122.03%
Plan fiduciary net position as a percentage of the total pension liability	69.30%	70.36%

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

Schedule of Contributions
For the Year Ended June 30
Determined as of the Reporting Date

	2016	2015
Contractually required contributions	$ 67,468	$ 65,204
Contributions in relation to the contractually required contributions	$ 67,468	$ 65,204
Contribution deficiency (excess)	$ -	$ -
District's covered-employee payroll	$ 778,106	$ 760,863
Contributions as a percentage of covered-employee payroll	8.67%	8.57%

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

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 GABA for Tier 1 members has also been modified as follows:
- If the most recent actuarial valuation of the System shows that the funded ratio is less than 90%, then the maximum increase that can be granted is 0.50%.
- If the funded ratio is at least 90% and the increase is not projected to cause the System's funded ratio to be less than 85%, an increase can be granted that is greater than 0.50% but not more than 1.50%.

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

(1) **Final Average Compensation:** average of earned compensation paid in five consecutive years of full-time service that yields the highest average

(2) **Service Retirement:** Eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55

Notes to Required Supplemental Information – cont.
Teachers Retirement System of Montana – cont.

(3) **Early Retirement:** Eligible to receive an early retirement allowance if a member is not eligible for service retirement but has at least five years of creditable service and attained age 55

(4) **Professional Retirement Option:** if the member has been credited with 30 or more years of service and has attained the age of 60 they are eligible for an enhanced allowance equal to 1.85% of average final compensation times all service at retirement. Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%

(5) **Annual Contribution:** 8.15% of member's earned compensation

(6) **Supplemental Contribution Rate:** On or after July 1, 2023, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met:
  a. The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and
  b. The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and
  c. A State or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board.

(7) **Disability Retirement:** A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination

(8) **Guaranteed Annual Benefit Adjustment (GABA):**
  a. If the most recent actuarial valuation shows that Retirement System liabilities are at last 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the Board.

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

- Annual State contribution equal to $25 million paid to the System in monthly installments.
- One-time contribution payable to the Retirement System by the trustees of a school district maintaining a retirement fund. The one-time contribution to the Retirement System shall be the amount earmarked as an operating reserve in excess of 20% of the adopted retirement fund budget for the fiscal year 2013. The amount received was $22 million in FY 2014.
- 1% supplemental employer contribution. This will increase the current employer rates:
  - School Districts contributions will increase from 7.47% to 8.47%
  - The Montana University System and State Agencies will increase from 9.85% to 10.85%.
  - The supplemental employer contribution will increase by 0.1% each fiscal year for fiscal year 2014 thru fiscal year 2024. Fiscal years beginning after

June 30, 2024 the total supplemental employer contribution will be equal to 2%.

- Members hired prior to July 1, 2013 (Tier 1) under HB 377 are required to contribute a supplemental contribution equal to an additional 1% of the member's earned compensation.
- Each employer is required to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position to the System.

Changes in actuarial assumptions and other inputs:

The following changes to the actuarial assumptions were adopted in 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 assume rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.
- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the $500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to "retain membership in the System" are covered by the $500 death benefit after termination.

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

- Assumed rate of inflation was reduced from 3.50% to 3.25%
- Payroll Growth Assumption was reduced from 4.50% to 4.00%
- Assumed real wage growth was reduced from 1.00% to 0.75%
- Investment return assumption was changed from net of investment and administrative expenses to net of investment expenses only.
- Mortality among contribution 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.

Notes to Required Supplemental Information – cont.
Teachers Retirement System of Montana – cont.

- 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.

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	26 years
Asset valuation method	4-year smoothed market
Inflation	3.25 percent
Salary increase	4.00 to 8.51 percent, including inflation for Non-University Members and 5.00% for University Members;
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation

Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
Public Employees Retirement System
For the Last Ten Fiscal Years*

	2016	2015
Employer's proportion of the Net Pension Liability as a percentage	0.019394%	0.018163%
Employer's proportionate share of the Net Pension Liability as an amount	$ 271,097	$ 226,314
State of Montana's proportionate share of the Net Pension Liability associated with the Employer	$ 12,739	$ 10,579
Total	$ 283,836	$ 236,893
Employer's Pensionable Payroll	$ 234,004	$ 212,723
Employer's proportionate share of the Net Pension Liability as a percentage of its Pensionable Payroll	115.852%	106.389%
Plan fiduciary net position as a percentage of the Total Pension Liability	78.4%	79.9%

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

Schedule of Contributions
For the Last Ten Fiscal Years*

	2016	2015
Contractually Required Contributions	$ 20,980	$ 21,459
Contributions in Relation to the Contractually Required Contributions	$ 20,980	$ 21,459
Contribution Deficiency (Excess)	$ -	$ -
Employer's Pensionable Payroll	$ 239,078	$ 234,004
Contributions as a percentage of Pensionable Payroll	8.775%	9.170%

** The amounts presented above for each fiscal year were determined as of June 30th, the employer's most recent fiscal year end. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplemental Information – cont.
Public Employees Retirement System – cont.

Changes of Benefit Terms

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

2013 Legislative Changes:

Working Retirees – House Bill 95 – PERS, SRS, and FURS, effective July 1, 2013

- The law requires employer contributions on working retiree compensation.
- Member contributions are not required.
- Working retiree limitations are not impacted. PERS working retirees may still work up to 960 hours a year, without impacting benefits.

Highest Average Compensation (HAC) Cap – House Bill 97, effective July 1, 2013

All PERS members hired on or after July 1, 2013 are subject to a 110% annual cap on compensation considered as part of a member's highest or final average compensation.

All bonuses paid to PERS members on or after July 1 2013 will not be treated as compensation for retirement purposes.

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
  a. 1.5% each year PERS is funded at or above 90%;
  b. 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and,
  c. 0% whenever the amortization period for PERS is 40 years or more.

2015 Legislative Changes:

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

Second Retirement Benefit – for PERS

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

2) For members who retire **before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:**
   - member receives a recalculated retirement benefit based on laws in effect at second retirement; and,
   - GABA starts in the January after receiving recalculated benefit for 12 months.

3) For members who retire **on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:**
   - refund of member's contributions from second employment plus regular interest (currently 0.25%);
   - no service credit for second employment;
   - start same benefit amount the month following termination; and,
   - GABA starts again in the January immediately following second retirement.

4) For members who retire **on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:**
   - member receives same retirement benefit as prior to return to service;
   - member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
   - GABA starts on both benefits in January after member receives original and new benefit for 12 months.

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

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

Notes to Required Supplemental Information – cont.
Public Employees Retirement System – cont.

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

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

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

Admin Expense as % of Payroll	0.27%

The following changes were adopted in 2013 based on the 2013 Economic Experience study:

General Wage Growth*	4.00%
*Includes inflation at	3.00%
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation

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

General Wage Growth*	4.25%
*Includes inflation at	3.00%
Merit increase	0% to 7.3%
Investment rate of return	8.00 percent, net of pension plan investment expense, and including inflation
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open

SUPPLEMENTAL SCHEDULES

EKALAKA PUBLIC SCHOOLS
EKALAKA, MONTANA

SCHEDULE OF SCHOOL DISTRICT ENROLLMENT
YEAR ENDED JUNE 30, 2016

FALL ENROLLMENT 10\15	**Audit Per District Records**	**Enrollment Report**
Elementary Schools		
Kindergarten	5	5
Grades One - Three	28	28
Grades Four - Six	24	24
Grades Seven - Eight	21	21
Total	78	78
High School		
Grades Nine - Twelve	34	34

SPRING ENROLLMENT 2\16	**Audit Per District Records**	**Enrollment Report**
Elementary Schools		
Kindergarten	6	6
Grades One - Three	26	26
Grades Four - Six	21	21
Grades Seven - Eight	23	23
Total	76	76
High School		
Grades Nine - Twelve	31	31

EKALAKA PUBLIC SCHOOLS
Schedule of Changes in Assets and Liabilities
Student Activities Fund
Year Ended June 30, 2016

	July 1, 2015	Additions	Deductions	June 30, 2016
EGS-STUDENT SUPPLIES	$ 377	$ 619	$ -	$ 996
EGS-K-6 MUSIC	51	-	-	51
C-CLUB	3,457	1,180	3,182	1,455
ANNUAL	3,791	3,616	3,270	4,137
ATHLETICS	2,195	33,739	30,324	5,610
CLASS OF 2016	1,991	1,097	1,473	1,615
CLASS OF 2017	2,437	2,027	3,877	587
CLASS OF 2018	1,808	1,547	-	3,355
CLASS OF 2019	977	1,982	-	2,959
CLASS OF 2020	1,034	1,196	-	2,230
CLASS OF 2021	-	920	-	920
HONOR SOCIETY	50	937	1,019	(32)
ENTREPRENEURSHIP	2,203	538	1,402	1,339
CONCESSIONS	3,209	24,633	25,747	2,095
CLOSE-UP	8,314	10,037	16,174	2,177
FCCLA	12,368	21,058	23,476	9,950
FFA	4,998	18,884	14,191	9,691
MUSIC	2,773	3,644	3,053	3,364
SCIENCE CLUB	705	1,446	1,787	364
SPEECH	137	2,752	2,531	358
STUDENT COUNCIL	4,767	13,150	14,414	3,503
Total Student Activities	$ 57,642	$ 145,002	$ 145,920	$ 56,724

EKALAKA PUBLIC SCHOOLS

Schedule of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

Budgeted Special Revenue Funds

Year Ended June 30, 2016

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Property taxes	$ 204,957	$ 204,957	$ 205,928	$ 971
Earnings on investments	-	-	14,046	14,046
Other local sources	241,207	241,207	241,530	323
State revenue	78,515	78,515	92,392	13,877
Total revenues	524,679	524,679	553,896	29,217
Expenditures:				
Current:				
Instructional services	643,748	643,748	168,147	475,601
Supporting services:				
Students	4,715	4,715	2,850	1,865
Instructional staff	48,746	48,746	32,621	16,125
District administration	43,395	43,395	24,619	18,776
Business services	30,571	30,571	22,272	8,299
Operation and maintenance of facilities	12,495	12,495	7,634	4,861
Transportation	224,255	224,255	190,345	33,910
Adult education	30,315	30,315	2,529	27,786
Special education	12,690	12,690	6,313	6,377
Vocational programs	16,526	16,526	1,798	14,728
Extracurricular programs	8,728	8,728	750	7,978
Food services	6,130	6,130	10,081	(3,951)
Capital outlay	112,147	112,147	-	112,147
Total expenditures	1,194,461	1,194,461	469,959	724,502
Excess of revenues over (under) expenditures	(669,782)	(669,782)	83,937	753,719
Other financing sources (uses):				
Transfer in	-	-	-	-
Transfer out	-	-	(55,000)	(55,000)
Total other financing sources(uses)	-	-	(55,000)	(55,000)
Net change in fund balances	$ (669,782)	$ (669,782)	28,937	$ 698,719
Fund balances - beginning - Budget and GAAP basis			722,810	
Unused prior year encumbrances			171,232	
Fund balances - ending - Budget and GAAP basis			$ 922,979	

EKALAKA PUBLIC SCHOOLS
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Budgeted Capital Project Funds
Year Ended June 30, 2016

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Property taxes	$ -	$ -	$ 128	$ 128
Earnings on investments	1,000	1,000	1,214	214
State revenue	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	1,000	1,000	1,342	342
Expenditures:				
Operations and maintenance	90,731	90,731	17,096	73,635
Capital outlay	89,182	89,182	35,138	54,044
Total expenditures	179,913	179,913	52,234	127,679
Excess of revenues over (under) expenditures	(178,913)	(178,913)	(50,892)	128,021
Other financing sources (uses):				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	$ (178,913)	$ (178,913)	(50,892)	$ 128,021
Fund balances - beginning - Budget and GAAP basis			178,913	
Fund balances - ending - Budget and GAAP basis			$ 128,021	

EKALAKA PUBLIC SCHOOLS
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Debt Service Funds
Year Ended June 30, 2016

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance Favorable (Unfavorable)
Revenues:				
Taxes/special assessments	$ 635,388	$ 635,388	$ 636,576	$ 1,188
Investment and royalty earnings	-	-	2,271	2,271
Total revenues	635,388	635,388	638,847	3,459
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Public health	-	-	-	-
Social and economic services	-	-	-	-
Culture and recreation	-	-	-	-
Miscellaneous	-	-	-	-
Debt service				
Principal	-	-	520,000	(520,000)
Interest	635,388	635,388	115,388	520,000
Total expenditures	635,388	635,388	635,388	-
Excess of revenues over expenditures	-	-	3,459	3,459
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers (out)	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Excess (deficiency) of revenues and other over expenditures and other uses	$ -	$ -	3,459	$ 3,459
Fund balances - beginning - Budget basis and GAAP basis			4,977	
Fund balances - ending - Budget and GAAP basis			$ 8,436	

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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 59324

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ekalaka Public Schools, Ekalaka, Montana, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Ekalaka Public Schools, Ekalaka, Montana's basic financial statements, and have issued our report thereon dated January 3, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ekalaka Public Schools, Ekalaka, Montana's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ekalaka Public Schools, Ekalaka, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of Ekalaka Public Schools, Ekalaka, Montana's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

James J. Wosepka, PC

By James J. Wosepka

Baker, Montana
January 3, 2017