EKALAKA PUBLIC SCHOOLS
EKALAKA, MONTANA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

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, 2015

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Ekalaka Public Schools

Ekalaka, Montana
Management's Discussion and Analysis
For the Year Ended June 30, 2015

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, 2015. Please contact the Business Manager/Clerk at lorat@ekalaka.k12.mt.us for additional information.

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 District received Oil and Gas Tax revenue once again from the concentric circles portion of Senate Bill 175. Although the deadline does not expire until FY16, we are not anticipating any revenue next year (FY16), as oil prices are plummeting and Baker K-12 will most likely not reach the maximum amount they are allowed to retain before there is a 'spillover' of revenue to our District. Oil revenue is being deposited into fund 29 – Flexibility Fund.

	FY13	FY14	FY15
Carter County High School	6,400	341,203	182,817
Ekalaka Elementary	11,600	355,774	200.455

Enrollment has shown a slight increase. Neither school used a 3-year average for their ANB Entitlement:

CERTIFIED ANB	FY15	3 Yr Average	/	FY14	3 Yr Average
Ekalaka K-6	66	61		62	58
Elalaka 7-8	18	18		16	18
CCHS	36	38		38	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.

House Bill 27 applies the statutory language for the inflationary increase of 2.33% in FY 2016 and 1.79% in FY 2017 to the Basic Entitlement, per-ANB Entitlement, Quality Educator Payment, the Indian Education For All payment, the American Indian Achievement Gap payment and the Data for Achievement payment. These increases constitute the present law adjustment of $53.9 million for K-12 BASE aid presently included in the Governor's Executive Budget.

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 it. 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, 2014 and 2015. Most of the District's assets 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

		2014	2015
ASSETS			
Current Assets	$	1,664,284	7,524,780
Capital assets-net		1,002,841	1,167,918
Total assets	$	2,667,125	8,692,698
LIABILITIES			
Current		3.000	520,000
Noncurrent		28,425	5,695,878
Total liabilities		31,425	6,215,878
NET POSITION			
Invested in Capital assets		1,002,841	1,167,918
Unrestricted net position		993,905	(124,446)
Restricted net position		638,954	1,433,348
Total Net Position		2,635,700	2,476,820

The large increase in property tax revenue and earnings in investments revenue is due to the $5,600,000 in bond proceeds.

Revenues	2014	2015	Change	%
Property Taxes	912,007.00	1,582,667.00	670,660.00	42.38%
Earnings on investments	3,357.00	31,917.00	28,560.00	89.48%
School lunch sales	22,993.00	24,019.00	1,026.00	4.27%
Other local sources	307,865.00	263,992.00	(43,873.00)	-16.62%
State Aid	1,494,039.00	1,216,161.00	(277,878.00)	-22.85%
Federal Aid	103,876.00	80,806.00	(23,070.00)	-28.55%
Bond premium	0.00	103,271.00	103,271.00	100.00%
Total Revenues	2,844,137.00	3,302,833.00	458,696.00	13.89%

Expenditures as a whole were relatively the same as last year as shown in the following table, with the exception of the Debt Service fund, which was newly established for bond payment and Capital Outlay, which includes the purchase of land for the future site of the elementary building and the expenses paid to-date for the building in progress.

These expenditures are for all *governmental* funds combined.

Expenditures	2014	2015	$ +/-	% +/-
Instructional services	678,494	497,403	(181,091)	-36.41%
Students	57,088	53,124	(3,964)	-7.46%
Instructional staff	58,106	50,296	(7,810)	-15.53%
District administration	129,363	153,384	24,021	15.66%
Business services	140,291	185,628	45,337	24.42%
Operation & Maint. of facilities	360,692	298,605	(62,087)	-20.79%
Transportation	268,810	235,346	(33,464)	-14.22%
Special education	82,699	81,327	(1,372)	-1.69%
Adult education	5,276	1,426	(3,850)	-269.99%
Vocational programs	161,482	164,806	3,324	2.02%
Extracurricular programs	98,867	103,734	4,867	4.69%
Food services	95,100	101,900	6,800	6.67%
Bond issue costs	0	62,174	62,174	100.00%
Capital Outlay	0	45,669	45,669	100.00%
Unallocated Depreciation	54,026	53,117	(909)	-1.71%
Interest	0	95,782	95,782	100.00%
Total Expenditures	2,225,294	2,183,721	(41,573)	-1.90%

THE FUTURE OF THE DISTRICT

*The initial estimate for the elementary building which is the amount the bond was based upon was substantially less than the actual costs. The District was forced to reduce square footage from the original design. We were also forced to encumber funds from both flexibility accounts as well as the multi-district agreement fund for use on the building project.

*At the time of this writing, the District has not reached a new agreement with the Teachers Union. The two year contract expired June 30, 2015.

*We do not anticipate any more revenue from oil and gas overflow from Fallon County. This will substantially impact the district.

*The District continues to take advantage of several options for greater budgeting flexibility, as provided by current law. We have transferred cash balances into the building reserve fund at both districts as there are identified safety-related issues at both schools. We have also maintained a multi-district agreement fund between the two schools.

EKALAKA PUBLIC SCHOOLS
EKALAKA, MONTANA
JUNE 30, 2015

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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, 2015, 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, 2015, 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 43 - 45 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 46 - 50 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules on pages 46 - 50 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 46 – 50 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2015, 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
December 9, 2015

EKALAKA PUBLIC SCHOOLS
STATEMENT OF NET POSITION
June 30, 2015

		Governmental Activities
ASSETS		
Cash and cash equivalents	$	7,465,976
Taxes receivable		3,849
Due from other governments		-
Inventories		54,955
Capital assets not being depreciated		
Land		12,900
Construction in progress		298,022
Capital assets being depreciated (net of accumulated depreciation)		856,996
Total Assets		8,692,698
LIABILITIES		
Noncurrent liabilities:		
Due within one year		520,000
Due in more than one year		5,695,878
Total Liabilities		6,215,878
NET POSITION		
Net investment in capital assets		1,167,918
Unrestricted		(124,446)
Restricted:		
Transportation		20,014
Bus Depreciation		475,032
Retirement		37,480
Technology		19,354
Capital Projects		178,913
Debt Service		4,977
Other Educational Purposes		697,578
Total Net Position	$	2,476,820

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

EKALAKA PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2015

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services, Fines, Forfeitures, etc.	Operating Grants and Contributions	Governmental Activities
Primary government:				
Instructional services	$ 497,403	$ -	$ 37,333	$ (460,070)
Supporting services:				
Students	53,124	-	1,800	(51,324)
Instructional staff	50,296	-	15,157	(35,139)
District administration	153,384	-	-	(153,384)
Business services	185,628	-	-	(185,628)
Operation & maintenance of facility	298,605	-	-	(298,605)
Transportation	235,346	-	94,634	(140,712)
Special education	81,327	-	30,759	(50,568)
Adult education	1,426	-	-	(1,426)
Vocational education	164,806	-	7,469	(157,337)
Extracurricular programs	103,734	-	-	(103,734)
School lunch services	101,900	24,019	25,606	(52,275)
Capital outlay	45,669	-	-	(45,669)
Bond issue costs	62,174	-	-	(62,174)
Unallocated depreciation	53,117	-	-	(53,117)
Interest	95,782	-	-	(95,782)
Total governmental activities	$ 2,183,721	$ 24,019	$ 212,758	$ (1,946,944)

General revenues:	
Property taxes	1,582,667
Unrestricted Federal/State shared revenues	574,369
Unrestricted grants and contributions	767,914
Unrestricted investment earnings	31,917
Bond premium	103,271
Miscellaneous	5,918
Total general revenues and transfers	3,066,056
Change in net position	1,119,112
Total Net Position - July 1, 2014 - as previously reported	2,635,700
Prior Period Restatement	(1,277,992)
Total Net Position - July 1, 2014 - as restated	1,357,708
Total Net Position - June 30, 2015	$ 2,476,820

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

EKALAKA PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

Description	General	Major Fund Elementary Building	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 168,475	$ 5,293,818	$ 2,003,683	$ 7,465,976
Taxes receivable	1,663	-	2,186	3,849
Due from other governments	-	-	-	-
Due from other funds	-	-	30,000	30,000
Inventories	54,955	-	-	54,955
Total Assets	225,093	5,293,818	2,035,869	7,554,780
LIABILITIES				
Due to other funds	30,000	-	-	
DEFERRED INFLOWS OF RESOURCES-				
Unavailable revenue-property taxes	1,663	-	2,186	3,849
FUND BALANCES				
Nonspendable	54,955	-	-	54,955
Spendable:				
Restricted	-	5,293,818	743,233	6,037,051
Assigned	-	-	1,290,450	1,290,450
Unassigned	138,475	-	-	138,475
Total fund balances	193,430	5,293,818	2,033,683	7,520,931
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 225,093	$ 5,293,818	$ 2,035,869	

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.	1,167,918
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.	3,849
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.	(6,215,878)
Total Net Position - Governmental Funds	$ 2,476,820

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, 2015

		Major Fund		
Description	General	Elementary Building	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	$ 659,175	$ -	$ 920,676	$ 1,579,851
Earnings on investments	797	20,977	10,143	31,917
School lunch sales	-	-	24,019	24,019
Other local sources	-	-	263,992	263,992
State revenue	734,206	-	481,955	1,216,161
Federal revenue	-	-	80,806	80,806
Total Revenues	1,394,178	20,977	1,781,591	3,196,746
EXPENDITURES				
Current:				
Instructional services	578,530	-	114,723	693,253
Supporting services:				
Students	44,485	-	8,639	53,124
Instructional staff	2,690	-	47,606	50,296
District administration	78,391	17,157	57,836	153,384
Business services	130,480	14,438	40,710	185,628
Operation & maintenance of facilities	232,608	705	58,218	291,531
Transportation	-	-	184,198	184,198
Special education	37,837	-	43,490	81,327
Adult education	-	-	1,426	1,426
Vocational programs	140,106	-	24,700	164,806
Extracurricular programs	72,250	-	10,293	82,543
Food services	47,074	-	53,956	101,030
Debt service	-	-	595,782	595,782
Capital outlay	-	336,558	11,000	347,558
Total Expenditures	1,364,451	368,858	1,252,577	2,985,886
Excess of revenues (under) over expenditures	29,727	(347,881)	529,014	210,860
OTHER FINANCING SOURCES (USES)				
Bond issue costs	-	(62,174)	-	(62,174)
Bond premium	-	103,271	-	103,271
Bond proceeds	-	5,600,000	-	5,600,000
Transfers in	-	-	67,500	67,500
Transfers out	(30,000)	-	(37,500)	(67,500)
Total other financing sources (uses)	(30,000)	5,641,097	30,000	5,641,097
Net change in fund balances	(273)	5,293,216	559,014	5,851,957
Fund balances - July 1, 2014-as previously reported	1,102,930	602	559,719	1,663,251
Prior period reclassification	(914,950)	-	914,950	-
Fund balances - July 1, 2014-as reclassified	187,980	602	1,474,669	1,663,251
Change in inventory	5,723	-	-	5,723
Fund balances - June 30, 2015	$ 193,430	$ 5,293,818	$ 2,033,683	$ 7,520,931

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, 2015

Net change in fund balances - total governmental funds (page 8)	$ 5,851,957
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	301,889
Depreciation expense	(136,812)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Unavailable property taxes	2,816
Bond proceeds	(5,600,000)
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	500,000
Adjust for Change in Inventory	5,723
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	
Reduction in pensions payable	197,985
Accrued compensated absences	(4,446)
Change in Net Position in Governmental Activities	$ 1,119,112

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, 2015

Description	Trust Funds Private Purpose Trust Funds	Agency Funds Agency Composite
ASSETS		
Cash and cash equivalents	$ 442,502	$ 215,072
Total Assets	442,502	215,072
LIABILITIES		
Warrants payable	-	203,990
Due to others	-	11,082
Total Liabilities	-	215,072
NET POSITION		
Held in trust for student scholarships	13,379	
Held in trust for interlocal agreement	371,481	
Held in trust for student activities	57,642	
	$ 442,502	

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, 2015

Description		Trust Funds Private Purpose Trust Funds
ADDITIONS:		
Miscellaneous revenue	$	3,355
Student activities		134,250
Investment earnings		1,919
Transfers in		-
Total Additions		139,524
DEDUCTIONS:		
Student activities		120,716
Educational services		73,074
Student scholarships		300
Total Deductions		194,090
Change in net position		(54,566)
Net Position-July 1, 2014		497,068
Net Position-June 30, 2015	$	442,502

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.

1. **<u>Summary of Significant Accounting Principles – cont.</u>**

The District reports the following major governmental funds:

Major Governmental Funds

<u>General Fund</u> – 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.

<u>Building Fund</u> – The Building Fund is authorized by Section 20-9-508, MCA. It is used primarily to account for the proceeds of bonds sold for the purposes provided in Section 20-9-403, MCA. The fund is also sued to account for insurance proceeds for damaged property as provided in 20-6-608, MCA, or the sale or rental of property as provided by 20-6-604 and 607, MCA.

The District reports the following fund types:

<u>Trust Funds</u> – 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.

<u>Inter-local Agreement Fund</u> – 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.

<u>Cash and Investments</u>

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.

<u>Warrants Payable</u>

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 $203,990.

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 not include the High School and Elementary Flexibility funds.

1. Summary of Significant Accounting Principles – cont.

	Major Funds General Fund	Major Funds Elementary Building	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Inventories	$ 54,955	$ -	$ -	$ 54,955
Restricted:				
Technology	-	-	19,264	19,264
Bus Depreciation	-	-	437,230	437,230
Food Service	-	-	3,534	3,534
Retirement	-	-	37,480	37,480
Adult Education	-	-	29,682	29,682
Transportation	-	-	19,675	19,675
Compensated Absences	-	-	740	740
Lease Rental	-	-	2,263	2,263
School Operations	-	-	9,475	9,475
Capital Projects	-	5,293,818	178,913	5,472,731
Debt Service	-	-	4,977	4,977
Assigned:				
School Operations	-	-	1,289,771	1,289,771
Capital Projects	-	-	679	679
Unassigned	138,475	-	-	138,475
Total Fund Balance	$ 193,430	$ 5,293,818	$ 2,033,683	$ 7,520,931

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, 2015 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. The District does not have any of this type of item.

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.

Implementation of GASB Pronouncements
In June 2012, GASB issued revised pension accounting and reporting guidance for governmental employers, *Accounting and Financial Reporting for Pensions.* This revised guidance is effective for periods beginning after June 15, 2014, and will require cost-sharing employers like the District to recognize their proportionate share of the collective pension expense, deferred inflows and outflows of resources, and the net pension liabilities related to the District's participation in the Teachers Retirement and Public Employees Retirement systems.

2. Restatement

The District adopted GASB Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25.* This Statement establishes standards of financial reporting and specifies the required approach to measuring pension liability of employers for benefits provided through the pension plan. The Statement also requires enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. This financial report has been updated in accordance with GASB Statement No. 67.

Related to its implementation of GASB Statement No. 67, the District elected to implement the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27,* for the Employees' Pension Plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The Statement also requires enhanced note disclosures that will be presented by the pension plans that are within its scope.

The implementation of GASB Statement No. 68 had the following effect:

	Governmental Activities
Net position, June 30, 2014	$ 2,635,700
Recognition of net pension liabilities	(1,277,992)
Restated net position, June 30, 2014	$ 1,357,708

3. 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.

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, 2015 were properly established and were within the legal limits or approved by the voters.

4. 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 $57,642. 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.

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.

5. 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 following is a detail of the proceeds and expenditures relating to the bond issue:

Proceeds:		
Bonds Par Value	$	5,600,000
Bond Premium		103,271
	$	5,703,271
Costs:		
Underwriter	$	56,000
Bond Counsel		15,000
Bond Rating		12,700
Other Issue Costs		6,874
	$	90,574
Net Proceeds	$	5,612,697

The first principal payment is 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
2016	$ 520,000	$ 115,388	$ 635,388
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
	2,705,000	470,938	3,175,938
After 2020	2,395,000	151,550	2,546,550
	$ 5,100,000	$ 622,488	$ 5,722,488

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.

	Restated Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Accrued vacation payable	$ 31,425	$ 4,446	$ -	$ 35,871	$ -
Pensions payable	1,277,992	-	197,985	1,080,007	-
	$ 1,309,417	$ 4,446	$ 197,985	$ 1,115,878	$ -

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

7. **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 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.

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

9. **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.

10. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases/ Adjustments	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 1,900	$ 11,000	$ -	$ 12,900
Construction in progress	-	298,022	-	298,022
Total capital assets, not being depreciated	1,900	309,022	-	310,922
Capital assets, being depreciated:				
Buildings and improvements	2,053,161	-	-	2,053,161
Furniture and equipment	1,098,155	-	21,400	1,076,755
Total capital assets, being depreciated	3,151,316	-	21,400	3,129,916
Accumulated depreciation for:				
Buildings and improvements	(1,389,788)	(44,985)	-	(1,434,773)
Furniture and equipment	(760,587)	(91,826)	14,266	(838,147)
Total accumulated depreciation	(2,150,375)	(136,811)	14,266	(2,272,920)
Total capital assets, being depreciated, net	1,000,941			856,996
Governmental activities capital assets, net	$ 1,002,841			$ 1,167,918

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

Governmental activities:	
Instructional services	$ 3,412
Operation and maintenance of facilities services	7,074
Transportation services	51,148
Food service	870
Unallocated	53,117
Extracurricular	21,191
Total depreciation expense, governmental activities	$ 136,812

11. Statewide Retirement Plans

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

	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	$ 2,879,802	$ 236,893	$ 3,116,695
Fiduciary Net Position	$ 2,026,109	$ 10,579	$ 2,036,688
Net Pension Liability	$ 853,693	$ 226,314	$ 1,080,007
Deferred Outflows of Resources	$ 27,793	$ -	$ 27,793
Deferred Inflows of Resources	$ 149,408	$ 58,476	$ 207,884
Pension Expense	$ 80,692	$ 226,314	$ 307,006

11. Statewide Retirement Plans – cont.

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, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions. 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.

	Net Pension Liability as of 6/30/13	Net Pension Liability as of 6/30/2014	Percent of Collective NPL
EKALAKA PUBLIC SCHOOL Proportionate Share	$ 986,791	$ 853,693	0.0555%
State of Montana Proportionate Share associated with employer	$ 678,871	$ 587,324	0.0382%
Total	$ 1,665,662	$ 1,441,017	0.0937%

At June 30, 2015, the employer recorded a liability of $853,693 for its proportionate share of the Net Pension Liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. 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, 2013 through June 30, 2014, relative to the total employer contributions received from all of TRS' participating employers. At June 30, 2014, the employer's proportion was 0.0555 percent.

Changes in actuarial assumptions and methods: The following changes in assumptions or other inputs that affected the measurement of the Total Pension Liability have been made since the previous measurement date.

- 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 expensed to net of investment expenses only.

11. Statewide Retirement Plans – cont.

- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
  - For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members was updated to the following:
  - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

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 6/30/14
EKALAKA PUBLIC SCHOOLS Proportionate Share	$	47,804
State of Montana Proportionate Share associated with the Employer	$	32,888
Total	$	80,692

At June 30, 2015, the employer recognized a Pension Expense of $80,692 for its proportionate share of the TRS pension expense. The employer also recognized grant revenue of $32,888 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the employer.

Recognition of Beginning Deferred Outflow

At June 30, 2015, the employer recognized a beginning deferred outflow of resources for the employer's FY 2014 contributions of $59,256.

11. Statewide Retirement Plans – cont.

Deferred Inflows and Outflows

At June 30, 2015, the employer reported its proportionate share of TRS deferred outflows of resources and deferred inflows of resources related to TRS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 8,445	$ -
Changes in actuarial assumptions	$ 19,348	$ -
Difference between projected and actual investment earnings	$ -	$ 132,225
Difference between acual and expected contributions	$ -	$ 17,183
Changes in proportion	N/A	N/A
*Contributions paid to TRS subsequent to the measurement date - FY 2015 Contributions	$ 65,204	
Total	$ 92,997	$ 149,408

*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, 2016. 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 (xxxxx) - (b)
2016	$ 9,264	$ 37,352	$ (28,088)
2017	$ 9,264	$ 37,352	$ (28,088)
2018	$ 9,264	$ 37,352	$ (28,088)
2019	$ -	$ 37,352	$ (37,352)
2020	$ -	$ -	$ -
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

11. Statewide Retirement Plans – cont.

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.

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 calculated prior to July 1, 2013, was 1.5% of the benefit payable as of January 1st. Effective July 1, 2013, the GABA to be calculated for Tier One and Tier Two members 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. The legislative enactment that allows for reduction of the GABA for Tier One members is currently being litigated. A temporary restraining order requires continued calculation of the GABA at the full 1.5% rate for Tier One members pending resolution of the litigation.

11. Statewide Retirement Plans – cont.

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

MCA 19-20-605 requires each employer to contribute 9.85% of total compensation paid to all reemployed TRS retirees employed in a TRS reportable position. Pursuant to MCA 19-20-609, this amount shall increase by 1.00% for fiscal year 2014 and increase by 0.10% each fiscal year through 2024 until the total employer contribution is equal to 11.85% of re-employed retiree compensation.

The table below shows the history of legislated contributions for TRS members, employers, and the state.

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%

11. Statewide Retirement Plans – cont.

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, 2014, is based on the results of an actuarial valuation date of July 1, 2014. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2014 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* 8.51%
- Investment Return 7.75%
- Price Inflation 3.25%
- Postretirement Benefit Increases 1.50% (starting three years after retirement)
- Mortality among contributing members, service retired members, and beneficiaries
  - For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.

  - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members
  - 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 and 4.51% merit and longevity increases.

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

11. Statewide Retirement Plans – cont.

projected future benefit payments of current plan members through the year 2116. 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.

Target Allocations

Asset Class	Target Asset Allocation	Real Rate of Return Arthmetic Basis
Broad US Equity	36.00%	4.80%
Broad International Equity	18.00%	6.05%
Private Equity	12.00%	8.50%
Intermediate Bonds	23.40%	1.50%
Core Real Estate	4.00%	4.50%
High Yield Bonds	2.60%	3.25%
Non-Core Real Estate	4.00%	7.50%
	100.00%	

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared every four years 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 expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2014, is summarized in the above table.

11. Statewide Retirement Plans – cont.

Sensitivity Analysis

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
The Employer's proportion of Net Pension Liability	$ 1,186,052	$ 853,693	$ 572,902

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

11. Statewide Retirement Plans – cont.

EKALAKA PUBLIC SCHOOLS
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
Teachers Retirement System of Montana
For the Year Ended June 30

	2015
Employer's proportion of the net pension liability	0.0555%
Employer's proportionate share of the net pension liability associated with the Employer	$ 853,693
State of Montana's proportionate share of the net pension liability associated with the Employer	$ 587,324
Total	$ 1,441,017
Employer's covered-employee payroll	$ 760,148
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1.1230%
Plan fiduciary net position as a percentage of the total pension liability	70.36%

EKALAKA PUBLIC SCHOOLS
Required Supplementary Information
Schedule of Contributions
Teachers Retirement System of Montana
For the Year Ended June 30

	2015
Contractually required contributions	$ 65,204
Contributions in relation to the contractually required contributions	$ 65,204
Contribution deficiency (excess)	
District's covered-employee payroll	$ 760,148
Contributions as a percentage of covered-employee payroll	8.58%

EKALAKA PUBLIC SCHOOLS
Notes to Required Supplementary Information
For the Year ended June 30, 2015

Changes of assumptions: The following changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date:

- 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 expensed to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
  For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members was updated to the following:

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

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

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2014, determined as of June 30, 2014.

The following actuarial methods and assumptions were used to determine actuarial contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	28 years
Asset valuation method	4-year smoothed market
Inflation	3.25 percent

11. **<u>Statewide Retirement Plans – cont.</u>**

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

PUBLIC EMPLOYEES RETIREMENT SYSTEM – DEFINED BENEFIT

Plan Description

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

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

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. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

Summary of Benefits

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;

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

11. **Statewide Retirement Plans – cont.**

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, 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

Monthly benefit formula

Members hired prior to July 1, 2011:

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

Members hired on or after July 1, 2011:

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

Guaranteed Annual Benefit Adjustment (GABA)*

- 3% for members hired **prior to** July 1, 2007
- 1.5% for members hired **on or after** July 1, 2007

  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.

*At this time, as a result of permanent injunction issued in the *AMRPE vs State* litigation, the GABA rate in effect is being used in the calculation. Clarification of the GABA rate for members hired on or after July 1, 2013 is pending.

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

Total number of members (employees) covered by benefit terms as of June 30, 2015:

1. Active plan members: 28,237
2. Inactive members entitled to but not yet receiving benefits or a refund:
   Vested: 2,925
   Non-vested: 8,839
3. Inactive members and beneficiaries currently receiving benefits:
   Service Retirements: 20,080
   Disability Retirements: 176
   Survivor Benefits: 425

Overview of Contributions

1. Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan.

2. Member contributions to the system:
   a. Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.
   b. The 7.90% member contributions is 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.

3. Employer contributions to the system:
   a. State and University System employers are required to contribute 8.27% of members' compensation.
   b. Local government entities are required to contribution 8.17% of members' Compensation.
   c. School district employers contributed 7.90% of members' compensation.
   d. Following the 2013 Legislative Session, PERS-employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates.
   e. Effective July 1, 2013, the additional employer contributions for DCRP and MUS-RP is allocated to the defined benefit plan's Plan Choice Rate unfunded liability.

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

f. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

4. 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 from the Coal Tax Severance fund

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 web site 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.asp

Actuarial Assumptions

The Total Pension Liability as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2014. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- General Wage Growth* 4.00%
- *includes Inflation at 3.00%
- Merit Increases 0% to 6%
- Investment Return 7.75%
- Postretirement Benefit Increases
  - 3% for members hired **prior to** July 1, 2007
  - 1.5% for members hired **on or after** July 1, 2007

  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.

11. Statewide Retirement Plans – cont.

*At this time as a result of permanent injunction issued in the *AMRPE vs State* litigation, the GABA rate in effect is being used in the calculation. Clarification of the GABA rate for members hired on or after July 1, 2013 is pending.

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries 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 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. 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 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%

The 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 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block

11. Statewide Retirement Plans – cont.

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 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 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 are presented as the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2014, is summarized in the above table.

Sensitivity Analysis

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
PERS' Net Pension Liability	$ 1,982,274,732	$ 1,246,010,898	$ 625,044,646
School District's Net Pension Liability	$ 360,042	$ 226,314	$ 113,527

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 Montana Public Employee Retirement Administration (MPERA) 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 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 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. Statewide Retirement Plans – cont.

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 Public Employees' Retirement System (PERS). Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions.

In accordance with Statement 68, 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, local governments and school districts are 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 State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Severance Tax and interest. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer.

	Net Pension Liability as of 6/30/13	Net Pension Liability as of 6/30/14	Percent of Collective NPL
Employer proportionate Share	$ 291,231	$ 226,314	0.018163%
State of Montana Proportionate Share associated with Employer	$ 13,614	$ 10,579	0.088325%
Total	$ 304,845	$ 236,893	0.106488%

At June 30, 2015, the employer recorded a liability of $226,314 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2014. The employer's proportion of the Net Pension Liability was based on the employer's contributions received by PERS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERS participating employers. At June 30, 2014, the employer's proportion was 0.018163 percent.

11. Statewide Retirement Plans – cont.

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

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

Changes 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 6/30/14
Employer's Proportionate Share	$	226,314
State of Montana Proportionate Share associated with the Employer	$	10,579
Total	$	236,893

At June 30, 2015, the employer recognized a Pension Expense of $226,314 for its proportionate share of the PERS' Pension Expense. The employer also recognized grant revenue of $10,579 for the support provided by the State of Montana for its proportionate share of the Pension Expense that is associated with the employer.

Recognition of Beginning Deferred Outflow

At June 30, 2015, the employer recognized a beginning deferred outflow of resources for the employers FY2014 contributions of $0.

Deferred Inflows and Outflows

At June 30, 2015, the employer reported its proportionate share of PERS' deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

11. Statewide Retirement Plans – cont.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ -	$ -
Changes in assumptions	$ -	$ -
Difference between projected and actual earnings on pension plan investments	$ -	$ 58,476
Changes in proportion and differences between employer contributions and proportionate share of contributions	$ 1,695	$ 29
Difference between actual and expected contributions	$ -	$ -
#Contributions paid to PERS subsequent to the measurement date - FY 2015 Contributions	$ 24,362	$ -
Total	$ 26,057	$ 58,505

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, 2016. 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	Deferred Inflows of Resources	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2016	$ -	$ -	$ 14,063
2017	$ -	$ -	$ 14,063
2018	$ -	$ -	$ 14,063
2019	$ -	$ -	$ 14,619
2020	$ -	$ -	$ -
Thereafter	$ -	$ -	$ -

12. Subsequent Events

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

13. Transfers

The District made the following transfers:

Multi-district Agreement Transfers:

HS Bus Depreciation	$ (30,000)	EL Bus Depreciation	$ (7,500)
HS General	(15,000)	EL General	(15,000)
HS Building Reserve	45,000	EL Building Reserve	22,500

14. Commitments

The District approved the bid on the new elementary school June 29, 2015. The contract is for $6,194,672; as of June 30, 2015, $0 had been paid. To the date of this report, $1,362,256 has been paid.

The District also entered into a contract for the design and engineering of this project for $459,271. As of June 30, 2015, $305,549 had been paid, and to date, another $52,688 has been paid.

The District also has the following encumbrance commitments:

EL Flexibility	$ 587,028
EL Building	5,293,818
HS Flexibility	164,593
	$ 6,045,439

REQUIRED
SUPPLEMENTAL SCHEDULES

EKALAKA PUBLIC SCHOOLS
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended June 30, 2015

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Property taxes	$ 659,865	$ 659,865	$ 659,175	$ (690)
Earnings on investments	412	412	797	385
Other local sources	-	-	-	-
State revenue	684,856	684,856	734,206	49,350
Federal aid	-	-	-	-
Total revenues	1,345,133	1,345,133	1,394,178	49,045
Expenditures:				
Current:				
Instructional services	597,093	597,093	578,533	18,560
Supporting services:				
Students	48,065	48,065	44,485	3,580
Instructional staff	11,987	11,987	2,690	9,297
District administration	64,825	64,825	78,391	(13,566)
Business services	147,384	147,384	130,480	16,904
Operation and maintenance of facilities	216,345	216,345	232,608	(16,263)
Special education	42,590	42,590	37,837	4,753
Vocational programs	140,270	140,270	140,106	164
Extracurricular programs	66,965	66,965	72,250	(5,285)
Food services	31,704	31,704	47,074	(15,370)
Capital outlay	-	-	-	-
Total expenditures	1,367,228	1,367,228	1,364,454	2,774
Excess of revenues over (under) expenditures	(22,095)	(22,095)	29,724	51,819
Other financing sources (uses):				
Transfer out	-	-	(30,000)	(30,000)
Net change in fund balances	$ (22,095)	$ (22,095)	(276)	$ 21,819
Fund balances - beginning - Budget basis			187,983	
Fund balances - ending - Budget basis			187,707	
Change in inventory			5,723	
Fund balance - GAAP basis			$ 193,430	

EKALAKA PUBLIC SCHOOLS
EKALAKA, MONTANA
NOTES TO REQUIRED SUPPLEMENTAL SCHEDULES
JUNE 30, 2015

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, 2015, the District incurred $6,045,439 encumbrances.

SUPPLEMENTAL SCHEDULES

EKALAKA PUBLIC SCHOOLS
EKALAKA, MONTANA

SCHEDULE OF SCHOOL DISTRICT ENROLLMENT
YEAR ENDED JUNE 30, 2015

FALL ENROLLMENT 10\14	**Audit Per District Records**	**Enrollment Report**
Elementary Schools		
Kindergarten	9	9
Grades One - Three	24	24
Grades Four - Six	27	27
Grades Seven - Eight	17	17
Total	77	77
High School		
Grades Nine - Twelve	43	43

WINTER ENROLLMENT 12/14	**Audit Per District Records**	**Enrollment Report**
Elementary Schools		
Kindergarten	9	9
Grades One - Three	25	25
Grades Four - Six	26	26
Grades Seven - Eight	17	17
Total	77	77
High School		
Grades Nine - Twelve	41	41

SPRING ENROLLMENT 2\15	**Audit Per District Records**	**Enrollment Report**
Elementary Schools		
Kindergarten	10	10
Grades One - Three	28	28
Grades Four - Six	26	26
Grades Seven - Eight	17	17
Total	81	81
High School		
Grades Nine - Twelve	42	42

EKALAKA PUBLIC SCHOOLS
Schedule of Changes in Assets and Liabilities
Student Activities Fund
Year Ended June 30, 2015

	July 1, 2014	Additions	Deductions	June 30, 2015
EGS-STUDENT SUPPLIES	$ 200	$ 349	$ 172	$ 377
EGS-K-6 MUSIC	51	-	-	51
EGS-JH MUSIC	30	-	30	-
C-CLUB	4,788	1,440	2,771	3,457
ANNUAL	4,809	3,313	4,331	3,791
ATHLETICS	537	25,519	23,861	2,195
CLASS OF 2013	545	-	545	-
CLASS OF 2014	511	-	511	-
CLASS OF 2015	1,526	56	1,582	-
CLASS OF 2016	3,283	2,048	3,340	1,991
CLASS OF 2017	1,403	1,034	-	2,437
CLASS OF 2018	540	1,604	336	1,808
CLASS OF 2019	500	477	-	977
CLASS OF 2020	-	160	110	50
HONOR SOCIETY	-	1,034	-	1,034
ENTREPRENEURSHIP	1,616	2,140	1,553	2,203
CONCESSIONS	2,516	17,624	16,931	3,209
CLOSE-UP	2,107	11,211	5,004	8,314
FCCLA	6,969	22,227	16,828	12,368
FFA	5,675	16,723	17,400	4,998
MUSIC	338	8,613	6,178	2,773
SCIENCE CLUB	81	2,003	1,379	705
SPEECH	130	87	80	137
STUDENT COUNCIL	5,953	16,588	17,774	4,767
Total Student Activities	$ 44,108	$ 134,250	$ 120,716	$ 57,642

EKALAKA PUBLIC SCHOOLS
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Budgeted Special Revenue Funds
Year Ended June 30, 2015

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Property taxes	$ 323,588	$ 323,588	$ 320,744	$ (2,844)
Earnings on investments	970	970	6,826	5,856
Other local sources	227,318	227,318	228,113	795
State revenue	771,882	771,882	476,551	(295,331)
Total revenues	1,323,758	1,323,758	1,032,234	(291,524)
Expenditures:				
Current:				
Instructional services	1,714,272	1,714,272	76,072	1,638,200
Supporting services:				
Students	4,281	4,281	6,839	(2,558)
Instructional staff	51,748	51,748	33,604	18,144
District administration	45,045	45,045	53,492	(8,447)
Business services	22,051	22,051	36,138	(14,087)
Operation and maintenance of facilities	99,777	99,777	17,267	82,510
Transportation	128,927	128,927	184,198	(55,271)
Adult education	30,000	30,000	1,426	28,574
Special education	12,690	12,690	8,557	4,133
Vocational programs	15,094	15,094	21,760	(6,666)
Extracurricular programs	8,652	8,652	10,293	(1,641)
Food services	6,331	6,331	5,874	457
Capital outlay	460,441	460,441	762,621	(302,180)
Total expenditures	2,599,309	2,599,309	1,218,141	1,381,168
Excess of revenues over (under) expenditures	(1,275,551)	(1,275,551)	(185,907)	1,089,644
Other financing sources (uses):				
Transfer in	-	-	-	-
Transfer out	-	-	(37,500)	(37,500)
Total other financing sources(uses)	-	-	(37,500)	(37,500)
Net change in fund balances	$ (1,275,551)	$ (1,275,551)	(223,407)	$ 1,052,144
Fund balances - beginning - Budget and GAAP basis			1,304,939	
Fund balances - ending - Budget basis			1,081,532	
Current year encumbrances			751,621	
Fund balances - ending GAAP basis			$ 1,833,153	

EKALAKA PUBLIC SCHOOLS
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Budgeted Capital Project Funds
Year Ended June 30, 2015

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Property taxes	$ -	$ -	$ 126	$ 126
Earnings on investments	353	353	2,292	1,939
State revenue	-	-	-	-
Miscellaneous	-	-	1,477	1,477
Total revenues	353	353	3,895	3,542
Expenditures:				
Operations and maintenance	136,300	136,300	28,429	107,871
Capital outlay	-	-	-	-
Total expenditures	136,300	136,300	28,429	107,871
Excess of revenues over (under) expenditures	(135,947)	(135,947)	(24,534)	111,413
Other financing sources (uses):				
Transfer in	-	-	67,500	67,500
Transfer out	-	-	-	-
Total other financing sources (uses)	-	-	67,500	67,500
Net change in fund balances	$ (135,947)	$ (135,947)	42,966	$ 178,913
Fund balances - beginning - Budget and GAAP basis			135,947	
Fund balances - ending - Budget and GAAP basis			$ 178,913	

EKALAKA PUBLIC SCHOOLS
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Debt Service Funds
Year Ended June 30, 2015

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance Favorable (Unfavorable)
Revenues:				
Taxes/special assessments	$ 600,318	$ 600,318	$ 599,806	$ (512)
Investment and royalty earnings	-	-	953	953
Total revenues	600,318	600,318	600,759	441
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Public health	-	-	-	-
Social and economic services	-	-	-	-
Culture and recreation	-	-	-	-
Miscellaneous	-	-	-	-
Debt service				
Principal	-	-	500,000	(500,000)
Interest	600,318	600,318	95,782	504,536
Total expenditures	600,318	600,318	595,782	4,536
Excess of revenues over expenditures	-	-	4,977	4,977
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	$ -	$ -	4,977	$ 4,977
Fund balances - beginning - Budget basis and GAAP basis			-	
Fund balances - ending - Budget and GAAP basis			$ 4,977	

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Licensed in North Dakota and Montana

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, 2015, 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 December 9, 2015.

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 CPA

Baker, Montana
December 9, 2015