

LEWISTOWN SCHOOL DISTRICT NO. 1

**FERGUS COUNTY
LEWISTOWN, MONTANA**

FINANCIAL AND COMPLIANCE REPORT

Fiscal year Ended June 30, 2018

Strom & Associates, P. C.

**PO BOX 1980
Billings, Montana 59103**

LEWISTOWN SCHOOL DISTRICT NO. 1
 FERGUS COUNTY
 LEWISTOWN, MONTANA 59457

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LEWISTOWN SCHOOL DISTRICT NO. 1
FERGUS COUNTY
LEWISTOWN, MONTANA 59457

ORGANIZATION

BOARD OF TRUSTEES

Phil Koterba	Chair
CJ Bailey	Vice Chair
Kris Birdwell	Trustee
Jeff Southworth	Trustee
Jennifer Thompson	Trustee
Stephen Vantassel	Trustee
Monte Weeden	Trustee

OFFICIALS

Thom Peck	Superintendent
Rebekah Rhoades	District Clerk
Rhonda Long	County Superintendent
Kent Sipe	County Attorney

**Lewistown Public Schools
Management Discussion and Analysis (MD&A)
For The Year Ended June 30, 2018**

The Business Manager of the Lewistown Public Schools has provided this MD&A to give the reader of these statements an overview of the financial position and activities of the school district for the fiscal year ended June 30, 2018.

Using This Financial Report

The general format of the report is required by Statement No. 34 of the Governmental Accounting Standards Board (GASB). Thus is born the GASB 34 requirement.

Reporting the School District as a Whole

The report includes two district-wide statements that focus on operations of the district as a whole. These statements measure operations using an economic resources measurement focus, and use the accrual basis accounting. Activities that are fiduciary in nature are not included in these statements.

- A. The Statement of Net Position shows “assets” (what is owned), “liabilities” (what is owed), and the “net position” (the resources that would remain if all obligations were settled) of the school district. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in “fixed” or “capital” assets, such as buildings, equipment and other long-lived property; and some assets are available to fund budgets of the following year.
- B. The Statement of Activities shows the amounts of program-specific and general school district revenue used to support the school district’s various functions.

The Statement of Net Position and the Statement of Activities divide the activities of the school district into three categories:

Governmental activities – The school functions including instruction, student services, administration, etc. Property taxes, state and federal revenues usually support most of these functions of the district.

Proprietary (business-type) activities – school operations included in this category include IMC, Central Supply Store, and Central Transportation.

Reporting the District’s Most Significant Funds

The fund statements provide detailed information about the funds used by the school district. State law and Generally Accepted Accounting Procedures (GAAP) established the fund structure of school districts. State law generally requires school districts to segregate money generated for certain purposes, like transportation and debt service, in separate fund accounts.

The fund statements report balances and activities of the most significant or “major” funds separately and combine the activities of less significant funds under a single category. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the school district’s operations, and the existence of legal budget requirements. Internal Service funds are never reported as major funds, but are combined and presented in a separate set of financial statements.

The Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance are shown for governmental funds such as the general funds, special revenue funds for transportation and school food service, and debt service and capital outlay funds. These funds use the modified accrual basis of accounting and represent the majority of the district's activities and programs.

Fund statements include a reconciliation of the governmental fund statements to the district-wide statements. Most significant differences result from the use of different presentation basis. The district-wide statements are presented using the accrual basis of accounting and the fund statements for governmental funds use the modified accrual basis. In addition, general capital assets and general long-term debt are reported in the district-wide statements but not in the fund statements.

Reporting the District's Trust and Fiduciary Responsibilities

The District is the trustee, or fiduciary, for endowments (including Eveline Eccles and Alweis Scholarships) and the student extracurricular funds.

This report includes the activities in a separate Statement of Fiduciary Net Position and Changes in Fiduciary Net Position because the district cannot use these assets to fund its operation.

The District is responsible for ensuring these assets are used for their intended purpose.

Budget-to-Actual Comparisons

The district consistently reconciles its books monthly.

THE DISTRICT AS A WHOLE

Net Position serves over time as a useful indicator of a school district's financial position. In the Lewis-town Public Schools, liabilities exceeded assets by \$356,882 as of June 30, 2018. In 2018, the District was required to implement the new OPEB GASB 75 standard for liability accounting of post-employment benefits (non-pension). This number, in addition to the required reporting of the TRS and PERS liability that was implemented in 2015, has caused liabilities to exceed assets. If these liabilities were not required to be on our books, the District's assets would easily exceed liabilities.

**Lewistown Public Schools
Condensed Statement of Net Position**

Governmental Activities

	<u>FY2017</u>	<u>FY2018</u>
Current and other assets	5,777,569	5,666,830
Capital assets	<u>7,354,165</u>	<u>7,723,806</u>
Total Assets	13,131,734	13,390,636
Current liabilities	123,993	32,373
Non-current liabilities	<u>12,402,281</u>	<u>14,643,779</u>
Total Liabilities	12,526,274	12,526,273
Invested in capital assets, Net of debt	7,354,165	7,723,806
Restricted	4,253,319	4,162,012
Unrestricted	<u>(9,405,776)</u>	<u>(12,242,700)</u>
Total Net Position	2,201,708	(356,882)

**Lewistown Public Schools
Changes in Net Position**

Governmental Activities

GENERAL REVENUES

	<u>FY2017</u>	<u>FY2018</u>
District Levy	3,801,142	4,281,534
State Equalization	3,587,290	3,532,102
Other State Revenue	2,720,751	2,516,947
County	1,294,800	1,319,845
Federal	0	0
Investment Earning	49,445	59,010
Gain on Asset	209,572	59,564
Other	<u>212,742</u>	<u>148,963</u>
Total General Revenue	14,418,824	14,206,466

GOVERNMENT OPERATIONS

Instruction (includes OPEB)	7,502,171	7,161,780
Support	489,905	373,673
Media	514,490	461,370
Administration	1,951,816	2,162,142
O & M	1,789,177	1,788,719
Transportation	828,750	879,517
Extracurricular	287,087	295,792
School Food	721,405	727,128
Other Current Charges	45,325	36,545
Interest and Other Charges	550	0
Depreciation – unallocated	<u>64,823</u>	<u>87,732</u>
Total Operations	14,195,499	13,974,398

Capital Assets

As of June 30, 2018, the District had invested over \$7 million in capital assets including land and land improvements, buildings and improvements, and machinery and equipment. General fixed assets are reported at historical cost. Historical cost was established at the initial booking of fixed assets by determining actual costs or estimating using standard costing procedure. The District's fixed asset policy is set to include items of \$5,000 and a useful life in excess of one year. The following schedule presents capital balances with accumulated depreciation as of June 30th.

	<u>FY2017</u>	<u>FY2018</u>
Land and Improvements	1,954,251	2,001,933
Accumulated Depreciation	<u>(923,218)</u>	<u>(966,144)</u>
	1,031,033	1,035,788
Buildings and Improvements	12,083,608	12,930,463
Construction in Progress	240,153	0
Accumulated Depreciation	<u>(7,029,695)</u>	<u>(7,386,792)</u>
	5,294,066	5,543,671
Machinery and Equipment	3,645,588	3,893,207
Accumulated Depreciation	<u>(2,616,520)</u>	<u>(2,656,520)</u>
	1,029,068	1,236,687

The District's Future

State law enables districts to use three-year average or current year enrollment (whichever is higher) when calculating budgets. Over the past five years, enrollment has increased in the elementary while slightly decreasing in the high school. Both this year and next, we will see a further decline in enrollment at the High School based on the number of students currently in the Junior High. There continues to be a growing need for services for special needs students, but little assistance from the State. The current Lewistown Collective Bargaining Agreement extends through FY20, and included a 1.5% (FY19) and 2% (FY20) raise for all employees. Over the past several years, we had many retirements, causing the demographics of the District to change to a younger population.

The district also faces other challenges and decisions including:

- The Lewistown Board of Trustees was not able, because of budget limits, to run a levy in either the elementary or high school in FY18. There have been failed attempts in the past to pass levies that has caused the Board to be very conscientious in what they ask of taxpayers. In addition, recent Legislative decisions have "shifted" some of the costs of education to the local taxpayers. The Board will need to be diligent in their consideration of both voted and non-voted levies in the future.
- The District estimates that general building repairs and maintenance in excess of \$10 million will be necessary over the next several years. Both an Elementary and High School Building Reserve Levy passed in May 2016, helping to support the needs of upkeep of the District's facilities. In 2017, Legislature added the ability to "permissively" levy in the Building Reserve Fund. At this time, the Board has determined not to use this new authority, but may have to consider it in the future as our Buildings continue to age and need major repairs. The District is also beginning the process of consideration of a Bond election in 2020 to address building needs in the district.

- The ever-increasing use of technology in the classrooms has put a financial dilemma upon the District. Currently, both the Elementary and High School have permanent levies in place. The Elementary yearly levy is \$61,498 and the High School's is \$54,165, not enough to keep all technology within the District up-to-date. Due to changes in state law, if additional funds are requested of voters, the levy may not exceed 10 years. The Board will need to determine if non-permanent Technology Levy request will need to be presented to voters in the future.

In the end, all of the District's finances boil down to how effectively we are educating our children. We must continue to keep our focus on our students' education and allocate our resources in the manner that best serves them.

Contact for Additional Information

If you have questions about this report or need additional information, contact the Business Manager at the Lewistown Public Schools, 215 7th Avenue South, Lewistown, MT 59457, (406)-535-8777 x116.



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INDEPENDENT AUDITOR'S REPORT

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

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 the Lewistown School District No. 1 (School District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School 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 (GAAP); 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 the Lewistown School District No. 1 as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 and 12 to the financial statements, in year ended June 30, 2018, the Lewistown School District No. 1 adopted GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information (RSI)

Accounting principles generally accepted in the United States of America requires that the management’s discussion and analysis (pages 3 - 7), and the schedule of funding for other post-employment benefits other than pensions (page 42), and schedule of proportionate share of net pension liability and schedule of contributions to Montana retirement systems (pages 43 - 48), and budgetary comparison information (pages 49 - 52) 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 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lewistown School District No. 1’s basic financial statements. The accompanying schedule of revenues, expenses and balances of student activity funds (pages 53 - 54) and schedule of reported enrollment (pages 55) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards (pages 56 - 57) is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The accompanying schedule of revenues, expenses and balances of student activity funds, schedule of reported enrollment, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 accompanying schedule of revenues, expenses and balances of student activity funds, schedule of reported enrollment, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2019 on our consideration of the Lewistown School District No. 1 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 the Lewistown School District No. 1 internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC
Billings, Montana
January 15, 2019

STATEMENT OF NET POSITION
 June 30, 2018

	<u>Governmental Activities</u>
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 5,390,922
Taxes receivable	155,315
Due from other governments	77,934
Inventories	<u>42,659</u>
Total current assets	<u>5,666,830</u>
Noncurrent assets:	
Capital assets:	
Land	590,530
Net depreciable assets	<u>7,133,276</u>
Total noncurrent assets	<u>7,723,806</u>
Total assets	<u>13,390,636</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Employer pension plan activities	<u>1,176,670</u>
Total deferred outflows of resources	<u>1,176,670</u>
Total assets and deferred outflows of resources	<u>\$ 14,567,306</u>
LIABILITIES:	
Current liabilities:	
Unearned revenue	14,632
Other current liabilities	6,356
Current portions long-term debt obligations	55,000
Current portions compensated absences	<u>56,385</u>
Total current liabilities	<u>132,373</u>
Noncurrent liabilities:	
Long-term debt obligations	11,000
Compensated absences	439,652
Net pension accrual	10,123,673
Other postemployment benefits	<u>4,069,454</u>
Total noncurrent liabilities	<u>14,643,779</u>
Total liabilities	<u>14,776,152</u>
DEFERRED INFLOWS OF RESOURCES:	
Employer pension plan	<u>148,036</u>
Total deferred inflows of resources	<u>148,036</u>
NET POSITION:	
Net investment in capital assets	7,723,806
Restricted	4,162,012
Unrestricted (Deficit)	<u>(12,242,700)</u>
Total net position	<u>(356,882)</u>
Total liabilities, deferred inflows and net position	<u>\$ 14,567,306</u>

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

STATEMENT OF ACTIVITIES
 For the year ended June 30, 2018

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government
					Governmental Activities
GOVERNMENT OPERATIONS:					
Instructional services	\$ 7,161,780	\$ 37,826	\$ 1,196,466	\$ -	\$ (5,927,488)
Support services	373,673	-	60,490	-	(313,183)
Educational media services	461,370	-	35,654	-	(425,716)
General administrative services	2,162,142	152,462	30,391	-	(1,979,289)
Operation & maintenance services	1,788,719	14,607	29,206	55,465	(1,689,441)
Transportation services	879,517	-	143,451	-	(736,066)
School food services	727,128	249,668	282,815	-	(194,645)
Extracurricular	295,792	-	-	-	(295,792)
Other current charges	36,545	-	-	-	(36,545)
Unallocated depreciation expense *	87,732	-	-	-	(87,732)
Total Governmental Activities	<u>13,974,398</u>	<u>454,563</u>	<u>1,778,473</u>	<u>55,465</u>	<u>(11,685,897)</u>
GENERAL REVENUES:					
District levies					4,281,534
State Equalization					3,532,102
Other State Revenues					2,516,947
County					1,319,845
Interest					59,010
Other					148,963
Gain (loss) on Sale of Assets					<u>59,564</u>
Total General Revenues					<u>11,917,965</u>
Change in Net Position					232,068
NET POSITION:					
Beginning of the year					2,201,708
Prior period adjustments					<u>(2,790,658)</u>
End of the year					<u>\$ (356,882)</u>

* Excludes depreciation included in direct expenses of the various functions

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

Lewistown SD
 Fergus County
 Lewistown, MT 59457

BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2018

	MAJOR				Total Governmental Funds
	General	Miscellaneous Programs (Elem.)	Interlocal Agreement Fund	Other Governmental Funds	
ASSETS:					
Current assets:					
Cash and cash equivalents	\$ 1,325,910	\$ 610,063	\$ 631,330	\$ 2,771,141	\$ 5,338,444
Taxes receivable	106,972	-	-	48,343	155,315
Due from other governments	-	71,724	-	6,210	77,934
Inventories	-	-	-	42,659	42,659
Total assets	1,432,882	681,787	631,330	2,868,353	5,614,352
DEFERRED OUTFLOWS OF RESOURCES:					
Total deferred outflows of resources	-	-	-	-	-
Total assets and deferred outflows of resources	\$ 1,432,882	\$ 681,787	\$ 631,330	\$ 2,868,353	\$ 5,614,352
LIABILITIES:					
Current liabilities:					
Unearned revenue	-	-	-	14,632	14,632
Other current liabilities	-	6,356	-	-	6,356
Cash overdraft	-	-	-	1,352	1,352
Total liabilities	-	6,356	-	15,984	22,340
DEFERRED INFLOWS OF RESOURCES:					
Unavailable property taxes receivable	106,972	-	-	48,343	155,315
Total deferred inflows of resources	106,972	-	-	48,343	155,315
FUND BALANCE (DEFICITS):					
Nonspendable	-	-	-	42,659	42,659
Restricted	-	675,431	631,330	2,764,249	4,071,010
Unassigned	1,325,910	-	-	(2,882)	1,323,028
Total fund balance	1,325,910	675,431	631,330	2,804,026	5,436,697
Total liabilities, deferred inflows of resources, and fund balance	\$ 1,432,882	\$ 681,787	\$ 631,330	\$ 2,868,353	\$ 5,614,352

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 5,436,697
Internal Service Fund Net Position	53,830
Unavailable property taxes receivable	155,315
Governmental capital assets	7,723,806
Employer pension plan activities	1,176,670
Long-term Liabilities	
Long-term debt obligations	(66,000)
Compensated absences	(496,037)
Net pension accrual	(10,123,673)
Other postemployment benefits	(4,069,454)
Employer pension plan	(148,036)
Net Position of Governmental Activities	\$ (356,882)

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

STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 For the year ended June 30, 2018

	MAJOR				Total Governmental Funds
	General	Miscellaneous Programs (Elem.)	Interlocal Agreement Fund	Other Governmental Funds	
REVENUES:					
District levies	\$ 2,901,847	\$ -	\$ -	\$ 1,335,920	\$ 4,237,767
Interest	19,128	-	5,770	34,112	59,010
Charges for services	-	-	152,462	287,494	439,956
Other	1,873	113,050	30,000	18,647	163,570
County	-	-	-	1,397,374	1,397,374
State	6,477,679	71,597	-	167,285	6,716,561
Federal	-	362,567	-	416,905	779,472
Total revenues	9,400,527	547,214	188,232	3,657,737	13,793,710
EXPENDITURES:					
Current:					
Instructional services	5,345,836	392,399	86,949	1,045,069	6,870,253
Support services	304,041	22,964	-	42,865	369,870
Educational media services	322,586	42,057	1,050	87,752	453,445
General administrative services	1,500,737	3,402	166,900	424,049	2,095,088
Operation & maintenance services	1,312,517	-	31,168	111,087	1,454,772
Transportation services	28,735	4,739	-	655,103	688,577
School food services	168,993	2,883	-	546,903	718,779
Extracurricular	254,625	-	-	31,525	286,150
Other current charges	-	-	42,841	5,494	48,335
Capital outlay	14,004	28,071	39,441	958,272	1,039,788
Total expenditures	9,252,074	496,515	368,349	3,908,119	14,025,057
Excess (deficiency) of revenues over expenditures	148,453	50,699	(180,117)	(250,382)	(231,347)
OTHER FINANCING SOURCES/USES:					
Sale of capital assets	-	609	24,169	34,786	59,564
Fund transfers in	-	-	223,025	-	223,025
Fund transfers (out)	(223,025)	-	-	-	(223,025)
Total other financial sources/uses	(223,025)	609	247,194	34,786	59,564
Net changes in fund balances	(74,572)	51,308	67,077	(215,596)	(171,783)
FUND BALANCE:					
Beginning of the year	1,400,482	624,123	564,253	3,019,329	5,608,187
Prior period adjustments	-	-	-	293	293
End of the year	\$ 1,325,910	\$ 675,431	\$ 631,330	\$ 2,804,026	\$ 5,436,697

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

Lewistown SD
 Fergus County
 Lewistown, MT 59457

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 For the year ended June 30, 2018

Net Changes in Fund Balance	\$	(171,783)
Change in net position from internal service funds		15,758
Revenues on the Statement of Activities not included in governmental funds statement:		
Capital contributions	55,465	
Increase (decrease) in taxes receivable	43,767	
State Pension Aid	<u>253,960</u>	353,192
Revenues reported in the governmental funds statement not included in the Statement of Activities		
Sale of Fixed Assets		(59,564)
Expenses on the Statement of Activities not included in the governmental funds statement:		
Depreciation Expense	(612,069)	
Actuarial Pension Expense	(454,484)	
(Increase) decrease in compensated absence liability	<u>11,666</u>	(1,054,887)
Expenditures reported in the governmental funds statement not included in the Statement of Activities		
Capital outlays	1,039,788	
Gain (loss) on sale of assets	59,564	
Principal payments on debt	<u>50,000</u>	<u>1,149,352</u>
Change in net position reported on the Statement of Activities	\$	<u>232,068</u>

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

Lewistown SD
Fergus County
Lewistown, MT 59457

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2018

	<u>Governmental Activities - Internal Service</u>
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 53,830
Total current assets	<u>53,830</u>
Noncurrent assets:	
Total noncurrent assets	<u>-</u>
Total assets	<u>53,830</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Total deferred outflows of resources	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 53,830</u>
LIABILITIES:	
Current liabilities:	
Total current liabilities	<u>-</u>
Noncurrent liabilities:	
Total noncurrent liabilities	<u>-</u>
Total liabilities	<u>-</u>
DEFERRED INFLOWS OF RESOURCES:	
Total deferred inflows of resources	<u>-</u>
NET POSITION:	
Unrestricted (Deficit)	<u>53,830</u>
Total net position	<u>53,830</u>
Total liabilities, deferred inflows and net position	<u>\$ 53,830</u>

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

Lewistown SD
Fergus County
Lewistown, MT 59457

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the year ended June 30, 2018

	<u>Governmental</u> Activities - <u>Internal Service</u>
OPERATING REVENUES:	
Charges for services	\$ 164,879
Total operating revenues	<u>164,879</u>
OPERATING EXPENSES:	
Purchased services	<u>149,121</u>
Total operating expense	<u>149,121</u>
Operating income (loss)	<u>15,758</u>
Change in net position	15,758
NET POSITION:	
Beginning of the Year	<u>38,072</u>
End of the Year	<u>\$ 53,830</u>

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

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2018

	<u>Governmental Activities - Internal Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 164,879
Claims paid	<u>(149,121)</u>
Net cash provided (used) by operating activities	<u>15,758</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Net cash provided (used) by noncapital financing activities	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Net cash provided (used) by capital and related financing activities	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net cash provided (used) by investing activities	<u>-</u>
Net increase (decrease) in cash and cash equivalents	15,758
BALANCE:	
Beginning of the year	<u>38,072</u>
End of the year	<u>\$ 53,830</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ 15,758
Net cash provided (used) by operating activities	<u>\$ 15,758</u>

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

Lewistown SD
 Fergus County
 Lewistown, MT 59457

STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 June 30, 2018

	Private Purpose	
	Trust Funds	Agency Funds
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 322,353	\$ 809,305
Accounts receivable - net	<u>2,755</u>	<u>-</u>
Total Assets	<u>\$ 325,108</u>	<u>\$ 809,305</u>
LIABILITIES:		
Current liabilities:		
Warrants payable	<u>-</u>	<u>809,305</u>
Total Liabilities	<u>-</u>	<u>\$ 809,305</u>
NET POSITION:		
Held in trust for endowment	113,314	
Held in trust for student activities	<u>211,794</u>	
Total Net Position	<u>\$ 325,108</u>	

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 For the year ended June 30, 2018

	Private Purpose
	Trust Funds
ADDITIONS:	
Revenues from student activities	\$ 390,311
Contributions to Endowment	<u>1,223</u>
Total Additions	<u>391,534</u>
DEDUCTIONS:	
Expenses of student activities	386,007
Total Deductions	<u>386,007</u>
Change in net position	5,527
NET POSITION:	
Beginning of the year	<u>319,581</u>
End of the year	<u>\$ 325,108</u>

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

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of the Lewistown School District No. 1 (School District) have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana, which conforms to Generally Accepted Accounting Principles (GAAP). The School District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

At the end of fiscal year 2018 the School District adopted the following GASB Statements:

- GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The School District implemented this Statement.
- GASB Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The School District reviewed its debt disclosures and does not believe this Statement significantly affect its current debt disclosures.
- GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The School District determined that this Statement does not significantly affect its reporting, but will comply if any construction projects are entered into.

The following is a listing of GASB Statements which have been issued and the School District assessment of effects to the financial statements.

- GASB Statement No. 83 – *Certain Asset Retirement Obligation*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The School District believes that this Statement is not applicable to its financial statements, however it will make a final determination on its applicability before the effective date.
- GASB Statement No. 84 – *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The School District plans to implement this Statement once the State of Montana updates the standard chart of accounts.
- GASB Statement No. 87 – *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The School District plans to implement this Statement once it has identified all leases and has reviewed the Q&A on this Statement.

The School District consists of two legally separate entities, an elementary district which provides education for kindergarten through eighth grade and a high school district which provides education for ninth through twelfth grade. For financial reporting purposes the two school districts are combined because they are controlled by the same central board of trustees and managed by the same administration. The board of trustees is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. GAAP requires only one general fund for each reporting entity, so the elementary and high school general funds are combined in the accompanying financial statements.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

Lewistown School District No. 1 was incorporated under the laws of the State of Montana and, as required by GAAP, the financial statements of the reporting entity include those of the Lewistown School District No. 1 (the primary government) and any component units. The criteria for including organizations as component units within the School District's reporting entity is set forth in Section 2100 of the GASB "Codification of Government Accounting and Financial Reporting Standards." The basic criteria include appointing a voting majority of an organization's governing body, as well as the School District's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the School District. Based on those criteria the School District has no component units.

1. b. BASIS OF PRESENTATION AND ACCOUNTING

1. b. 1. GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements include the statement of net position and the statement of activities. The governmental activities column incorporates data from governmental funds and internal service funds, (primary government). Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The government-wide financial statements report using the economic resource measurement focus and the accrual basis of accounting and generally include the elimination of internal activity between or within funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

The statement of activities reports the direct expenses of a given function offset by program revenues directly connected with the functional program. Direct expenses are those that are specifically associated with a function. Program revenues include:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function.
- Operating and Capital grants that are restricted to a particular function.

Property taxes, investment earnings, state equalization payments, and other revenue sources not properly included with program revenue are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-supporting or drawing from general revenues.

1. b. 2. FUND ACCOUNTING

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The student activity funds and endowment funds are displayed as fiduciary funds. Since the resources in the fiduciary funds cannot be used for School District operations, they are not included in the government-wide statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balance are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets. Revenues are recorded when they are both measurable and available. Available means collectible within the current period – anything collected after June 30 is generally not material. Unavailable income is recorded in governmental funds for delinquent taxes. Expenditures are recorded when the related fund liability is incurred, except for compensated absence payments which are recognized when due. Capital assets are functional expenditures in governmental funds.

Revenues from local sources consist primarily of property taxes. Property tax revenue and revenues received from the State of Montana are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. Cost reimbursement grant funds are considered to be both measurable and available to the extent the related expenditures were made under the provisions of the grant. When such funds are received before the expenditure was incurred, they are recorded as unearned grant revenues. All other revenue items are considered to be measurable and available only when cash is received by the School District.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

Proprietary, trust, and agency fund financial statements use the economic resources measurement focus and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the dental self-insurance health insurance internal service funds is charges to employees and the School District for services. Operating expenses for the internal service fund include the cost of dental care, services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

GASB Statement No. 34 requires the general fund be reported as a major fund and that only one general fund be reported. As such, the elementary and high school general funds have been combined and are reported as one major fund. Other individual governmental funds should be reported in separate columns as major funds based on these criteria:

- Total assets, liabilities, revenues, or expenditures of that individual governmental fund are at least 10% of the corresponding total (assets, liabilities, etc.) for all funds of that category or type (e.g., total governmental funds).

In addition to funds that meet the major fund criteria, any other governmental fund that government officials believe is particularly important to financial statement users may be reported as a major fund.

The School District reports the following major governmental funds:

- General Fund – The General Fund is the general operating fund of the School District and accounts for all revenues and expenditures of the School District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. In the governmental fund financial statements, the general fund also includes the activities of the elementary and high school metal mines tax reserve, and the elementary and high school flexibility funds since the restrictions on those funds are similar to the general fund.
- Elementary Miscellaneous Fund – This fund is used to account for local, state, or federal grants and reimbursements. Donations that allow the expenditure of both principal and interest for support of School District programs are deposited in this fund.
- Interlocal Agreement Fund – This fund is used to account for the Technology services provided to other school districts or cooperatives, curriculum purchases, the Construction Academy, and EOCM activities.

1. b. 3. OTHER FUND TYPES

Internal Service Funds – This fund account for the financing of goods or services provided by one department to other departments of the School District, or to other governments, on a cost reimbursement basis. The fund includes a dental self-insurance health insurance fund. Because all of the services predominately benefit governmental rather than business type functions, they are included with governmental activities in the government-wide financial statements.

Private-Purpose Trust Funds – These funds account for the receipt and disbursement of monies from student activity organizations, as well as any donated scholarship funds. These organizations exist with the explicit approval of and are subject to revocation by the School District's Board of Trustees. This accounting reflects the School District's trust relationship with the student activity organizations and any scholarship commitments.

Agency Funds – These funds account for assets that the School District holds on behalf of others as their agent and for warrants written but not redeemed that are reported in the School District's payroll and claims clearing funds and employee payroll tax withholdings. Cash is held for warrants which were written but have not been paid by the County Treasurer. A warrant is an order by which the drawer (the person with authority to make the order) directs the School District trustee to pay a particular sum of money to a payee (person or entity) from funds in the School District treasury which are or may become available.

1. c. ASSETS, LIABILITIES AND NET POSITION (FUND BALANCE)

1. c. 1 CASH AND INVESTMENTS

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

Allowable Depositories – Cash includes amounts in demand deposits, as well as short-term investments as authorized by State of Montana statutes. Montana Code Annotated (MCA) allows Montana local governments to invest public money not necessary for immediate use in:

- United States government treasury bills, notes, or bonds
- Certain United States treasury obligations
- United States government security money market fund, if investments consist of those listed above
- Time or savings deposits with a bank or credit union which is Federal Deposit Insurance Corporation (FDIC) or National Credit Union Association insured
- Repurchase agreements as authorized by MCA
- State of Montana Short-Term Investment Pool (STIP)

Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. Investments are recorded at fair market value.

County Investment Pool Collateral – Information regarding the collateral and security for cash held by the County is not available to the School District. However, State of Montana statute requires that United State government securities or agencies be held as collateral to secure deposits of public funds in excess of FDIC insurance. The external investment pool is audited as part of Fergus County’s financial statements. This investment pool is not registered with or monitored by the Securities and Exchange Commission (SEC).

Cash Flow Statement – For purposes of the Statement of Cash flows, the School District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Cash Overdrafts – Cash overdrafts reported in the fund statements are classified as current liabilities in the governmental fund statements. The cash overdrafts are eliminated in the governmental activities columns of the statement of net position. The cash overdraft appears on the fund statements when cash in the fund is overdrawn and the fund is borrowing money from another fund without displaying an interfund receivable and payable on the financial statements.

1. c. 2. TAXES

Property tax levies are set in connection with the budget process and are based on taxable values listed as of January 1 for all property located in the School District. Taxable values are established by the State of Montana 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.

Property taxes are collected by the County Treasurer, who credits to the School District funds its respective share of the collections. The tax levies are collectible in two installments, which become delinquent after November 30 and May 31. Property taxes are liens upon the property being taxed. After a period of three years, the County may begin foreclosure proceedings and sell the property at auction. The School District receives its share of the sale proceeds of any such auction.

Taxes that become delinquent are charged interest at the rate of 0.83% per month plus a penalty of 2%. After a period of three years, the County may begin foreclosure proceedings and sell real property at auction. In the case of personal property, the property may be seized and sold after the taxes become delinquent.

1. c. 3. INVENTORIES

Food inventory, and supplies inventory are carried in an inventory account at average cost and are subsequently charged to expenditures when consumed (using the consumption method).

1. c. 4. CAPITAL ASSETS

The School District’s property, plant, and equipment are stated at historical cost and comprehensively reported in the government-wide financial statements. Historical cost was established when the capital assets were initially recorded by determining the actual cost or estimating the cost using standard costing procedures. The School District considers capital assets to be items in excess of \$5,000 with a useful life in excess of one year. The costs of normal maintenance and repair are not capitalized. Depreciation on capital assets is provided over their estimated useful lives on the straight-line method. Land and construction in progress are not depreciated. The useful life of depreciable assets has been estimated as follows:

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

<u>Capital Asset Classes</u>	<u>Useful Life</u>
Buildings	7 – 50 years
Improvements other than buildings	20 years
Machinery and Equipment	5 – 25 years

1. c. 5. DEFERRED OUTFLOWS/ INFLOWS OF RESOURCES

In addition to assets, the statement of financial position reports a separate section for Deferred Outflows of Resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and, as such, will not be recognized as an outflow of resources (e.g., expense/expenditure) until that time.

In addition to liabilities, the statement of financial position reports a separate section for Deferred Inflows of Resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and, as such, will not be recognized as an inflow of resources (e.g., revenue) until that time.

Pension Liability– Deferred outflow/inflow – The School District recognizes a net pension liability for each qualified pension plan in which it participates. Changes in the net pension liability during the fiscal year are recorded as pension expense, deferred inflows of resources, or deferred outflows of resources depending on the nature of the change and the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense.

Property Taxes – Deferred inflows – The School District reports deferred inflows under the modified accrual basis of accounting in the governmental funds for property taxes. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. In the governmental fund balance sheet, they are reported as unavailable from property taxes receivable.

1. c. 6. VACATION AND SICK LEAVE

Classified School District employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. Classified School District employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave at the current rate of pay. Classified School District employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of unused sick leave. At termination, only 25% of accumulated sick leave is paid at the employee’s current rate of pay.

Certified School District employees shall accrue 10 days of discretionary leave at the beginning of each year. Unused discretionary leave will be accumulated to 160 days per employee. After eight consecutive year of employment with the School District, certified employees who terminate employment shall be paid a lump of 30% of their accumulated discretionary leave at their current rate of pay.

Liabilities incurred because of unused vacation and sick leave accumulated by employees are reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the statement of activities. The amount expected to be paid within one year is \$56,385 and it is generally paid out of the general fund.

1. c. 7. NET POSITION AND FUND BALANCE

The Statement of Net Position includes the following:

- Net Investment in Capital Assets – This component of net position reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of these capital assets.
- Restricted – This component of net position is restricted either externally by creditors (e.g., debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

- **Unrestricted** – This component of net position is difference between the assets and liabilities that are not reported in the other components of net position.

Governmental fund financial statements include the following fund balances:

- **Non-spendable** – This balance includes amounts that cannot be spent either because they are not in a spendable form or because of legal or contractual constraints.
- **Restricted** – This balance includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- **Unassigned** – This balance includes amounts that are available for any purpose. These amounts are reported only in the general fund or funds that have negative fund balances.

As of June 30, 2018, fund balance components other than unassigned fund balance consist of the following:

Purpose	Non-spendable	Restricted
Instructional and Support Services	\$ 0	\$ 700,894
Operations and Maintenance	0	19,329
Student Transportation	0	238,693
School Food	42,659	0
Third Party Grantor Restrictions	0	864,131
Employer Retirement Benefits	0	398,002
Future Technology	0	200,474
Future Capital Costs	0	1,645,322
Debt Service	0	4,165
Total	\$ 42,659	\$ 4,071,010

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance are available, the School District considers restricted funds to have been spent first.

1. d. OTHER

1. d. 1. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. d. 2. COUNTY PROVIDED SERVICES

The School District is provided various financial services by County. The County also serves as cashier and treasurer for the School District for tax and assessment collections and other revenues received by the County which are subject to distribution to the various taxing jurisdictions located in the County. The collections made by the County on behalf of the School District are accounted for in an agency fund in the School District’s name. No service charges have been recorded by the School District or the County.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2018, the summary of cash, cash equivalents for governmental and fiduciary funds is as follows:

Account Type	Governmental Activities	Fiduciary Funds	Total
Cash and Cash Equivalents	\$ 5,390,922	\$ 1,131,658	\$ 6,522,580

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

The carrying amount of cash on hand, deposits, and investments at June 30, 2018, is as follows:

	<u>Amount</u>
Demand Accounts	\$ 265,624
County Investment Pool	<u>6,256,956</u>
Total	<u>\$ 6,522,580</u>

County Investment Pool – Cash resources of the School District are held and managed by the County Treasurer pursuant to State Law. They are combined with cash resources of other governmental entities within County to form a pool of cash and cash equivalents. Investments of pooled cash consist primarily of repurchase agreements, U.S. government securities, STIP, money market accounts, and certificates of deposit and are carried at fair value. The School District’s exposure to credit risk is not available to the School District. Risk in the event of loss is unclear in state law, but appears to be the liability of the County government. Because of the custodial involvement of the County government, and the commingling of cash in County deposits in the name of the County Treasurer, full risk classifications are available in the County’s annual report. There is no known maturity and credit rating of the County Investment Pool.

Custodial Credit Risk – Deposits – The cash of the extracurricular funds and internal service fund is held separately by the School District and, consequently, the deposits may be subject to custodial credit risk. Custodial credit risk is the risk that, in the event of a bank failure, the School District’s deposits may not be returned. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2018, the deposits in the extracurricular fund and internal service fund were covered by FDIC insurance.

NOTE 3. TAXES RECEIVABLE

The School District is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The assessed value of the roll as of January 1, 2017, upon which the levy for the 2018 fiscal year was based, was \$12,818,032 for the Elementary School District and \$13,941,741 for the High School District. The tax rates assessed for the year ended June 30, 2018 to finance School District operations and applicable taxes receivable for the elementary and high schools follows:

<u>Fund</u>	<u>Mill Levies</u>	<u>Taxes Receivable</u>
<u>Elementary</u>		
General*	147.55	\$ 69,704
Transportation	30.86	14,333
Bus Depreciation	5.22	2,260
Tuition	6.70	2,996
Technology	4.80	2,297
Debt Service		561
Building Reserve	7.65	3,607
<u>High School</u>		
General*	74.94	37,268
Transportation	11.34	5,524
Bus Depreciation	14.79	6,810
Tuition	2.40	1,202
Adult Education	6.80	3,342
Technology	3.89	1,945
Building Reserve	<u>7.03</u>	<u>3,466</u>
Total	<u>323.97</u>	<u>\$ 155,315</u>

* Denotes Major Funds

Property taxes fees assessed may be paid under protest and held by the county treasurer until the action is finally determined to be in favor or against the governmental entity levying the tax. Money paid under protest is accounted for by the county in a protested tax agency fund until the final determination. The amount reported above includes \$1,167 of taxes paid under protest.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

NOTE 4. OTHER ASSETS

4. a. DUE FROM OTHER GOVERNMENTS

Due from other governments represent amounts due to the School District for costs incurred but not reimbursed by third party grantors. The amounts reported and the organization due from are noted below:

Fund	Amount	Due From	Reason
<u>Elementary</u>			
Miscellaneous*	\$ 62,517	State of MT	Title I grant
Miscellaneous*	9,207	State of MT	Title I grant
<u>High School</u>			
Traffic Education	<u>6,210</u>	State of MT	Driver Education reimbursement
Total	<u>\$ 77,934</u>		

* Denotes Major Funds

NOTE 5. CAPITAL ASSETS, DEPRECIATION, AND NET CAPITAL ASSETS

5. a. GENERAL CAPITAL ASSETS

At June 30, 2018, the schedule of changes in general capital assets follows:

Governmental Activities:	Balance July 1, 2017	Additions	Deletions	Adjustments/ Transfers	Balance June 30, 2018
<u>Non-depreciable:</u>					
Land	\$ 590,530	\$ 0	\$ 0	\$ 0	\$ 590,530
Construction in progress	<u>240,153</u>	<u>0</u>	<u>0</u>	<u>(240,153)</u>	<u>0</u>
Total Non-depreciable	<u>830,683</u>	<u>\$ 0</u>	<u>0</u>	<u>(240,153)</u>	<u>590,530</u>
<u>Depreciable:</u>					
Buildings	12,083,607	606,703	0	240,153	12,930,463
Improvements other than buildings	1,363,720	47,682	0	0	1,411,402
Machinery and equipment	<u>3,645,589</u>	<u>440,868</u>	<u>(193,250)</u>	<u>0</u>	<u>3,893,207</u>
Total Depreciable	<u>17,092,916</u>	<u>1,095,253</u>	<u>(193,250)</u>	<u>240,153</u>	<u>18,235,072</u>
<u>Accumulated Depreciation:</u>					
Buildings	(7,029,695)	(335,893)	0	(53,894)	(7,419,482)
Improvements other than buildings	(923,218)	(42,926)	0	(2,385)	(968,529)
Machinery and equipment	<u>(2,616,521)</u>	<u>(233,250)</u>	<u>193,250</u>	<u>(57,264)</u>	<u>(2,713,785)</u>
Total Depreciation	<u>(10,569,434)</u>	<u>(612,069)</u>	<u>193,250</u>	<u>(113,543)</u>	<u>(11,101,796)</u>
Net Depreciable Assets	<u>6,523,482</u>	<u>483,184</u>	<u>0</u>	<u>126,610</u>	<u>7,133,276</u>
Net General Capital Assets	<u>\$ 7,354,165</u>	<u>\$ 483,184</u>	<u>\$ 0</u>	<u>\$ (113,543)</u>	<u>\$ 7,723,806</u>

General capital asset depreciation expense was charged to governmental functions as follows:

Function	Amount
Instructional	\$ 10,477
Media	6,198
School Administration	7,053
Operation & Maintenance	288,676
Transportation	195,889
School Food	8,612
Extracurricular	7,432
Unallocated	<u>87,732</u>
Total Depreciation Expense	<u>\$ 612,069</u>

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

NOTE 6. CURRENT LIABILITIES

Current liabilities represent amounts due to creditors, suppliers, or others within a period of time less than one year.

6. a. OTHER CURRENT LIABILITIES

<u>Fund</u>	<u>Amount</u>	<u>Due To</u>	<u>Reason</u>
<u>Elementary</u>			
Miscellaneous*	\$ <u>6,356</u>	MT TRS	Retiree health & dental payment
* Denotes Major Funds			

6. b. UNEARNED INCOME

The amount displayed on the financial statements as unearned income, \$14,632, relates to students who have prepaid for school lunch meals.

NOTE 7. CHANGES IN LONG-TERM DEBT

7. a. At June 30, 2018, the schedule of changes in general long-term debt follows:

<u>Governmental Activities:</u>	<u>Balance July 1, 2017</u>	<u>New Debt and Other Additions</u>	<u>Principal Payments and Other Reductions</u>	<u>Balance June 30, 2018</u>	<u>Due within One Year</u>
<u>Other Liabilities:</u>					
Compensated Absences	\$ 507,703	\$ 0	\$ (11,666)	\$ 496,037	\$ 56,385
Retirement Incentive	116,000	12,000	(62,000)	66,000	55,000
Accrued Pension	10,490,763	237,857	(604,947)	10,123,673	0
Other Post-Employment Benefits (OPEB)	<u>1,392,046</u>	<u>2,677,408</u>	<u>0</u>	<u>4,069,454</u>	<u>0</u>
Total Other Liabilities	<u>12,506,512</u>	<u>2,927,265</u>	<u>(678,613)</u>	<u>14,755,164</u>	<u>111,385</u>
Total Governmental Activities - Long-Term Debt:	<u>\$ 12,506,512</u>	<u>\$ 2,927,265</u>	<u>\$ (678,613)</u>	<u>\$ 14,755,164</u>	<u>\$ 111,385</u>

7. b. RETIREMENT INCENTIVE

The School District offered certified teachers a one-time incentive to retire as of June 30, 2016 and 2017. The incentive offered \$500 per month for each teacher who accepted the offer, for a period of 36 months for a total liability of \$18,000 per teacher. An incentive was offered during fiscal year ended June 30, 2018 in the amount of \$12,000. The changes in the retirement incentive liability are noted below

<u>Description</u>	<u>Issue Date</u>	<u>Length of Loan</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Outstanding June 30, 2018</u>
Retirement Incentive	Sept 2016	3 years	8/15/2019	72,000	24,000
Retirement Incentive	Sept 2017	3 years	8/15/2020	60,000	30,000
Retirement Incentive	Sept 2018	3 years	8/15/2021	<u>12,000</u>	<u>12,000</u>
				<u>\$ 144,000</u>	<u>\$ 66,000</u>

Debt service requirements to maturity for principal on the retirement incentive long term obligations are as follows:

<u>For the year ended June 30:</u>	<u>Elementary Principal</u>	<u>High School Principal</u>
2019	\$ 40,000	\$ 15,000
2020	<u>5,000</u>	<u>6,000</u>
Totals	<u>\$ 45,000</u>	<u>\$ 21,000</u>

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

NOTE 8. DEFERRED INFLOWS OF RESOURCES

8. a. PROPERTY TAXES

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
<u>Elementary</u>		
General*	\$ 69,704	Taxes Receivable
Transportation	14,333	Taxes Receivable
Bus Depreciation	2,260	Taxes Receivable
Tuition	2,996	Taxes Receivable
Technology	2,297	Taxes Receivable
Debt Service	561	Taxes Receivable
Building Reserve	3,607	Taxes Receivable
<u>High School</u>		
General*	37,268	Taxes Receivable
Transportation	5,524	Taxes Receivable
Bus Depreciation	6,810	Taxes Receivable
Tuition	1,202	Taxes Receivable
Adult Education	3,342	Taxes Receivable
Technology	1,945	Taxes Receivable
Building Reserve	3,466	Taxes Receivable
Total	<u>\$ 155,315</u>	

* Denotes Major Funds

NOTE 9. DEFICIT FUND BALANCES

Deficit fund balance result from commitments exceeding the resources. The following is a listing of deficit fund balances.

<u>Fund</u>	<u>Amount</u>	<u>How School District plans to correct</u>
<u>Elementary</u>		
Tuition	\$ 1,352	Receipt of delinquent taxes
School Food Service	<u>1,530</u>	Future collections
Total	<u>\$ 2,882</u>	

* Denotes Major Funds

NOTE 10. PRIOR PERIOD ADJUSTMENTS

<u>Fund</u>	<u>Governmental Funds</u>	<u>Reason</u>
<u>High School</u>		
Traffic Education	<u>\$ 293</u>	Additional State revenue
* Denotes Major Funds		
Governmental Type Activities	(113,543)	Update capital assets schedule
Governmental Type Activities	<u>(2,677,408)</u>	Implementation of GASB 75
Total	<u>\$ (2,790,658)</u>	

NOTE 11. INTERFUND OPERATING TRANSFERS IN/OUT

<u>Operating Fund - In</u>	<u>Amount</u>	<u>Operating Fund - Out</u>	<u>Purpose of Transfer</u>
High School		Elementary	
Interlocal Agreement*	\$ 87,499	General*	Maintenance, curriculum, and general
<u>High School</u>			
Interlocal Agreement*	<u>135,526</u>	High School	
		General*	Maintenance, curriculum, and general
Total	<u>\$ 223,025</u>		

* Denotes Major Funds

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

NOTE 12. OTHER POST EMPLOYMENT BENEFITS

The School District implemented GASB 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during the fiscal year ended June 30, 2018.

Plan Description - The School District provides the same health care plan to all of its members. The School District had more than 100 plan participants and thus hired an actuarial valuation to determine the OPEB liability. Valuations involve estimates of the reported amounts and assumptions about the probability of events far into the future and estimated amounts are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for the plan are based on types of benefits provided under the current plan. The valuation assumed that 45% of plan participants would elect to continue coverage after retirement.

Funding Policy - The government pays OPEB liabilities on a pay as you go basis. The trust fund for future liabilities has not been established.

Benefits Provided – The School District provides healthcare benefits for retirees and their dependents. Retirees are required to pay 100% of the health insurance premium to retain the healthcare benefits. The School District covers 100% of the premiums for active employees.

Employees covered by benefit terms. At June 30, 2018, the following employees were covered by the benefit terms:

Active employees	162
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Total OPEB Liability

The School District’s total OPEB liability of \$4,069,454 was measured as of June 30, 2018 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	4.00%
Discount rate	3.87%
Health care cost rate trend	
Year	% Increase
2019	7.60%
2020	7.20%
2021	6.50%
2022	6.00%
2023	5.90%
2024 and after	5.70%
Retiree’s share of benefit related costs	100%

Changes in the Total OPEB Liability

Balance at June 30, 2017	<u>\$ 1,392,046</u>
Changes for the year:	
Service cost	263,917
Interest	160,658
Changes of benefit terms	0
Changes in assumptions or other inputs	2,330,713
Benefit payments	<u>(77,880)</u>
Net Changes – GASB 75 implementation	<u>2,677,408</u>
Balance at June 30, 2018	<u>\$ 4,069,454</u>

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the School District, as well as what the School District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (%) or 1-percentage-point higher (%) than the current discount rate:

	1% Decrease (2.87%)	Discount Rate (3.87%)	1% Increase (4.87%)
Total OPEB Liability	\$ 4,897,554	\$ 4,069,454	\$ 3,423,509

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the School District, as well as what the School District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (% decreasing to %) or 1-percentage-point higher (% decreasing to %) than the current healthcare cost trend rates:

	1% Decrease	Trend Rate	1% Increase
Total OPEB Liability	\$ 3,329,287	\$ 4,069,454	\$ 5,051,368

The School District did not have deferred outflows or inflows of resources associated with the OPEB liability.

NOTE 13. RISK MANAGEMENT

The School District is exposed to various types of risk of loss, including: a) damage to and loss of property and contents; b) employee torts; c) professional liability, e.g., errors and omissions; d) environmental damage; e) workers' compensation, e.g., employee injuries and f) medical insurance costs of employees. Several methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and contents damage, employee torts, professional liabilities, and employee medical insurance. The School District has joined with other School Districts throughout the state into an interlocal common risk pool to insure workers' compensation for all participating School Districts in a self-insurance pool. The Workers Compensation Risk Retention Program is managed by a board of directors elected annually. Members are responsible for fully funding the Workers Compensation Risk Retention Program through the payment of annual premiums assessed. There is no other liability to the School District other than timely payments of premiums. The School District can withdraw from the Workers Compensation Risk Retention Program with 60 days' notice at any time. The School District has no coverage for potential losses from environmental damages.

Levels of insurance have not changed materially from the prior year and settlements have not exceeded insurance coverage limits during the current or each of the two previous years.

NOTE 14. EMPLOYEE RETIREMENT SYSTEM

The School District participates in two state-wide, cost-sharing multiple employer defined benefit retirement plans which cover all School District employees, except certain substitute teachers and part-time, non-teaching employees. The Teachers' Retirement System (TRS) covers teaching employees, including administrators and aides. The Public Employee Retirement System (PERS) covers nonteaching employees. The plans are established under State law and are administered by the State of Montana.

Both plans issue publicly available annual reports, stand-alone financial statements, actuarial valuations, experience studies, and plan audited financial statements. Those reports may be obtained from the following:

Teachers Retirement System
P.O. Box 200139
1500 Sixth Avenue
Helena, MT 59620-0139
Phone: 406-444-3134
www.trs.mt.gov

Public Employees Retirement System
P.O. Box 200131
100 N. Park Avenue Suite 200
Helena, MT 59620-0131
Phone: 406-444-3154
www.mpera.mt.gov

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

14. a. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES OF RETIREMENT SYSTEMS

The Montana Public Employee Retirement Administration (MPERA) and the TRS prepare their 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, and information about the fiduciary net position and additions to and deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA and TRS. 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 and TRS adhere to all applicable GASB statements.

14. b. PUBLIC EMPLOYEE RETIREMENT SYSTEM

The PERS-Defined Benefit Retirement Plan (Defined Benefit plan), administered by the MPERA, is a multiple-employer, cost-sharing plan established July 1, 1945 and is governed by Title 19, chapters 2 & 3, 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 Defined Benefit plan and have a 12-month window during which they may choose to remain in the Defined Benefit Plan or join the PERS-Defined Contribution Retirement Plan (Defined Contribution plan) by filing an irrevocable election. Members may not be members of both the *Defined Benefit* and *Defined Contribution* retirement plans.

The Defined Benefit 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.

14. b. 1. SUMMARY OF BENEFITS

Eligibility for benefits

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; or
 - 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.

Second Retirement:

(requires returning to PERS-covered employer or PERS service)

- Retire before January 1, 2016 and accumulate less than 2 years additional service credit or retire on or after January 1, 2016 and accumulate less than 5 years additional service credit:
 - A refund of member's contributions plus return interest (currently .77% effective July 1, 2017);
 - No service credit for second employment;
 - Start the same benefit amount the month following termination; and
 - Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.
- Retire before January 1, 2016 and accumulate at least 2 years additional service credit:
 - A recalculated retirement benefit based on provision in effect after the initial retirement; and
 - GABA starts on the recalculation benefit in the January after receiving the new benefit for 12 months.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

- Retire on or after January 1, 2016 and accumulate 5 or more years additional service credit:
 - The same retirement as prior to the return to service;
 - A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
 - GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

Vesting:

5 years of membership service

Member's Highest

- Hired prior to July 1, 2011:

Average

- HAC during any consecutive 36 months.

Compensation (HAC):

- Hired on or after July 1, 2011:

- HAC during any consecutive 60 months.

Compensation Cap:

- Hired on or after July 1, 2013:

- 110% annual cap on compensation considered as part of a member's HAC.

Monthly Benefit

Formula:

- Hired prior to July 1, 2011:

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

- 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; or
- 30 years or more of membership service - 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment:

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

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
 - 1.5% for each year PERS is funded at or above 90%;
 - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - 0% whenever the amortization period for PERS is 40 years or more.

14. b. 2. OVERVIEW OF CONTRIBUTIONS

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

Fiscal Year	Member		State & Universities	Local Government	School Districts		
	Hired <07/01/11	Hired >07/01/11	Employer	Employer	State	Employer	State
2018	7.900%	7.900%	8.570%	8.470%	0.100%	8.200%	0.370%
2017	7.900%	7.900%	8.470%	8.370%	0.100%	8.100%	0.370%
2016	7.900%	7.900%	8.370%	8.270%	0.100%	8.000%	0.370%
2015	7.900%	7.900%	8.270%	8.170%	0.100%	7.900%	0.370%
2014	7.900%	7.900%	8.170%	8.070%	0.100%	7.800%	0.370%
2012-2013	6.900%	7.900%	7.170%	7.070%	0.100%	6.800%	0.370%
2010-2011	6.900%		7.170%	7.070%	0.100%	6.800%	0.370%
2008-2009	6.900%		7.035%	6.935%	0.100%	6.800%	0.235%
2000-2007	6.900%		6.900%	6.800%	0.100%	6.800%	0.100%

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
2. Employer contributions to the system:
 - a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions, including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period has dropped below 25 years and would remain below the 25 years following the reduction of both the additional employer and additional member contributions rates.
 - b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
3. Non-Employer Contributions:
 - a. Special Funding
 - i. The State contributed 0.1% of members' compensation on behalf of local government entities.
 - ii. The State contributed 0.37% of members' compensation on behalf of school district entities.
 - b. Not Special Funding
 - i. The State contributed a portion of Coal Severance Tax income and earnings from the Coal Severance Tax fund.

14. b. 3. ACTUARIAL ASSUMPTIONS

The Total Pension Liability (TPL) used to calculate the Net Pension Liability (NPL) was determined by taking the results of the June 30, 2016 actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2017. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the last actuarial experience study, dated May 2017, for the six-year period July 1, 2010 to June 30, 2016. Among those assumptions were the following:

- Investment Return (net of admin expenses) 7.65%
- Admin Expense as % of Payroll 0.26%
- General Wage Growth (includes inflation at 2.75%) 3.50%
- Merit Increases 0% to 6.3%
- Postretirement Benefit Increases:
 - GABA. After the member has completed 12 full months of retirement, the member's benefit increases by the following percentage each January, inclusive of all other adjustments to the member's benefit:
 - 3% for members hired prior to July 1, 2007
 - 1.5% for members hired between July 1, 2007 and June 30, 2013
 - Members hired on or after July 1, 2013:
 - 1.5% for each year PERS is funded at or above 90%;
 - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members and service retired members and beneficiaries were based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back 1 year.
- Mortality assumptions among disabled members are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections.

14. b. 4. DISCOUNT RATE

The discount rate used to measure the TPL was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board's funding policy, which established the contractually required rates under MCA. The State contributed 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributed coal severance tax and interest money from the general fund. The interest was contributed monthly and the severance tax was contributed quarterly. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

14. b. 5. TARGET ALLOCATIONS

The long-term expected return on pension plan assets was reviewed as part of the regular experience study prepared for the Plan. The most recent analysis, performed for the period of July 1, 2010 to June 30, 2016, was outlined in a report dated May 2017 and can be located on the MPERA website. The long-term rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocations as of June 30, 2017 are summarized below.

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis	Long-Term Expected Real Rate of Return
	(a)	(b)	(a) x (b)
Cash Equivalents	2.60%	4.00%	0.10%
Domestic Equity	36.00%	4.55%	1.64%
Foreign Equity	18.00%	6.35%	1.14%
Fixed Income	23.40%	1.00%	0.23%
Private Equity	12.00%	7.75%	0.93%
Real Estate	8.00%	4.00%	0.32%
Total	100.00%		4.37%
Inflation			2.75%
Portfolio Return Expectation			7.12%

The long-term expected nominal rate of return of 7.12% is an expected portfolio rate of return provided by Board of Investments, which differs from the total long-term assumed rate of return of 7.65% in the experience study. The assumed investment rate is comprised of a 2.75% inflation rate and a real rate of return of 4.90%.

14. b. 6. DEFINED CONTRIBUTION PLAN

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

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

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

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

At the plan level for the measurement period ended June 30, 2017, the PERS-DCRP employer did not recognize any net pension liability or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 300 employers that have participants in the PERS-DCRP totaled \$396,650.

14. c. TEACHERS' RETIREMENT SYSTEM

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

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

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, MCA, and administrative rules set forth in Title 2, Chapter 44 of the Administrative Rules of Montana.

14. c. 1. 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 (AFC). 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 AFC (as opposed to 3-year AFC in Tier One);
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One);
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One);
- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members); and
- Tier Two provides for an enhanced benefit calculation ($1.85\% \times \text{AFC} \times \text{years of creditable service}$) for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than $1.6667 \times \text{AFC} \times \text{years of creditable service}$ for Tier One).

A GABA is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABA for Tier One members is 1.5% of the benefit payable as of January 1st. The GABA for Tier Two members may vary from 0.5% to 1.5% each year 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.

14. c. 2. OVERVIEW OF CONTRIBUTIONS

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

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

	Members	Employers	General fund	Total employee and 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%

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

14. c. 3. ACTUARIAL ASSUMPTIONS

The TPL as of June 30, 2017 is based on the results of an actuarial valuation date of July 1, 2017. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the July 1, 2017 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:
(includes 4.00% general wage increase assumption)
 - 4% to 8.51% for Non-University members
 - 5.00% for University members
- Investment Return: 7.75%
- Price Inflation: 3.25%
- Postretirement Benefit Increases:
 - Tier One. If the retiree has received benefits for at least 3 years, the retirement allowance will be increased by 1.5% on January 1st.
 - Tier Two. The retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the System to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.
 - Males. 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
 - Females. 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
 - Males. RP 2000 Disabled Mortality Table for males, set forward one year, with mortality improvements projected by Scale BB to 2018.
 - Females. RP 2000 Disabled Mortality Table for females, set forward five years, with mortality improvements projected by Scale BB to 2018.
- Mortality:
(among contributing members, service retired members, and beneficiaries)
- Mortality:
(among disabled members)

14. c. 4. DISCOUNT RATE

The discount rate used to measure the TPL was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under MCA. In addition to the contributions, the State general fund will contribute \$25 million annually to the System payable July 1st of each year. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. No municipal bond rate was incorporated in the discount rate.

14. c. 5. TARGET ALLOCATIONS

Asset Class	Target Asset	Real Rate of Return	Long-Term
	Allocation	Arithmetic Basis	Expected Real Rate of Return*
	(a)	(b)	(a) x (b)
Broad US Equity	36.00%	4.80%	1.73%
Broad International Equity	18.00%	6.05%	1.09%
Private Equity	12.00%	8.50%	1.02%
Intermediate Bonds	23.40%	1.50%	0.35%
Core Real Estate	4.00%	4.50%	0.18%
High Yield Bonds	2.60%	3.25%	0.08%
Non-Core Real Estate	4.00%	7.50%	0.30%
Total	100.00%		4.75%
Inflation			3.25%
Portfolio Return Expectation			8.00%

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

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

The assumed long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2009 through 2013, is outlined in a report dated May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2017, is summarized in the above table.

14. d. SENSITIVITY ANALYSIS

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the below table presents the net pension liability calculated using the discount rate of 7.65% and 7.75% for PERS and TRS, respectively, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) and (6.75) for PERS and TRS, respectively or 1.00% higher (8.65) and (8.75%) for PERS and TRS, respectively than the current rate.

As of measurement date	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
PERS			
Net Pension Liability	\$ 2,836,551,371	\$ 1,947,626,401	\$ 1,201,441,171
School District's Net Pension Liability	\$ 3,855,793	\$ 2,647,456	\$ 1,633,148
TR			
TR			
Net Pension Liability	\$ 2,323,471,405	\$ 1,686,080,457	\$ 1,149,263,524
School District's Net Pension Liability	\$ 10,302,459	\$ 7,476,217	\$ 5,095,927

14. e. 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 PERS and TRS. Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective NPL, Pension Expense, and Deferred Inflows and Deferred Outflows of resources associated with pensions. In accordance with Statement 68, PERS and TRS have special funding situations in which the State of Montana is legally responsible for making contributions directly to PERS and TRS that are used to provide pension benefits to the retired members. Due to the existence of this 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.

As of measurement date	NPL		Percent of Collective NPL as of 6/30/18	Percent of Collective NPL as of 6/30/17	Change in Percent of Collective NPL
	as of 6/30/18	as of 6/30/17			
PERS					
School District Proportionate Share	\$ 2,647,456	\$2,409,599	0.1359%	0.1415%	(0.0055%)
State of Montana Proportionate Share associated with Employer	121,958	112,614	0.6215%	0.6215%	(0.0699%)
Total	\$ 2,769,414	\$2,522,213	0.7575%	0.8329%	(0.0754%)

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

TRS

School District Proportionate Share	\$ 7,476,217	\$8,081,164	0.4434%	0.4424%	0.0010%
State of Montana Proportionate Share associated with Employer	<u>4,745,760</u>	<u>5,267,725</u>	<u>0.2815%</u>	<u>0.2884%</u>	<u>(0.0069%)</u>
Total	<u>\$12,221,977</u>	<u>\$13,348,889</u>	<u>0.7249%</u>	<u>0.7308%</u>	<u>(0.0059%)</u>

At June 30, 2018, the employer recorded a liability of \$2,647,456 and \$7,476,217 for PERS and TRS, respectively, for its proportionate share of the NPL. At June 30, 2018, the employer's proportion was 0.1359 percent and 0.4434 percent for PERS and TRS, respectively.

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation...

For PERS: ...as of June 30, 2016 and applying standard roll forward procedures. The roll forward procedures uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

For TRS: ...as of July 1, 2017. Therefore, no update procedures were used to roll forward the total pension liability to the measurement date. The employer's proportion of the net pension liability was based on the employer's contributions received by TRS during the measurement period, July 1, 2016 through July 1, 2017, relative to the total employer contributions received from all of TRS' participating employers.

	<u>PERS</u>	<u>TRS</u>
<u>Changes in actuarial assumptions, other inputs, and methods:</u>	<p>Effective July 1, 2017, the following assumption changes were used:</p> <ul style="list-style-type: none"> • Lowered the interest rate from 7.75% to 7.65%. • Lowered the inflation rate from 3.00% to 2.75%. • Updated non-disabled mortality to the RP 2000 Combined Employee and Annuitant projected to 2020 using scale BB, males set back one year. • Increased rates of withdrawal. • Lowered the merit component of the total salary increase. • Lowered the wage base component of the total salary increase from 4.00% to 3.50%. • Decreased the administrative expense load from 0.27% to 0.26%. <p>Effective July 1, 2017, the following method changes were used:</p> <ul style="list-style-type: none"> • Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for PERS. This amount will vary from year to year based on the prior year's actual administrative expenses. • To be consistent with the wage base growth change, the payroll growth assumption for amortization as a level percent of pay was reduced from 4.00% to 3.50%. 	<p>There were no changes in actuarial assumptions and other inputs since the previous measurement date.</p>
<u>Changes in benefit terms:</u>	<p>Effective July 1, 2017, the following were benefit changes:</p> <ul style="list-style-type: none"> • The interest rate credited to member accounts increased from 0.25% to 0.77%. • Lump sum payouts are limited to the member's accumulated contributions rather than the present value of the member's benefit. 	<p>There were no changes in benefit terms since the previous measurement date.</p>
<u>Changes in proportionate share:</u>	<p>There were no changes between the measurement date of the collective NPL and the employer's reporting date.</p>	<p>There were no changes between the measurement date of the collective NPL and the reporting date.</p>

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

14. f. PENSION EXPENSE

	Pension Expense as of 6/30/18	Pension Expense as of 6/30/17
PERS (as of measurement date)		
School District's Proportionate Share	\$ 272,869	\$ 170,906
State of Montana Proportionate Share associated with the Employer	6,502	9,437
Grant revenue from the State of Montana Coal Tax Fund	<u>37,872</u>	<u>42,217</u>
Total	<u>\$ 317,243</u>	<u>\$ 222,559</u>
TRS		
School District's Proportionate Share	\$ 626,109	\$ 676,591
State of Montana Proportionate Share associated with the Employer	<u>209,586</u>	<u>299,569</u>
Total	<u>\$ 835,695</u>	<u>\$ 976,160</u>

At June 30, 2018, the employer recognized a Pension Expense of \$317,243 and \$835,695 for its proportionate share of the PERS and TRS Pension Expense, respectively. The employer also recognized grant revenue of \$44,374 and \$209,586 for the support provided by the State of Montana for its proportionate share of the Pension Expense that is associated with the employer for PERS and TRS, respectively.

14. g. DEFERRED INFLOWS AND OUTFLOWS

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

	PERS		TRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected economic experience	\$ 65,199	\$ 3,832	\$ 27,495	\$ 11,177
Changes in actuarial assumptions	361,880	0	0	31,256
Difference between projected and actual investment earnings	0	17,780	0	29,586
Changes in proportion and differences between actual and expected contributions	0	48,175	23,404	6,229
Difference between actual and expected contributions	0	0	0	0
#Contributions paid subsequent to the measurement date – FY 2018 Contributions	<u>145,458</u>	<u>0</u>	<u>553,234</u>	<u>0</u>
Total	<u>\$ 572,537</u>	<u>\$ 69,788</u>	<u>\$ 604,133</u>	<u>\$ 78,248</u>

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the NPL in the year ended June 30, 2019.

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	PERS	TRS		Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense (a) – (b)
	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	Deferred Outflows of Resources (a)	Deferred Inflows of Resources (b)	
2018	\$ 93,779	\$ 0	\$ 0	\$ 0
2019	\$ 207,020	\$ 36,387	\$ 137,047	\$ (100,660)
2020	\$ 161,016	\$ 163,752	\$ 20,181	\$ 143,571
2021	\$ (56,350)	\$ 61,694	\$ 0	\$ 61,694
2022	\$ 0	\$ 0	\$ 131,956	\$ (131,956)
2023	\$ 0	\$ 0	\$ 0	\$ 0
Thereafter	\$ 0	\$ 0	\$ 0	\$ 0

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

14. h. PENSION AMOUNTS TOTAL FOR EMPLOYER – EMPLOYER’S PROPORTION OF PERS AND TRS PENSION AMOUNTS

	The employer’s proportionate share associated with PERS	The employer’s proportionate share associated with TRS	The employer’s Total Pension Amounts
Total Pension Liability	\$ 10,085,547	\$ 24,994,211	\$ 35,079,758
Fiduciary Net Position	\$ 7,438,091	\$ 17,517,994	\$ 24,956,085
Net Pension Liability	\$ 2,647,456	\$ 7,476,217	\$ 10,123,673
Deferred Outflows of Resources	\$ 572,537	\$ 604,133	\$ 1,176,670
Deferred Inflows of Resources	\$ 69,788	\$ 78,248	\$ 148,036
Pension Expense	\$ 317,243	\$ 835,695	\$ 1,152,938

NOTE 15. COOPERATIVE

15. a. SPECIAL EDUCATION

The Lewistown School District No. 1 is a member of the Central Montana Learning Resource Center, a Special Education Cooperative. The financial records of the Cooperative are prepared and maintained by the Cooperative Clerk. The financial records of the Cooperative are separate from those of Lewistown School District No. 1, and the financial statements of the Cooperative are not included in the School Districts’ financial statements. The Cooperative’s financial statements are audited separately from those of the School District. All revenue received, including Federal, State, or other types of grant payments, and the financial support provided by each of the Cooperative’s members are deposited into the Cooperative’s funds, which are maintained in the custody of the Fergus County Treasurer. The Superintendent of Public Instruction may directly deposit to the Cooperative the State and Federal portion of any participating member School District’s budgeted costs for contracted special education services. All capital assets of the Cooperative are included in the Cooperative’s financial statements.

A Joint Board of Directors governs the Cooperative. The Joint Board has the power to set policies, enter into contracts, review the performance of the Cooperative annually, review the financial management of the Cooperative annually, and set and approve the annual fiscal budget of the Cooperative.

NOTE 16. JOINT VENTURE AGREEMENTS

Joint ventures are legal entities or other organizations that result in a contractual arrangement and that are owned, operated, or governed by two or more participants. Each participant retains both an ongoing financial interest and an ongoing financial responsibility.

16. a. MULTIDISTRICT COOPERATIVE

Section 20-3-363, MCA allows for the creation of a multidistrict cooperative between any School District and other public entity under Title 20, Chapter 9 Part 7, MCA. The parties in a multidistrict cooperative may mutually agree to perform any services, activities, and undertakings of the participants and provide for the joint funding and operation and maintenance of all participants in the agreement.

16. a. 1. TECHNICAL SUPPORT

The School District has entered into an agreement with Lewistown Elementary, Fergus High School, Denton Elementary, Denton High School, Grass Range Elementary, Grass Range High School, Harlowton Elementary School, Harlowton High School, Ayers Elementary, Roy K-12 Schools, Winifred K-12 Schools, Moore Elementary, Moore High School, Deerfield Elementary, Spring Creek Colony Elementary, King Colony Elementary, Hobson K-12 Schools, Judith Gap Elementary, Judith Gap High School, Stanford K-12 Schools and the Central Montana Learning Resource Center Cooperative to provide technology services to each participating school district and cooperative.

Fergus High School is the designated prime agency and is responsible for the financial administration of the multidistrict cooperative. The activity of the multidistrict cooperative is accounted for in fund 82 of the Fergus High School.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

NOTE 17. RECREATIONAL FACILITIES AND EQUIPMENT

The School District and the City of Lewistown entered into an agreement whereby the School District would use the Lewistown Civic Center for activities such as basketball, volleyball, softball, soccer, floor hockey, superstars, badminton, snowshoeing, roller skating, cross country skiing, and table tennis. The School District Costs to include an initial payment of \$5,122. The School District also pays the city for a school resource officer. Fees for this service were \$55,206 in the fiscal year ended June 30, 2018.

NOTE 18. EVELYN ECCLES FOUNDATION

At the end of each school year, Trustees may "select from the graduating class a student or students, male or female, who have best demonstrated his/her ability to conduct scientific research of any kind or character which looks to the advancement of the best interests of society" and provide a loan from the fund to aid in their securing higher education.

If a student is selected, the Trustees will determine the amount of the loan, "In amounts sufficient to materially aid and enable students to attend an Institution of higher learning." A no-Interest promissory note (signed by student and parent as cosigner) will be executed which shall become due and payable at such time as may be arranged, but not in excess of ten years after the loan agreement has been made. The objective of the foundation is to create a revolving fund to be constantly available.

Students selected may receive a \$2,000 loan for each four years with a payback of \$125 per month for 64 months beginning four years from execution of the notes.

At June 30, 2018 there was one student with an outstanding loan balance that was being paid back on a monthly basis. The receivable balance of \$2,755 is reported in the fiduciary endowment funds.

LEWISTOWN SCHOOL DISTRICT NO. 1

SCHEDULE OF FUNDING PROGRESS
 Other Post-Employment Benefits Other Than Pensions
 For the year ended June 30, 2018

Fiscal year end	Service cost (a)	Interest (b)	Changes of benefit terms (c)	Changes of assumptions or other inputs (d)	Benefit payments (e)	Net Change in total OPEB liability Sum of (a) to (e)=(f)	Total OPEB Liability beginning (g)	Total OPEB Liability ending (f)+(g)
6/30/18	\$ 263,917	\$ 160,658	\$ _____	\$ 2,330,713	\$ (77,880)	\$ 2,677,408	\$ 1,392,046	\$ 4,069,454

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

LEWISTOWN SCHOOL DISTRICT NO. 1

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

(Determined as of the measurement date)

For the year ended June 30, 2018

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Year ended June 30:	Employer's proportion of the net pension liability	Employer's proportionate share of the net pension liability associated with the Employer (a)	State of Montana's proportionate share of the net pension liability associated with the Employer (b)	Total (a)+(b)=(c)	Employer's covered payroll (d)	Employer's proportionate share of the net pension liability as a percentage of its covered payroll (a)/(d)	Plan fiduciary net position as a percentage of the total pension liability
2014	0.1394%	\$ 1,736,425	\$ 81,172	\$ 1,817,597	\$ 1,632,445	111.22%	79.87%
2015	0.1385%	\$ 1,935,544	\$ 90,951	\$ 2,026,495	\$ 1,670,709	115.85%	78.40%
2016	0.1415%	\$ 2,409,599	\$ 112,614	\$ 2,522,213	\$ 1,751,664	137.56%	74.71%
2017	0.1359%	\$ 2,647,456	\$ 121,958	\$ 2,769,414	\$ 1,742,460	151.94%	73.75%

TEACHERS RETIREMENT SYSTEM

Year ended June 30:	Employer's proportion of the net pension liability	Employer's proportionate share of the net pension liability associated with the Employer (a)	State of Montana's proportionate share of the net pension liability associated with the Employer (b)	Total (a)+(b)=(c)	Employer's covered payroll (d)	Employer's proportionate share of the net pension liability as a percentage of its covered payroll (a)/(d)	Plan fiduciary net position as a percentage of the total pension liability
2014	0.4362%	\$ 6,712,796	\$ 4,599,979	\$ 11,312,775	\$ 5,501,106	122.03%	70.36%
2015	0.4441%	\$ 7,296,596	\$ 4,891,615	\$ 12,188,211	\$ 5,537,456	131.77%	69.30%
2016	0.4424%	\$ 8,081,164	\$ 5,267,725	\$ 13,348,889	\$ 5,651,304	143.00%	66.69%
2017	0.4434%	\$ 7,476,217	\$ 4,745,760	\$ 12,221,977	\$ 5,848,407	127.83%	70.09%

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

LEWISTOWN SCHOOL DISTRICT NO. 1

SCHEDULE OF CONTRIBUTIONS TO MONTANA RETIREMENT SYSTEMS
 (Determined as of the reporting date)
 For the year ended June 30, 2018

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Year ended June 30:	Contractually required contributions (a)	Plan Choice Rate Required Contribution (b)	Contributions in relation to contractually required contributions (c)	Contribution deficiency (excess) (a)+(b)- (c)=(d)	Employer's covered payroll (e)	Contributions as a percentage of covered payroll ((a)+(b))/(e)
2015	\$ 133,157	\$ 478	\$ 133,635	\$ 0	\$ 1,670,709	8.00%
2016	\$ 141,634	\$ 295	\$ 141,929	\$ 0	\$ 1,751,664	8.10%
2017	\$ 141,142	\$ 0	\$ 141,142	\$ 0	\$ 1,742,460	8.10%
2018	\$ 145,458	\$ 0	\$ 145,458	\$ 0	\$ 1,773,887	8.20%

TEACHERS RETIREMENT SYSTEM

Year ended June 30:	Contractually required contributions (a)	Contributions in relation to contractually required contributions (b)	Contribution deficiency (excess) (a)-(b)=(c)	Employer's covered payroll (d)	Contributions as a percentage of covered payroll (a)/(d)
2015	\$ 520,550	\$ 520,550	\$ 0	\$ 5,537,456	9.40%
2016	\$ 601,312	\$ 601,312	\$ 0	\$ 5,651,304	10.64%
2017	\$ 592,541	\$ 592,541	\$ 0	\$ 5,848,407	10.13%
2018	\$ 553,234	\$ 553,234	\$ 0	\$ 5,828,310	9.49%

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

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND
SCHEDULE OF CONTRIBUTIONS TO MONTANA RETIREMENT SYSTEMS
(As of Measurement Date)
For the year ended June 30, 2018

NOTE 1. PUBLIC EMPLOYEE RETIREMENT SYSTEM

1. a. CHANGES OF BENEFIT TERMS

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

2015 Legislative Changes:

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

Second Retirement Benefit - for PERS

- 1) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:
 - refund of member's contributions from second employment plus regular interest (currently 0.25%);
 - no service credit for second employment;
 - start same benefit amount the month following termination; and
 - GABA starts again the January immediately following second retirement.
- 2) For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:
 - member receives a recalculated retirement benefit based on laws in effect at second retirement; and,
 - GABA starts the January after receiving recalculated benefit for 12 months.
- 3) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:
 - refund of member's contributions from second employment plus regular interest (currently 0.25%);
 - no service credit for second employment;
 - start same benefit amount the month following termination; and,
 - GABA starts again the January immediately following second retirement.
- 4) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:
 - member receives same retirement benefit as prior to return to service;
 - member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
 - GABA starts on both benefits in January after member receives original and new benefit for 12 months.

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

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

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

2017 Legislative Changes:

General Revisions – House Bill 101, effective July 1, 2017

Working Retiree Limitations – for PERS

If a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.

Terminating Employers – Recovery of actuary costs – for PERS

Employers who terminate participation in PERS must pay the actuarial liability associated with that termination. Starting July 1, 2017, the terminating employer must also pay for the cost of the actuarial study used to determine that liability.

Refunds

- 1) Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
- 2) Terminating members with accumulated contributions between \$200 and \$1,000 who wish to rollover their refund must do so within 90 days of termination of service.
- 3) Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

Family Law Orders

If a Family Law Order (FLO) is silent regarding the apportionment of post-retirement benefit adjustments such as the GABA, the FLO is presumed to require apportionment of the post-retirement benefit adjustment in the same percentage as the monthly retirement benefit is apportioned.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND
SCHEDULE OF CONTRIBUTIONS TO MONTANA RETIREMENT SYSTEMS (continued)
(As of Measurement Date)
For the year ended June 30, 2018

Disabled PERS Defined Contribution Members

PERS members hired after July 1, 2011 have a normal retirement age of 65. PERS Defined Contribution (DC) members hired after July 1, 2011 who became disabled were previously only eligible for a disability benefit until age 65. Effective July 1, 2017, these individuals will be eligible for a disability benefit until they reach 70, thus ensuring the same 5-year time period available to PERS DC disabled members hired prior to July 1, 2011 who have a normal retirement age of 60 and are eligible for a disability benefit until age 65.

PERS Statutory Appropriation – House Bill 648, effective July 1, 2017

Revenue from coal severance taxes and interest income from the coal severance tax permanent fund previously statutorily-appropriated to the PERS defined benefit trust fund will be replaced with the following statutory appropriations:

1. FY 2018 - \$31.386 million
2. FY 2019 - \$31.958 million
3. Beginning July 1, 2019 through at least June 30, 2025, 101% of the contribution from the previous year from the general fund to the PERS defined benefit trust fund, as follows:
 - a. FY 2020 - \$32.277 million
 - b. FY 2021 - \$32.6 million
 - c. FY 2022 - \$32.926 million
 - d. FY 2023 - \$33.255 million
 - e. FY 2024 - \$33.588 million
 - f. FY 2025 - \$33.924 million

1. b CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

Method and assumptions used in calculations of actuarially determined contributions

The following Actuarial Assumptions were adopted from the June 30, 2017 actuarial valuation:

General Wage Growth*	3.50%
*Includes inflation at	2.75%
Merit increase	0% to 6.30%
Investment rate of return	7.65 percent, net of pension plan investment expense, and including inflation
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Mortality (Healthy members)	For Males and Females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year
Mortality (Disabled members)	For Males and Females: RP 2000 Combined Mortality Table
Admin Expense as % of Payroll	0.26%

Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount varies from year to year based on the prior year’s actual administrative expenses.

NOTE 2. TEACHERS’ RETIREMENT SYSTEM

2. a. CHANGES OF BENEFIT TERMS

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

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

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

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

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND
SCHEDULE OF CONTRIBUTIONS TO MONTANA RETIREMENT SYSTEMS (continued)
(As of Measurement Date)
For the year ended June 30, 2018

- (2) **Service Retirement:** Eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55
- (3) **Early Retirement:** Eligible to receive an early retirement allowance if a member is not eligible for service retirement but has at least five years of creditable service and attained age 55
- (4) **Professional Retirement Option:** if the member has been credited with 30 or more years of service and has attained the age of 60 they are eligible for an enhanced allowance equal to 1.85% of average final compensation times all service at retirement. Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%
- (5) **Annual Contribution:** 8.15% of member's earned compensation
- (6) **Supplemental Contribution Rate:** On or after July 1, 2023, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met:
 - a. The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and
 - b. The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and
 - c. A State or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board.
- (7) **Disability Retirement:** A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination
- (8) **Guaranteed Annual Benefit Adjustment (GABA):**
 - a. If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the Board.

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

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

2. b. CHANGES IN ACTUARIAL ASSUMPTIONS AND OTHER INPUTS:

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

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

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

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three-year COLA deferral period for Tier 2 Members.
- The 0.63% load applied to the projected retirement benefits of the university members "to account for larger than average annual compensation increases observed in the years immediately preceding retirement" is not applied to benefits expected to be paid to university members on account of death, disability and termination (prior to retirement eligibility).
- The actuarial valuation was updated to reflect the assumed rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND
SCHEDULE OF CONTRIBUTIONS TO MONTANA RETIREMENT SYSTEMS (continued)
(As of Measurement Date)
For the year ended June 30, 2018

- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the \$500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to “retain membership in the System” are covered by the \$500 death benefit after termination.

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

- Assumed rate of inflation was reduced from 3.50% to 3.25%
- Payroll Growth Assumption was reduced from 4.50% to 4.00%
- Assumed real wage growth was reduced from 1.00% to 0.75%
- Investment return assumption was changed from net of investment and administrative expenses to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
 - For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
 - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members was updated to the following:
 - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
 - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

Method and assumptions used in calculations of actuarially determined contributions:

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 (Budget and Actual)
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
 For the year ended June 30, 2018

	General (Elem.)			Flexibility (Elem.)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
District levies	\$ 1,891,194	\$ 1,891,194	\$ 1,868,978	\$ -	\$ -	\$ -
Interest	6,067	6,067	7,790	-	-	2,083
Other	-	-	-	-	-	400
State	4,278,154	4,278,154	4,258,746	31,232	31,232	16,342
Total revenues	6,175,415	6,175,415	6,135,514	31,232	31,232	18,825
EXPENDITURES:						
Current:						
Instructional services			3,791,240			46,404
Support services			190,041			-
Educational media services			193,412			-
General administrative services			934,037			-
Operation & maintenance services			726,751			-
Transportation services			4,102			-
School food services			142,788			-
Extracurricular			57,518			-
Capital outlay			-			-
Total expenditures	6,175,415	6,175,415	6,039,889	175,833	175,833	46,404
Excess (deficiency) of revenues over expenditures	-	-	95,625	(144,601)	(144,601)	(27,579)
OTHER FINANCING SOURCES/USES:						
Fund transfers (out)			(135,526)			-
Total other financial sources/uses	-	-	(135,526)	-	-	-
Net changes in fund balances	-	-	(39,901)	(144,601)	(144,601)	(27,579)
FUND BALANCE:						
Beginning of the year			498,525			144,601
End of the year			<u>\$ 458,624</u>			<u>\$ 117,022</u>

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 (Budget and Actual)
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
 For the year ended June 30, 2018

	General (HS)			Flexibility (HS)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
District levies	\$ 1,044,966	\$ 1,044,966	\$ 1,032,869	\$ -	\$ -	\$ -
Interest	2,567	2,567	3,934	-	-	1,936
Other	-	-	-	-	-	1,473
State	2,191,194	2,191,194	2,184,589	34,405	34,405	18,002
Total revenues	3,238,727	3,238,727	3,221,392	34,405	34,405	21,411
EXPENDITURES:						
Current:						
Instructional services			1,502,192			6,000
Support services			114,000			-
Educational media services			129,174			-
General administrative services			566,700			-
Operation & maintenance services			585,766			-
Transportation services			24,633			-
School food services			26,205			-
Extracurricular			197,107			-
Capital outlay			14,004			-
Total expenditures	3,247,280	3,247,280	3,159,781	198,155	198,155	6,000
Excess (deficiency) of revenues over expenditures	(8,553)	(8,553)	61,611	(163,750)	(163,750)	15,411
OTHER FINANCING SOURCES/USES:						
Fund transfers (out)			(87,499)			-
Total other financial sources/uses	-	-	(87,499)	-	-	-
Net changes in fund balances	(8,553)	(8,553)	(25,888)	(163,750)	(163,750)	15,411
FUND BALANCE:						
Beginning of the year			333,281			163,750
End of the year			<u>\$ 307,393</u>			<u>\$ 179,161</u>

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

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE BUDGET VS ACTUAL SCHEDULE
For the year ended June 30, 2018

NOTE 1. BUDGETS

1. a. BUDGETS

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

1. a. 1 GENERAL BUDGET POLICIES:

The School District's funds are either budgeted or non-budgeted in accordance with State statutes. Budgeted funds are those of which a legal budget must be adopted to have expenditures from such funds and are noted above. All other funds are non-budgeted, meaning a legal budget is not required in order to spend the cash balance of such a fund. The Schedule of Revenues, Expenditures, and Changes in Fund Balances, Budget vs. Actual, has been prepared on the modified accrual basis of accounting and contains financial information for only the major general and special revenue fund budgeted funds. The major funds miscellaneous programs and interlocal agreement funds are not included in the schedule because they are non-budgeted fund.

1. a. 2 BUDGET OPERATION:

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

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

NOTE 2. BUDGET AMENDMENT

The original budgets were not amended so the original budget and the final budget are the same.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE BUDGET VS ACTUAL SCHEDULE (continued)
For the year ended June 30, 2018

NOTE 3. COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE ALL SUB-FUNDS OF THE GENERAL FUND

	Sub-fund General Fund (Elem)	Sub-fund Metal Mines Tax Reserve (Elem)	Sub-fund Flexibility Fund (Elem)	Sub-fund General Fund (HS)	Sub-fund Metal Mines Tax Reserve (Elem)	Sub-fund Flexibility Fund (HS)	Total General Fund
REVENUES:							
District levies	\$ 1,868,978	\$ 0	\$ 0	\$ 1,032,870	\$ 0	\$ 0	\$ 2,901,848
Interest earnings	7,790	1,932	2,083	3,934	1,453	1,936	19,129
Other	0	0	400	0	0	1,473	1,873
State sources	<u>4,258,746</u>	<u>0</u>	<u>16,341</u>	<u>2,184,589</u>	<u>0</u>	<u>18,002</u>	<u>6,477,678</u>
Total revenues	<u>\$ 6,135,514</u>	<u>\$ 1,932</u>	<u>\$ 18,824</u>	<u>\$ 3,221,393</u>	<u>\$ 1,453</u>	<u>\$ 21,411</u>	<u>\$ 9,400,527</u>
EXPENDITURES:							
Instructional services	3,791,240	0	46,404	1,502,191	0	0	5,345,835
Support services	190,041	0	0	114,000	0	6,000	304,042
Educational media	193,412	0	0	129,174	0	0	322,586
General administrative	934,037	0	0	566,700	0	0	1,500,738
Operation & maintenance	726,751	0	0	585,700	0	0	1,312,517
Transportation	4,102	0	0	24,633	0	0	28,735
School food	142,788	0	0	26,205	0	0	168,993
Extracurricular	57,518	0	0	197,107	0	0	254,625
Capital outlay	<u>0</u>	<u>0</u>	<u>0</u>	<u>14,004</u>	<u>0</u>	<u>0</u>	<u>14,004</u>
Total expenditures	<u>\$ 6,039,889</u>	<u>\$ 0</u>	<u>\$ 46,404</u>	<u>\$ 3,159,781</u>	<u>\$ 0</u>	<u>\$ 6,000</u>	<u>\$ 9,252,074</u>
Excess (deficiency) of revenues over expenditures	95,625	1,932	(27,579)	61,611	1,453	15,411	148,452
OTHER FINANCING SOURCES/USES:							
Fund transfers in	0	0	0	0	0	0	0
Fund transfers (out)	<u>(135,526)</u>	<u>0</u>	<u>0</u>	<u>(87,499)</u>	<u>0</u>	<u>0</u>	<u>(223,025)</u>
Total other financial sources/uses	<u>(1,35,526)</u>	<u>0</u>	<u>0</u>	<u>(87,499)</u>	<u>0</u>	<u>0</u>	<u>(223,025)</u>
Net changes in fund balances	<u>(39,901)</u>	<u>1,932</u>	<u>(27,579)</u>	<u>(25,888)</u>	<u>1,453</u>	<u>15,411</u>	<u>(74,572)</u>
FUND BALANCE:							
Beginning of the Year	498,525	170,221	144,601	333,281	90,104	163,750	1,400,481
Prior period adjustment	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Ending of the Year (GAAP)	<u>458,624</u>	<u>172,153</u>	<u>117,022</u>	<u>307,393</u>	<u>91,557</u>	<u>179,161</u>	<u>\$ 1,325,909</u>
Current year encumbrances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Ending of the Year (Budget)	<u>\$ 458,624</u>	<u>\$ 172,153</u>	<u>\$ 117,022</u>	<u>\$ 307,393</u>	<u>\$ 91,557</u>	<u>\$ 179,161</u>	

In the General Fund sub-funds reconciliation above, the elementary and high school General fund, elementary and high school Flexibility fund, and elementary and high school Metal Mines Tax Reserve fund are added together to get to the aggregate General Fund shown as a major fund on the Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Funds. The elementary and high school Flexibility fund and elementary and high school Metal Mines Tax Reserve funds are maintained as separate funds for accounting purposes. However, for external financial reporting purposes, they are added to the General fund because they, like the General fund, have unassigned fund balance(s).

On the Statement of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual) All Budgeted Major Governmental Funds display budgeted information for the General and major special revenue funds of the School District. The above General Fund sub-funds display budget to actual information, except for the elementary and high school Metal Mines Tax Reserve fund which is a non-budgeted fund.

LEWISTOWN SCHOOL DISTRICT NO. 1

SCHEDULE OF REVENUES, EXPENSES AND BALANCES EXPENDABLE TRUST –
 STUDENT ACTIVITY FUNDS
 For the year ended June 30, 2018

Activity Account Name	Beginning Balance 7/1/2017	Revenues	Expenses	Transfers	Ending Balance 6/30/2018
ANNUAL	\$ 988	\$ 7,235	\$ 7,347	\$ -	\$ 876
AP TESTING	3,292	3,473	3,744	-	3,021
BAND	42	539	389	-	192
EASTERN MT JAZZ FESTIVAL	13	-	-	-	13
BPA	474	9,584	8,907	-	1,151
CT MT MENTORS	221	-	-	-	221
CHEERLEADERS	7,307	12,388	12,210	-	7,485
Concessions - Fund Balance	-	27,151	17,697	(2,210)	7,244
NHS/CLAWS	53	580	689	56	-
EAGLE RENAISSANCE	2,299	480	(59)	-	2,838
FCLUB	2,096	10	200	(100)	1,806
FFA	5,521	27,856	25,212	(42)	8,123
FCCLA	5,417	25,719	27,987	635	3,784
FLY FISHING	1,223	-	185	-	1,038
SPANISH CLUB	2,170	3,445	3,786	-	1,829
HOW CLUB	393	-	46	-	347
VICA/SKILLS USA	36	400	-	-	436
KEY CLUB	3,910	1,249	1,650	-	3,509
ART CLUB	1,216	1,239	306	-	2,149
SCIENCE CLUB	3,208	198	1,516	-	1,890
SKI CLUB	6,467	4,044	4,066	-	6,445
STUDENT COUNCIL	3,282	6,274	6,072	354	3,838
THESPIANS	1,081	-	-	-	1,081
TROPHY	2,281	-	45	-	2,236
VOCAL MUSIC	2,186	208	239	-	2,155
DIST. 8 MUSCH FESTIVAL	1,371	8,458	7,686	-	2,143
WEIGHT CLUB	1,150	-	945	-	205
AP GOVT	115	-	-	-	115
CAREER FAIR	3,850	-	1,848	-	2,002
EAGLE WEAR	839	520	-	-	1,359
MODEL UN	-	823	1,870	1,047	-
LEADERSHIP	-	50	-	-	50
Astronomy Club	204	-	-	-	204
CLASS OF 2017	200	-	-	(200)	-
CLASS OF 2018	2,476	-	1,599	(878)	(1)
CLASS OF 2019	368	15,461	12,764	1,071	4,136
CLASS OF 2020	93	-	70	-	23
CLASS OF 2021	-	-	128	200	72
CLASS OF 2022	-	-	-	67	67
SCHOOL SPONSORED X-CURR	38,874	167,801	172,283	-	34,392
GIRLS SOFTBALL/BOYS CROSS COUNTRY	22,821	25,734	28,061	-	20,494
GENERAL ACTIVITIES	60,120	14,452	14,048	1,000	61,524
Subtotal	187,657	365,371	363,536	1,000	190,492

LEWISTOWN SCHOOL DISTRICT NO. 1

SCHEDULE OF REVENUES, EXPENSES AND BALANCES EXPENDABLE TRUST –
 STUDENT ACTIVITY FUNDS (continued)
 For the year-ended June 30, 2018

Activity Account Name	Beginning Balance 7/1/2017	Revenues	Expenses	Transfers	Ending Balance 6/30/2018
LC SERVICE COUNCIL	1,103	375	520	-	958
BUILDERS CLUB	142	-	-	-	142
CHEERLEADERS	1,391	-	70	-	1,321
CONSUMER TECH	736	2,638	2,746	-	628
FACS	1,088	1,666	850	(1,000)	904
BC, SC STORE	667	4,330	4,064	-	933
MUSIC	2,280	195	1,326	-	1,149
PHOTO CLUB	2,157	3,082	2,628	-	2,611
SERVICE LEARNING	194	197	-	-	391
SKI CLUB	1,190	5,043	4,845	-	1,388
STUDENT COUNCIL	347	560	588	-	319
NEWS	170	-	-	-	170
GIS CLUB	313	-	-	-	313
COMPUTER SERV LEARNING	129	-	-	-	129
FIELD TRIP SKI DAY	858	-	-	-	858
ROBOTICS CLUB	439	-	-	-	439
SCIENCE OLYMPIAD	637	1,000	1,481	-	156
EXPEDITION YELLOWSTONE	5,991	2,501	-	-	8,492
Subtotal	<u>19,832</u>	<u>21,587</u>	<u>19,118</u>	<u>(1,000)</u>	<u>21,301</u>
Total	<u>\$ 207,489</u>	<u>\$ 386,958</u>	<u>\$ 382,654</u>	<u>\$ -</u>	<u>\$ 211,793</u>

LEWISTOWN SCHOOL DISTRICT NO. 1

SCHEDULE OF REPORTED ENROLLMENT

For the year ended June 30, 2018

	FALL ENROLLMENT – OCTOBER, 2017			SPRING ENROLLMENT – FEBRUARY, 2018		
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Elementary						
Kindergarten Full	96	96	0	101	101	0
Grade 1 - 6	580	580	0	571	571	0
Grade 7 - 8	155	155	0	156	156	0
Total	<u>831</u>	<u>831</u>	<u>0</u>	<u>828</u>	<u>828</u>	<u>0</u>
Part-time Students						
Less than 181 hours	0	0	0	0	0	0
Less than 359 hours	0	0	0	0	0	0
Less than 539 hours	0	0	0	0	0	0
Less than 719 hours	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>	<u>2</u>	<u>0</u>
Total Part-time	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>	<u>2</u>	<u>0</u>
High School						
Grade 9 - 12	<u>348</u>	<u>348</u>	<u>0</u>	<u>343</u>	<u>343</u>	<u>0</u>
Part-time Students						
Less than 181 hours	0	0	0	0	0	0
Less than 359 hours	0	0	0	0	0	0
Less than 539 hours	0	0	0	0	0	0
Less than 719 hours	<u>2</u>	<u>2</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>0</u>
Total Part-time	<u>2</u>	<u>2</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>0</u>
19-year olds included	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Youth Challenge included	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

Lewistown SD
 Fergus County
 Lewistown, MT 59457

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2018

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Amount Passed to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
PASSED THROUGH MONTANA OFFICE OF PUBLIC INSTRUCTION:				
National School Lunch Program (Donated Food) (fn2)	10.555	N/A	-	40,729
National School Lunch Program (fn1)	10.555	N/A	-	<u>279,416</u>
Total Child Nutrition Cluster				320,145
Total U.S. Department of Agriculture				<u>\$ 320,145</u>
U.S. DEPARTMENT OF EDUCATION				
PASSED THROUGH CENTRAL MT LEARNING RESOURCE CENTER COOPERATIVE:				
Special Education Grants to States	84.027	014-9691-56-12-259a	-	58,500
PASSED THROUGH MONTANA OFFICE OF PUBLIC INSTRUCTION:				
Title I Grants to Local Education Agencies - Part A, Improving Basic Programs	84.010	014-0258-32-18	-	362,567
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126	N/A	-	38,891
Rural Education	84.358A	S358A173476	-	28,212
Career & Technical Education - Basic Grants to States (Carl Perkins)	84.048	014-0259-81-18	-	18,819
Gaining Early Awareness & Readiness for Undergraduate Programs (Gear UP)	84.334	N/A	-	600
Total U.S. Department of Education				<u>\$ 507,589</u>
Total Federal Financial Assistance				<u><u>\$ 827,734</u></u>

The accompanying notes to the SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS are an integral part of this schedule.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2018

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Lewistown School District No. 1 under programs of the federal government for the fiscal year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of the Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Lewistown School District No. 1, it is not intended to and does not present the financial position, changes in net position or cash flows of Lewistown School District No. 1.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting as used in the governmental financial statements. Such expenditures are recognized following, as applicable, either the cost principles in Office of Management and Budget Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available

NOTE 3. INDIRECT COST RATE

Lewistown School District No. 1 has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4. FOOTNOTES

Fn1 – No separate funds or accounts maintained, the School District assumes first in first out for program money.

Fn2 – The value of commodities (revenues, expenses or inventory) are not displayed in the basic financial statements.

N/A – Not applicable/ available.



STROM & ASSOCIATES, P.C.

Certified Public Accountants

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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

INDEPENDENT AUDITOR'S REPORT

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

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 *Governmental 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 Lewistown School District No. 1 as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Lewistown School District No. 1's basic financial statements and have issued our report thereon dated January 15, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lewistown School District No. 1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 Lewistown School District No. 1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

A handwritten signature in black ink that reads "Strom & Associates, P.C." The signature is written in a cursive, slightly slanted style.

STROM & ASSOCIATES, PC
Billings, Montana
January 15, 2019



STROM & ASSOCIATES, P.C.
Certified Public Accountants

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
Uniform Guidance

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

We have audited Lewistown School District No. 1's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Lewistown School District No. 1's major federal programs for the year ended June 30, 2018. Lewistown School District No. 1's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Lewistown School District No. 1's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lewistown School District No. 1's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Lewistown School District No. 1's compliance.

Opinion on Each Major Federal Program

In our opinion, Lewistown School District No. 1's, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018

Report on Internal Control Over Compliance

Management of Lewistown School District No. 1 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lewistown School District No. 1's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lewistown School District No. 1's internal control over compliance.

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

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

Purpose of this Report

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



STROM & ASSOCIATES, PC
Billings, Montana
January 15, 2019

LEWISTOWN SCHOOL DISTRICT NO. 1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2018

A. SUMMARY OF AUDITOR’S RESULTS

Financial Statements:

- 1. The auditor, Strom & Associates, PC, has issued an unmodified opinion on Lewistown School District No. 1’s financial statements as of and for the year ended June 30, 2018.
- 2. Our audit did not identify any material weaknesses relating to internal controls over financial reporting and its operation.
- 3. Our audit did not identify any significant deficiencies in internal controls over financial reporting and its operation.
- 4. Our audit did not identify any noncompliance which was material to the financial statements.

Federal Awards:

- 5. Our audit did not identify any material weaknesses relating to internal controls over federal programs.
- 6. Our audit did not identify any significant deficiencies in internal controls over federal programs.
- 7. The auditor, Strom & Associates, PC, has issued an unmodified opinion on Lewistown School District No. 1’s compliance with major federal awards programs as of and for the year ended June 30, 2018.
- 8. The audit disclosed no audit findings which are required to be reported under section 200.516 of Uniform Guidance.
- 9. The major program for Lewistown School District No. 1 for the year ended June 30, 2018 was:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Grants to Local Education Agencies

- 10. The threshold used to distinguish between Type A and Type B programs was \$750,000.
- 11. This School District does qualify as a low risk audit client.

B. Findings relating to the financial statements which are required to be reported in accordance with “Governmental Auditing Standards.”

Prior year findings/status:

There were no findings or recommendations in the prior audit report and none for the fiscal year ended June 30, 2018.

C. Findings and questioned costs for Federal awards, as defined in section 200.516 of Uniform Guidance.

The audit disclosed no findings or questioned costs relating to federal awards as defined in section 200.516 of Uniform Guidance in the prior audit report or for the fiscal year ended June 30, 2018.