

LEWISTOWN SCHOOL DISTRICT NO. 1

**FERGUS COUNTY
LEWISTOWN, MONTANA**

FINANCIAL AND COMPLIANCE REPORT

Fiscal Year Ended June 30, 2019

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

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

OFFICIALS

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

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, 2019.

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 Lewistown Public Schools, liabilities exceeded assets by \$674,912 as of June 30, 2019. In 2018, the District was required to implement the new OPEB GASB 75 standard for liability accounting of post-employment benefits (non-pension). In 2019, it was required that this be reviewed annually, rather than the every 3 years it was previously. 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 SCHOOL DISTRICT NO. 1

MANAGEMENT DISCUSSION AND ANALYSIS (continued)
For the year ended June 30, 2019

Condensed Statement of Net Position

| | <u>Governmental Activities</u> | |
|--|--------------------------------|-------------------|
| | <u>FY2018</u> | <u>FY2019</u> |
| Current and other assets | 5,666,830 | 6,203,254 |
| Capital assets | 7,723,806 | 7,571,197 |
| Total Assets | 13,390,636 | 13,390,636 |
| Current liabilities | 132,373 | 104,111 |
| Non-current liabilities | 14,643,779 | 15,393,099 |
| Total Liabilities | 12,526,273 | 12,526,273 |
| Invested in capital assets, Net of debt | 7,723,806 | 7,571,197 |
| Restricted | 4,162,012 | 4,153,940 |
| Unrestricted | (12,242,700) | (12,400,049) |
| Total Net Position | (356,882) | (674,912) |

Changes in Net Position

| | <u>Governmental Activities</u> | |
|------------------------------|--------------------------------|-------------------|
| | <u>FY2018</u> | <u>FY2019</u> |
| GENERAL REVENUES | | |
| District Levy | 4,281,534 | 4,216,532 |
| State Equalization | 3,532,102 | 3,618,876 |
| Other State Revenue | 2,516,947 | 2,616,927 |
| County | 1,319,845 | 1,257,102 |
| Federal | 0 | 0 |
| Investment Earning | 59,010 | 88,519 |
| Gain on Asset | 59,564 | 0 |
| Other | 148,963 | 178,165 |
| Total General Revenue | 14,206,466 | 11,976,121 |

GOVERNMENT OPERATIONS

| | | |
|-----------------------------|-------------------|-------------------|
| Instruction (includes OPEB) | 7,161,780 | 7,914,674 |
| Support | 373,673 | 374,673 |
| Media | 461,370 | 301,101 |
| Administration | 2,162,142 | 2,206,615 |
| O & M | 1,788,719 | 1,921,016 |
| Transportation | 879,517 | 885,794 |
| Extracurricular | 295,792 | 297,858 |
| School Food | 727,128 | 725,836 |
| Other Current Charges | 36,545 | (4974) |
| Interest and Other Charges | 550 | 0 |
| Depreciation – unallocated | 87,732 | 116,517 |
| Total Operations | 13,974,398 | 14,739,110 |

Capital Assets

As of June 30, 2019, 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 | 2,001,933 | 2,040,208 |
| Accumulated Depreciation | <u>(966,144)</u> | <u>(1,010,355)</u> |
| | 1,035,788 | 1,029,853 |
| | | |
| Buildings and Improvements | 12,930,463 | 13,072,765 |
| Accumulated Depreciation | <u>(7,386,792)</u> | <u>(7,736,145)</u> |
| | 5,543,671 | 5,336,620 |
| | | |
| Machinery and Equipment | 3,893,207 | 4,040,598 |
| Accumulated Depreciation | <u>(2,656,520)</u> | <u>(2,835,874)</u> |
| | 1,236,687 | 1,204,724 |

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 remained steady in the elementary while, most recently decreasing significantly in the high school. In 2020-21, we will see an increase in enrollment at the High School, but will not benefit from the ANB of those students until 2021-22. There continues to be a growing need for services for special needs students, but little assistance from the State. Legislature has allowed a permissive levy for high needs students, but this puts more stress on the local taxpayers. 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 ran a levy successful in the elementary in FY19. 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 in the form of non-voted levies. The intent to increase these levies is now required to be posted and advertised to the public each year in March. The Board will need to continue 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. In 2019, the Board determined not to use this new authority, but is taking advantage of the matching State dollars in FY20. The District has begun the process of consideration of a Bond election in the near future to address building needs in the district.

LEWISTOWN SCHOOL DISTRICT NO. 1

MANAGEMENT DISCUSSION AND ANALYSIS (continued)
For the year ended June 30, 2019

- Safety has become top priority in many Districts, ours being no exception. In the 2019 Legislature, the “permissive” Building Reserve Fund Levy was expanded to include the ability to use those funds for building safety, School Resource Officers and Counselors. With these funds being open to both Facility and Safety purposes, the Board may have to choose which takes higher priority. The Bond currently being considered would also address safety concerns.
- 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 come down to how effectively we are educating our children with the resources that we have. 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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Certified Public Accountants

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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 Lewistown School District No. 1 as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Lewistown School District No. 1's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 opinion.

Opinion

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 Lewistown School District No. 1 as of June 30, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America requires that the Management's Discussion and Analysis (pages 3-7), the Schedule of Funding Progress - Postemployment Benefits Other than Pensions (page 44), the Schedule of Proportionate Share of Net Pension Liability and Schedule of Contributions to Montana Retirement Systems (pages 45-50), and the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (pages 51-54) 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 Lewistown School District No. 1's basic financial statements. The accompanying Schedule of Revenues, Expenses, and Balances - Student Activity Expendable Trust Funds (pages 55-56) and Schedule of Reported Enrollment (page 57) 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 58-59) 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 - Student Activity Expendable Trust Funds, Schedule of Reported Enrollment, and 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 - Student Activity Expendable Trust Funds, Schedule of Reported Enrollment, and 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 31, 2020 on our consideration of 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 solely 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 Lewistown School District No. 1 internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC
Billings, Montana
January 31, 2020

STATEMENT OF NET POSITION
 June 30, 2019

| | <u>Governmental</u> <u>Activities</u> |
|--|--|
| ASSETS: | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 5,932,125 |
| Taxes Receivable | 144,806 |
| Due from Other Governments | 77,513 |
| Inventories | <u>48,810</u> |
| Total Current Assets | <u>6,203,254</u> |
| Noncurrent Assets: | |
| Capital Assets: | |
| Land | 590,530 |
| Net Depreciable Assets | <u>6,980,667</u> |
| Total Noncurrent Assets | <u>7,571,197</u> |
| Total Assets | <u>13,774,451</u> |
| DEFERRED OUTFLOWS OF RESOURCES: | |
| Employer Pension Plan Activities | <u>1,761,758</u> |
| Total Deferred Outflows of Resources | <u>1,761,758</u> |
| Total Assets and Deferred Outflows of Resources | <u>\$ 15,536,209</u> |
| LIABILITIES: | |
| Current Liabilities: | |
| Unearned Revenue | 15,482 |
| Other Current Liabilities | 4,398 |
| Current Portion of Long-term Debt Obligations | 34,000 |
| Current Portion of Compensated Absences | <u>50,231</u> |
| Total Current Liabilities | <u>104,111</u> |
| Noncurrent Liabilities: | |
| Long-term Debt Obligations | 53,800 |
| Compensated Absences | 428,524 |
| Net Pension Accrual | 10,210,243 |
| Other Postemployment Benefits | <u>4,700,532</u> |
| Total Noncurrent Liabilities | <u>15,393,099</u> |
| Total Liabilities | <u>15,497,210</u> |
| DEFERRED INFLOWS OF RESOURCES: | |
| Employer Pension Plan Activities | <u>713,911</u> |
| Total Deferred Inflows of Resources | <u>713,911</u> |
| NET POSITION: | |
| Net Investment in Capital Assets | 7,571,197 |
| Restricted | 4,153,940 |
| Unrestricted (Deficit) | <u>(12,400,049)</u> |
| Total Net Position | <u>(674,912)</u> |
| Total liabilities, deferred inflows and net position | <u>\$ 15,536,209</u> |

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

STATEMENT OF ACTIVITIES
 For the year ended June 30, 2019

| | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position |
|------------------------------------|-------------------|------------------------|--|--|
| | Expenses | Charge for Services | Operating Grants and Contributions | Primary Government Governmental Activities |
| GOVERNMENT OPERATIONS: | | | | |
| Instructional Services | \$ 7,914,674 | \$ 16,590 | \$ 1,302,300 | \$ (6,595,784) |
| Support Services | 374,673 | - | 70,554 | (304,119) |
| Educational Media Services | 301,101 | - | 8,433 | (292,668) |
| General Administrative Services | 2,206,615 | 186,358 | 29,692 | (1,990,565) |
| Operation and Maintenance Services | 1,921,016 | 5,886 | 44,334 | (1,870,796) |
| Transportation Services | 885,794 | - | 143,469 | (742,325) |
| School Food Services | 725,836 | 251,847 | 274,908 | (199,081) |
| Extracurricular | 297,858 | - | - | (297,858) |
| Other Current Charges | (4,974) | - | - | 4,974 |
| Unallocated Depreciation Expense * | 116,517 | - | - | (116,517) |
| Total Governmental Activities | <u>14,739,110</u> | <u>460,681</u> | <u>1,873,690</u> | <u>(12,404,739)</u> |
| GENERAL REVENUES: | | | | |
| District Levies | | | | 4,216,532 |
| State Equalization | | | | 3,618,876 |
| Other State Revenues | | | | 2,616,927 |
| County | | | | 1,257,102 |
| Interest | | | | 88,519 |
| Other | | | | 178,165 |
| Gain (loss) on Sale of Assets | | | | <u>16,826</u> |
| Total General Revenues | | | | <u>11,992,947</u> |
| Change in Net Position | | | | (411,792) |
| NET POSITION: | | | | |
| Beginning of the Year | | | | (356,882) |
| Prior Period Adjustments | | | | <u>93,762</u> |
| End of the Year | | | | <u>\$ (674,912)</u> |

* Excludes depreciation included in direct expenses of the various functions

BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2019

| | MAJOR | | | | Total Governmental Funds |
|---|---------------------|--------------------------------------|--------------------------------------|--------------------------------|--------------------------------|
| | General | Miscellaneous Programs (Elem.) | Interlocal Agreement Fndd (HS) | Other Governmental Funds | |
| ASSETS: | | | | | |
| Current Assets: | | | | | |
| Cash and Cash Equivalents | \$ 1,391,646 | \$ 625,208 | \$ 644,017 | \$ 3,209,760 | \$ 5,870,631 |
| Taxes Receivable | 97,360 | - | - | 47,446 | 144,806 |
| Due from Other Governments | - | 74,643 | - | 2,870 | 77,513 |
| Inventories | - | - | - | 48,810 | 48,810 |
| Total Assets | 1,489,006 | 699,851 | 644,017 | 3,308,886 | 6,141,760 |
| DEFERRED OUTFLOWS OF RESOURCES: | | | | | |
| Total Deferred Outflows of Resources | - | - | - | - | - |
| Total Assets and Deferred Outflows of Resources | \$ 1,489,006 | \$ 699,851 | \$ 644,017 | \$ 3,308,886 | \$ 6,141,760 |
| LIABILITIES: | | | | | |
| Current Liabilities: | | | | | |
| Unearned Revenue | - | - | - | 15,482 | 15,482 |
| Other Current Liabilities | - | 4,398 | - | - | 4,398 |
| Total Liabilities | - | 4,398 | - | 15,482 | 19,880 |
| DEFERRED INFLOWS OF RESOURCES: | | | | | |
| Unavailable Property Taxes Receivable | 97,360 | - | - | 47,446 | 144,806 |
| Total Deferred Inflows of Resources | 97,360 | - | - | 47,446 | 144,806 |
| FUND BALANCE (DEFICITS): | | | | | |
| Nonspendable | - | - | - | 48,810 | 48,810 |
| Restricted | - | 695,453 | 151,625 | 3,210,606 | 4,057,684 |
| Unassigned | 1,391,646 | - | 492,392 | (13,458) | 1,870,580 |
| Total Fund Balance | 1,391,646 | 695,453 | 644,017 | 3,245,958 | 5,977,074 |
| Total liabilities, deferred inflows of resources, and fund balance | \$ 1,489,006 | \$ 699,851 | \$ 644,017 | \$ 3,308,886 | \$ 6,141,760 |

RECONCILIATION TO THE STATEMENT OF NET POSITION

| | |
|---|--------------|
| Total fund balance reported above | \$ 5,977,074 |
| Internal Service Fund Net Position | 61,494 |
| Unavailable Property Taxes Receivable | 144,806 |
| Governmental capital assets | 7,571,197 |
| Employer Pension Plan Activities | 1,761,758 |
| Long-term Liabilities | |
| Long-term obligations | (87,800) |
| Compensated absences | (478,755) |
| Net Pension Accrual | (10,210,243) |
| Other Postemployment Benefits | (4,700,532) |
| Employer Pension Plan Activities | (713,911) |
| Net Position of Governmental Activities | \$ (674,912) |

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, 2019

| | MAJOR | | | | |
|--|---------------------|--------------------------------------|--------------------------------------|--------------------------------|--------------------------------|
| | General | Miscellaneous Programs (Elem.) | Interlocal Agreement Fndd (HS) | Other Governmental Funds | Total Governmental Funds |
| REVENUES: | | | | | |
| District Levies | \$ 2,820,785 | \$ - | \$ - | \$ 1,406,256 | \$ 4,227,041 |
| Interest | 26,162 | - | 9,312 | 53,045 | 88,519 |
| Charges for Services | - | - | 186,358 | 268,437 | 454,795 |
| Other | 3,257 | 82,482 | 20,780 | 92,857 | 199,376 |
| County | - | - | - | 1,333,917 | 1,333,917 |
| State | 6,712,428 | 68,459 | - | 118,118 | 6,899,005 |
| Federal | - | 410,858 | - | 417,400 | 828,258 |
| Total Revenues | 9,562,632 | 561,799 | 216,450 | 3,690,030 | 14,030,911 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Instructional Services | 5,489,924 | 497,811 | 64,834 | 1,067,414 | 7,119,983 |
| Support Services | 306,491 | 18,555 | - | 48,417 | 373,463 |
| Educational Media Services | 237,864 | 14,595 | 525 | 60,534 | 313,518 |
| General Administrative Services | 1,580,114 | 455 | 178,740 | 306,113 | 2,065,422 |
| Operation and Maintenance Services | 1,349,599 | - | 12,590 | 193,896 | 1,556,085 |
| Transportation Services | 37,639 | 6,080 | - | 635,517 | 679,236 |
| School Food Services | 159,048 | 75 | - | 560,218 | 719,341 |
| Extracurricular | 257,584 | - | - | 32,453 | 290,037 |
| Capital Outlay | 5,899 | 4,484 | 28,925 | 345,891 | 385,199 |
| Total Expenditures | 9,424,162 | 542,055 | 285,614 | 3,250,453 | 13,502,284 |
| Excess (Deficiency) of Revenues Over Expenditures | 138,470 | 19,744 | (69,164) | 439,577 | 528,627 |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Sale of Capital Assets | - | 278 | 9,117 | 931 | 10,326 |
| Fund Transfers In | - | - | 72,734 | 4,466 | 77,200 |
| Fund Transfers (Out) | (72,734) | - | - | (4,466) | (77,200) |
| Total Other Financial Sources (Uses) | (72,734) | 278 | 81,851 | 931 | 10,326 |
| Net Change in Fund Balance | 65,736 | 20,022 | 12,687 | 440,508 | 538,953 |
| FUND BALANCE: | | | | | |
| Beginning of the Year | 1,325,910 | 675,431 | 631,330 | 2,804,026 | 5,436,697 |
| Prior Period Adjustments | - | - | - | 1,424 | 1,424 |
| End of the Year | \$ 1,391,646 | \$ 695,453 | \$ 644,017 | \$ 3,245,958 | \$ 5,977,074 |

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

Lewistown School District No. 1
 Fergus County
 Lewistown, Montana 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, 2019

| | | |
|---|----------------|------------------|
| Net Changes in Fund Balance | \$ | 538,953 |
| Change in net position from internal service funds | | 7,664 |
| Revenues on the Statement of Activities not included in governmental funds statement: | | |
| Increase (decrease) in taxes receivable | (10,509) | |
| State Pension Aid | <u>290,090</u> | 279,581 |
| Revenues reported in the governmental funds statement not included in the Statement of Activities | | |
| Sale of Capital Assets | | (10,326) |
| Expenses on the Statement of Activities not included in the governmental funds statement: | | |
| Depreciation Expense | (636,646) | |
| Actuarial Pension Expense | (379,247) | |
| (Increase) decrease in Other Postemployment Benefits | (631,078) | |
| (Increase) decrease in compensated absence liability | <u>17,282</u> | (1,629,689) |
| Expenditures reported in the governmental funds statement not included in the Statement of Activities | | |
| Gain (Loss) on sale of assets outlays | 16,826 | |
| Capital outlays | <u>385,199</u> | <u>402,025</u> |
| Change in net position reported on the Statement of Activities | \$ | <u>(411,792)</u> |

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

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 June 30, 2019

| | <u>Governmental Activities - Internal Service</u> |
|--|---|
| ASSETS: | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 61,494 |
| Total Current Assets | <u>61,494</u> |
| Total Assets | <u>61,494</u> |
| DEFERRED OUTFLOWS OF RESOURCES: | |
| Total Deferred Outflows of Resources | <u>-</u> |
| Total Assets and Deferred Outflows of Resources | <u>\$ 61,494</u> |
| LIABILITIES: | |
| Current Liabilities: | |
| Current Portion of Long-term Capital Obligations | <u>-</u> |
| 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>61,494</u> |
| Total Net Position | <u>61,494</u> |
| Total liabilities, deferred inflows and net position | <u>\$ 61,494</u> |

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

Lewistown School District No. 1
Fergus County
Lewistown, Montana 59457

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the year ended June 30, 2019

| | <u>Governmental Activities - Internal Service</u> |
|--------------------------|---|
| OPERATING REVENUES: | |
| Charges for Services | \$ 150,918 |
| Total Operating Revenues | <u>150,918</u> |
| OPERATING EXPENSES: | |
| Purchased Services | <u>143,254</u> |
| Total Operating Expense | <u>143,254</u> |
| Change in Net Position | 7,664 |
| NET POSITION: | |
| Beginning of the Year | <u>53,830</u> |
| End of the Year | <u>\$ 61,494</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, 2019

| | <u>Governmental Activities - Internal Service</u> |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Services Provided Other Funds | \$ 150,918 |
| Purchased Professional and Technical Services | <u>(143,254)</u> |
| Net Cash Provided (Used) by Operating Activities | 7,664 |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: | |
| Net Cash Provided (Used) by Non-capital 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 | <u>7,664</u> |
| BALANCE: | |
| Beginning of the year | <u>53,830</u> |
| End of the year | <u>\$ 61,494</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | |
| Operating income (loss) | \$ 7,664 |
| Net cash provided (used) by operating activities | <u>\$ 7,664</u> |

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

Lewistown School District No. 1
 Fergus County
 Lewistown, Montana 59457

STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 June 30, 2019

| | Private Purpose Trust Funds |
|--------------------------------------|--------------------------------|
| ASSETS: | |
| Current assets: | |
| Cash and cash equivalents | \$ 328,335 |
| Other Current Assets | <u>505</u> |
| Total Assets | <u>\$ 328,840</u> |
| LIABILITIES: | |
| Current liabilities: | |
| Total Liabilities | <u>-</u> |
| NET POSITION: | |
| Held in trust for endowment | 115,094 |
| Held in trust for student activities | <u>213,746</u> |
| Total Net Position | <u>\$ 328,840</u> |

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 For the year ended June 30, 2019

| | Private Purpose Trust Funds |
|----------------------------------|--------------------------------|
| ADDITIONS: | |
| Revenues from student activities | \$ 348,847 |
| Contributions to Endowment | 1,780 |
| Investment and royalty earnings | <u>39</u> |
| Total Additions | <u>350,666</u> |
| DEDUCTIONS: | |
| Expenses of student activities | <u>346,934</u> |
| Total Deductions | <u>346,934</u> |
| Change in net position | 3,732 |
| NET POSITION: | |
| Beginning of the year | <u>325,108</u> |
| End of the year | <u>\$ 328,840</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, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of 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 (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 2019 the School District adopted the following GASB Statements:

- GASB Statement No. 83 – *Certain Asset Retirement Obligation*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (ARO). 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 at effective date, however if an ARO occurs in subsequent years it will follow applicable guidance.
- GASB Statement No. 90 – *Majority Equity Interests*. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The School District determined that this Statement does not significantly affect its reporting. The School District holds no ownership of shares of an organization's stock or measurable rights to net resources of other organizations.
- GASB Statement No. 91 – *Conduit Debt Obligations*. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The School District determined that this Statement does not significantly affect its reporting. The School District does not have any conduit debt but will comply with this statement if it enters into any such debt arrangements in the future.

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

- 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 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, 2019

The School District was incorporated under the laws of Montana and, as required by GAAP, the financial statements of the reporting entity include those of the School District (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, and
- 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.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2019

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.

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 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 fund are charges to employees and the School District for services. Operating expenses for the internal service fund includes 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 funds, 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, and federal grants and reimbursements. Also, 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 Educational Opportunities for Central Montana activities.

1. b. 3. OTHER FUND TYPES

Internal Service Fund – This fund accounts 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 self-insured dental 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.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2019

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. For financial reporting purposes these funds are removed but remain in the accounting system.

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

1. c. 1 CASH AND INVESTMENTS

Allowable Depositories – Cash includes amounts in demand deposits, as well as short-term investments as authorized by 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 Fergus County (the County) is not available to the School District. However, Montana statutes require United States government securities be held as collateral to secure deposits of public funds in excess of FDIC insurance. The external investment pool is audited as part of the County’s financial statements. This investment pool is not registered with or monitored by the Securities and Exchange Commission (SEC).

Statement of Cash Flows – 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.

1. c. 2. TAXES

Property tax levies – 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 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 Montana statute as a fixed percentage of market value.

Collections – Property taxes are collected by the County Treasurer, who credits to the School District funds its respective share of the collections. Tax levies are collectible in two installments, which become delinquent after November 30 and May 31. After a period of three years, the County may begin foreclosure proceedings and sell the property at auction.

Delinquency – Unpaid property taxes are liens on the property being taxed. Taxes that become delinquent are charged interest at the rate of 5/6 of 1% 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. The School District receives its share of the sale proceeds of any such auction.

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).

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2019

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 with a historical cost in excess of \$5,000 and 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:

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

1. c. 5. DEFERRED OUTFLOWS AND 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 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 increase to net position that applies to a future period and, as such, will not be recognized as an inflow of resources (e.g., revenue) until that time.

Pension Liability– Deferred Outflows and Inflows – 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, SICK, AND DISCRETIONARY 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, 25% of accumulated sick leave is paid at the employee's current rate of pay.

Certified School District employees shall be granted ten discretionary days each year. Unused discretionary days shall be allowed to accumulate 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. At June 30, 2019, the amount expected to be paid within one year amounted to \$50,231 and is generally paid out of the general fund.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2019

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 is comprised of 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 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.
- 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.

At June 30, 2019, fund balance components other than unassigned fund balance consist of the following:

| <u>Purpose</u> | <u>Non-spendable</u> | <u>Restricted</u> |
|------------------------------------|----------------------|---------------------|
| Instructional and Support Services | \$ 0 | \$ 227,577 |
| Operations and Maintenance | 0 | 17,189 |
| Student Transportation | 0 | 265,911 |
| School Food | 48,810 | 0 |
| Third Party Grantor Restrictions | 0 | 941,498 |
| Employer Retirement Benefits | 0 | 444,385 |
| Future Technology | 0 | 265,623 |
| Future Capital Costs | 0 | 1,895,481 |
| Debt Service | 0 | 20 |
| Total | <u>\$ 48,810</u> | <u>\$ 4,057,684</u> |

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 the County. The County also serves as cashier and treasurer for the School District for tax 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.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2019

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2019, the summary of cash and cash equivalents for governmental and fiduciary funds were as follows:

| <u>Account Type</u> | <u>Governmental Activities</u> | <u>Fiduciary Funds</u> | <u>Total</u> |
|---------------------------|------------------------------------|----------------------------|--------------|
| Cash and Cash Equivalents | \$ 5,932,125 | \$ 328,335 | \$ 6,260,460 |

The carrying amount of cash on hand, deposits, and investments at June 30, 2019 is as follows:

| | <u>Amount</u> |
|------------------------|---------------------|
| Demand Accounts | \$ 275,240 |
| County Investment Pool | <u>5,985,220</u> |
| Total | <u>\$ 6,260,460</u> |

County Investment Pool – Cash resources of the School District are held and managed by the County Treasurer pursuant to Montana law. They are combined with cash resources of other governmental entities within the County to form a pool of cash and cash equivalents. Investments of pooled cash consist primarily of STIP, repurchase agreements, 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 the 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 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. At June 30, 2019, the deposits in the extracurricular fund were covered by FDIC insurance.

NOTE 3. TAXES RECEIVABLE

The School District is permitted by Montana statutes to levy taxes up to certain fixed limits for various purposes. The assessed value of the roll as of January 1, 2018, upon which the levy for the 2019 fiscal year was based, amounted to \$12,919,327 for the Elementary School District and \$14,049,298 for the High School District. The tax rates assessed for the year ended June 30, 2019 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* | 140.41 | \$ 63,693 |
| Transportation | 30.99 | 13,794 |
| Bus Depreciation | 5.61 | 2,366 |
| Tuition | 11.19 | 4,683 |
| Technology | 4.76 | 2,172 |
| Debt Service | 0.00 | 371 |
| Building Reserve | 7.59 | 3,433 |
| <u>High School</u> | | |
| General* | 70.56 | 33,667 |
| Transportation | 11.96 | 5,533 |
| Bus Depreciation | 19.11 | 8,390 |
| Tuition | 2.63 | 1,227 |
| Adult Education | 0.00 | 349 |
| Technology | 3.86 | 1,836 |
| Building Reserve | <u>6.98</u> | <u>3,292</u> |
| Total | <u>315.65</u> | <u>\$ 144,806</u> |

* Denotes Major Fund

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2019

Property tax fees assessed may be paid under protest and held by the County Treasurer until the action is finally determined to be in favor of 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 \$1,068 of taxes paid under protest.

NOTE 4. 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 * | \$ 69,348 | State of Montana | Title I - Schoolwide |
| Miscellaneous * | 5,295 | State of Montana | Title I - OPI travel reimbursement |
| <u>High School</u> | | | |
| Traffic Education | <u>2,870</u> | State of Montana | Drivers Ed reimbursement |
| Total | <u>\$ 77,513</u> | | |

* Denotes Major Fund

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

The schedule of changes in general capital assets at June 30, 2019 follows:

| Governmental Activities: | Balance July 1, 2018 | Additions | Deletions | Adjustments/ Transfers | Balance June 30, 2019 |
|-----------------------------------|---------------------------------|---------------------|------------------|-----------------------------------|----------------------------------|
| <u>Non-depreciable Assets:</u> | | | | | |
| Land | \$ 590,530 | \$ 0 | \$ 0 | \$ 0 | \$ 590,530 |
| Total Non-depreciable Assets | 590,530 | 0 | 0 | 0 | 590,530 |
| <u>Depreciable Assets:</u> | | | | | |
| Buildings | 12,930,463 | 142,302 | 0 | 0 | 13,072,765 |
| Improvements Other than Buildings | 1,411,402 | 38,275 | 0 | 0 | 1,449,677 |
| Machinery and Equipment | <u>3,893,207</u> | <u>211,122</u> | <u>(97,250)</u> | <u>33,519</u> | <u>4,040,598</u> |
| Total Depreciable Assets | 18,235,072 | 391,699 | (97,250) | 33,519 | 18,563,040 |
| <u>Accumulated Depreciation:</u> | | | | | |
| Buildings | (7,419,482) | (349,352) | 0 | 32,690 | (7,736,144) |
| Improvements Other than Buildings | (968,529) | (44,211) | 0 | 2,385 | (1,010,355) |
| Machinery and Equipment | <u>(2,713,785)</u> | <u>(243,084)</u> | <u>97,250</u> | <u>23,745</u> | <u>(2,835,874)</u> |
| Total Accumulated Depreciation | <u>(11,101,796)</u> | <u>(636,647)</u> | <u>97,250</u> | <u>58,820</u> | <u>(11,582,373)</u> |
| Net Depreciable Assets | <u>7,133,276</u> | <u>(244,948)</u> | <u>0</u> | <u>92,339</u> | <u>6,980,667</u> |
| Net General Capital Assets | <u>\$ 7,723,806</u> | <u>\$ (244,948)</u> | <u>\$ 0</u> | <u>\$ 92,339</u> | <u>\$ 7,571,197</u> |

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

| Function | Amount |
|----------------------------|-------------------|
| Instructional | \$ 12,143 |
| Media | 7,525 |
| School Administration | 7,053 |
| Operation and Maintenance | 275,684 |
| Transportation | 201,681 |
| School Food | 8,612 |
| Extracurricular | 7,432 |
| Unallocated | <u>116,517</u> |
| Total Depreciation Expense | <u>\$ 636,647</u> |

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2019

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

| Fund | Amount | Due To | Reason |
|----------------------|---------------|-------------------------------------|----------------------------|
| <u>Elementary</u> | | | |
| Miscellaneous* | \$ 4,398 | Montana Teachers' Retirement System | Retiree dental liabilities |
| * Denotes Major Fund | | | |

6.b. UNEARNED REVENUE

| Fund | Amount | Reason |
|----------------------|---------------|---------------|
| <u>Elementary</u> | | |
| School Food Services | \$ 15,482 | Prepaid meals |

NOTE 7. CHANGES IN LONG-TERM DEBT

The schedule of changes in general long-term debt at June 30, 2019 follows:

| Governmental Activities: | Balance July 1, 2018 | New Debt and Other Additions | Principal Payments and Other Reductions | Balance June 30, 2019 | Due within One Year |
|---|---------------------------------|---|--|--------------------------------------|--------------------------------|
| <u>Other Liabilities:</u> | | | | | |
| Compensated Absences | \$ 496,037 | \$ 0 | \$ (17,282) | \$ 478,755 | \$ 50,231 |
| Retirement Incentive | 66,000 | 76,800 | (55,000) | 87,800 | 34,000 |
| Accrued Pension | 10,123,673 | 622,835 | (536,265) | 10,210,243 | 0 |
| Other Postemployment Benefits | <u>4,069,454</u> | <u>631,078</u> | <u>0</u> | <u>4,700,532</u> | <u>0</u> |
| Total Other Liabilities | <u>14,755,164</u> | <u>1,330,713</u> | <u>(608,547)</u> | <u>15,477,330</u> | <u>84,231</u> |
| Total Governmental Activities - Long-Term Debt | <u>\$ 14,755,164</u> | <u>\$ 1,330,713</u> | <u>\$ (608,547)</u> | <u>\$ 15,477,330</u> | <u>\$ 84,231</u> |

7. a. RETIREMENT INCENTIVE

The School District offered certified teachers a one-time incentive to retire as of June 30, 2016, 2017, or 2018. The incentive offered \$500 per month for each teacher who accepted the offer, for a period of 36, 24, or 12 months, respectively. Another incentive was offered during fiscal year ended June 30, 2019 in the amount of \$76,800. The changes in the retirement incentive liability are noted in the following schedule:

| Description | Issue Date | Interest Rate | Term | Maturity Date | Amount Issued | Outstanding June 30, 2019 |
|----------------------|-----------------------|--------------------------|-------------|--------------------------|--------------------------|--------------------------------------|
| Retirement Incentive | Sept 2016 | 0% | 3 years | 8/31/2019 | \$ 72,000 | \$ 4,000 |
| Retirement Incentive | Sept 2017 | 0% | 2 years | 8/31/2019 | 60,000 | 5,000 |
| Retirement Incentive | Sept 2018 | 0% | 1 year | 8/31/2019 | 12,000 | 2,000 |
| Retirement Incentive | Sept 2019 | 0% | 2.8 years | 6/30/2022 | <u>76,800</u> | <u>76,800</u> |
| | | | | | <u>\$ 220,800</u> | <u>\$ 87,800</u> |

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

| For the year ended June 30: | Elementary | High School | Total |
|--|-------------------|--------------------|------------------|
| 2020 | \$ 24,750 | \$ 9,250 | \$ 34,000 |
| 2021 | 20,700 | 6,900 | 27,600 |
| 2022 | <u>19,650</u> | <u>6,550</u> | <u>26,200</u> |
| Totals | <u>\$ 65,100</u> | <u>\$ 22,700</u> | <u>\$ 87,800</u> |

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2019

NOTE 8. DEFERRED INFLOWS OF RESOURCES

Property taxes receivable as of June 30, 2019 follows:

| Fund | Amount |
|--------------------|-------------------|
| <u>Elementary</u> | |
| General* | \$ 63,693 |
| Transportation | 13,794 |
| Bus Depreciation | 2,366 |
| Tuition | 4,683 |
| Technology | 2,172 |
| Debt Service | 371 |
| Building Reserve | 3,433 |
| <u>High School</u> | |
| General* | 33,667 |
| Transportation | 5,533 |
| Bus Depreciation | 8,390 |
| Tuition | 1,227 |
| Adult Education | 349 |
| Technology | 1,836 |
| Building Reserve | 3,292 |
| Total | <u>\$ 144,806</u> |

* Denotes Major Fund

NOTE 9. DEFICIT FUND BALANCES

Deficit fund balance result from commitments exceeding the resources. Deficit fund balances as of June 30, 2019 follows:

| Fund | Amount | School District's Plan to Correct |
|----------------------|---------------|--|
| <u>Elementary</u> | | |
| School Food Services | \$ 13,458 | Future collections |

NOTE 10. PRIOR PERIOD ADJUSTMENTS

| Fund | Governmental Funds | Reason |
|------------------------------|---------------------------|---|
| <u>High School</u> | | |
| Traffic Education | \$ 1,424 | Correct prior year estimated due from other governments |
| Governmental Type Activities | <u>92,338</u> | Correct beginning capital assets balances |
| Total | <u>\$ 93,762</u> | |

NOTE 11. INTERFUND OPERATING TRANSFERS IN AND OUT

| Operating Fund - In | Amount | Operating Fund - Out | Purpose |
|-------------------------------|------------------|-----------------------------|--|
| Building Reserve - Elementary | \$ 4,467 | Debt Service - Elementary | Taxes received since bond was paid |
| Interlocal - High School* | 52,630 | General - High School* | Close out funds per multi-district agreement |
| Interlocal - High School* | <u>20,103</u> | General - Elementary* | Close out funds per multi-district agreement |
| Total | <u>\$ 77,200</u> | | |

* Denotes Major Fund

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2019

NOTE 12. OTHER POSTEMPLOYMENT BENEFITS

12. a. PLAN DESCRIPTION

The School District provides its retiring employees with at least five years of service and who are at least 50 years of age, along with their eligible spouses and dependents, the option to continue participating in the School District group health insurance plan until the retiree becomes eligible for Medicare coverage. This option creates a defined benefit other postemployment benefits (OPEB) plan.

12. b. FUNDING POLICY

The School District pays OPEB liabilities on a pay as you go basis. A trust fund for future liabilities has not been established.

12. c. BENEFITS PROVIDED

The School District provides healthcare benefits for retirees and their dependents. The School District provides the same health care plan to all of its members. 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.

12. d. EMPLOYEES COVERED BY BENEFIT TERMS

At June 30, 2019, the following employees were covered by the benefit terms:

| | |
|--|-----|
| Active employees | 158 |
| Inactive employees (may include spouses) | 59 |

12. e. TOTAL OPEB LIABILITY

The School District's total OPEB liability amounted to \$4,700,532 at June 30, 2019. The liability was measured as of June 30, 2019 and was determined by an actuarial valuation as of June 30, 2018.

12. f. ASSUMPTIONS AND OTHER INPUTS

The School District obtained 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.

The total OPEB liability at June 30, 2019 was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|--|---------|
| Average salary increases | 4.00% |
| Discount rate | 3.50% |
| Retiree's share of benefit related costs | 100.00% |

Health care cost rate trend:

| <u>Year</u> | <u>% Increase</u> |
|---------------------|-------------------|
| 2019 | 7.20% |
| 2020 | 6.50% |
| 2021 | 6.00% |
| 2022 | 5.90% |
| 2023 | 5.70% |
| 2024 and thereafter | 5.60 to 3.80% |

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2019

12. g. CHANGES IN THE TOTAL OPEB LIABILITY

| | |
|--|---------------------|
| Balance at June 30, 2018 | \$ 4,069,454 |
| Changes for the Year: | |
| Service Cost (OPEB expense) | 271,452 |
| Interest | 147,140 |
| Changes in Assumptions or Other Inputs | 325,669 |
| Benefit Payments (estimated) | <u>(113,183)</u> |
| Net Changes | <u>631,078</u> |
| Balance at June 30, 2019 | <u>\$ 4,700,532</u> |

12. h. SENSITIVITY ANALYSIS

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% lower or 1% higher than the current discount rate:

| | 1% Decrease (2.50%) | Discount Rate (3.50%) | 1% Increase (4.50%) |
|----------------------|--------------------------------|----------------------------------|--------------------------------|
| Total OPEB Liability | \$ 5,695,405 | \$ 4,700,532 | \$ 3,928,087 |

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% lower (6.2% decreasing to 4.2%) or 1% higher (8.2% decreasing to 6.2%) than the current healthcare cost trend rates:

| | Healthcare Cost Trend Rate | | |
|----------------------|--|----------------------------------|---|
| | 1% Decrease (6.2% decreasing to 2.8%) | (7.2% decreasing to 3.8%) | 1% Increase (8.2% decreasing to 4.80%) |
| Total OPEB Liability | \$ 4,283,515 | \$ 4,700,532 | \$ 5,181,089 |

12. i. OPEB EXPENSE AND DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

For the year ended June 30, 2019, the School District reported \$631,078 in OPEB expense.

At June 30, 2019, the School District did not report deferred outflows of resources or deferred 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:

- Damage to and loss of property and contents
- Employee torts
- Professional liability, e.g., errors and omissions
- Environmental damage
- Workers' compensation, e.g., employee injuries
- Medical insurance costs of employees

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2019

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 accessed. 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 Montana law and are administered by the State.

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

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.

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 State Legislature.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2019

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.
- 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
Average
Compensation (HAC):

- Hired prior to July 1, 2011:
 - HAC during any consecutive 36 months.
- 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.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2019

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 |
| | 2019 | 7.900% | 7.900% | 8.670% | 8.570% | 0.100% | 8.300% |
| 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% |

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.
 - iii. The State contributed a Statutory Appropriation from the General Fund amounting to \$33,454,182.
 - b. Not Special Funding
 - i. The State contributed a portion of Coal Severance Tax income and earnings from the Coal Severance Tax fund.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2019

14. b. 3. ACTUARIAL ASSUMPTIONS

The Total Pension Liability (TPL) used to calculate the Net Pension Liability (NPL) as of June 30, 2018 was determined by taking the results of the June 30, 2017 actuarial valuation and applying standard roll forward procedures. There were several significant assumptions and other inputs used to measure the TPL. 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 0.00% 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.

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, 2011 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, 2018 are summarized below.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2019

| Asset Class | Target Asset | Long-Term | Long-Term |
|------------------------------|--------------|------------------|----------------|
| | Allocation | Expected Real | Expected Real |
| | (a) | Rate of Return | Rate of Return |
| | | Arithmetic Basis | (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% | | 4.36% |
| Inflation | | | 2.75% |
| Portfolio Return Expectation | | | 7.11% |

The long-term expected nominal rate of return of 7.11% 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 long-term expected real rate of return of 4.36%.

14. b. 6. DEFINED CONTRIBUTION PLAN

The School District contributed to the state of Montana Public Employee Retirement System Defined Contribution Retirement Plan (Defined Contribution plan) for employees that have elected the Defined Contribution plan. The Defined Contribution plan is administered by the Montana Public Employees Retirement Board (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 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 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.

At the plan level for the measurement period ended June 30, 2018, the Defined Contribution plan employer did not recognize any net pension liability or pension expense for the Defined Contribution plan. Plan level non-vested forfeitures for the 316 employers that have participants in the PERS-DCRP totaled \$746,144.

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.

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.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2019

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, 2019 | 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, 2019

14. c. 3. ACTUARIAL ASSUMPTIONS

The TPL as of June 30, 2018 is based on the results of an actuarial valuation date of July 1, 2018. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the July 1, 2018 valuation were based on the results of the last actuarial experience study, dated May 1, 2018. Among those assumptions were the following:

- | | |
|---|--|
| <u>Total Wage Increases:</u> (includes 3.25% general wage increase assumption) | <ul style="list-style-type: none">• 3.25% to 7.76% for Non-University members• 4.25% for University members |
| <u>Investment Return:</u> | 7.50% |
| <u>Price Inflation:</u> | 2.50% |
| <u>Postretirement Benefit Increases:</u> | <ul style="list-style-type: none">• 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%. |
| <u>Mortality:</u> (among contributing members, service retired members, and beneficiaries) | <ul style="list-style-type: none">• 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 2022.• 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 2022. |
| <u>Mortality:</u> (among disabled members) | <ul style="list-style-type: none">• Males. RP 2000 Disabled Mortality Table for males, set forward one year, with mortality improvements projected by Scale BB to 2022.• Females. RP 2000 Disabled Mortality Table for females, set forward five years, with mortality improvements projected by Scale BB to 2022. |

14. c. 4. DISCOUNT RATE

The discount rate used to measure the TPL was 7.50%. 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 2126. 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.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2019

14. c. 5. TARGET ALLOCATIONS

| Asset Class | Target Asset Allocation | Real Rate of Return Arithmetic Basis | Long-Term Expected Real Rate of Return* |
|------------------------------|-------------------------|--------------------------------------|---|
| | (a) | (b) | (a) x (b) |
| Broad US Equity | 35.00% | 6.68% | 2.34% |
| Broad International Equity | 18.00% | 6.98% | 1.26% |
| Private Equity | 10.00% | 10.15% | 1.02% |
| Natural Resources | 3.00% | 4.09% | 0.12% |
| Core Real Estate | 7.00% | 5.38% | 0.38% |
| TIPS | 3.00% | 1.78% | 0.05% |
| Intermediate Bonds | 19.00% | 2.15% | 0.41% |
| High Yield Bonds | 3.00% | 4.36% | 0.13% |
| Cash | 2.00% | 0.81% | 0.02% |
| Total | 100.00% | | 5.73% |
| Inflation | | | 2.50% |
| Portfolio Return Expectation | | | 8.23% |

* The long-term expected nominal rate of return above of 8.23% differs from the total TRS long-term rate of return assumption of 7.50%. The assumed rate is comprised of a 2.50% inflation rate and a real long-term expected rate of return of 5.00%.

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2013 through 2017, is outlined in a report dated May 3, 2018. 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 an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation). Estimates of variability and correlations for each asset class, were developed by the System's investment consultant. These ranges were combined to develop 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 long-term rate of return assumption is intended to be a long-term assumption (30 to 50 years) 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. The average long term capital market assumptions published in the Survey of Capital Market Assumptions 2017 Edition by Horizon Actuarial Service, LLC, yield a median real return of 5.07%. Our recommended assumption of 5.00% for the real return reflects granting each source some degree of credibility. Combined with the 2.50% inflation assumption, the resulting nominal return is 7.50%.

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 7.50% 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 or 1.00% higher than the current rate.

| As of measurement date | 1.0% Decrease (6.65%) | Current Discount Rate (7.65%) | 1.0% Increase (8.65%) |
|---|-----------------------|-------------------------------|-----------------------|
| <u>PERS</u> | | | |
| Net Pension Liability | \$ 3,018,490,542 | \$ 2,087,141,869 | \$ 1,322,356,189 |
| School District's Net Pension Liability | 3,053,271 | 2,111,191 | 1,337,593 |
| | | | |
| As of measurement date | 1.0% Decrease (6.50%) | Current Discount Rate (7.50%) | 1.0% Increase (8.50%) |
| <u>TRS</u> | | | |
| Net Pension Liability | \$ 2,552,207,461 | \$ 1,856,109,906 | \$ 1,273,072,812 |
| School District's Net Pension Liability | 11,136,442 | 8,099,052 | 5,554,996 |

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2019

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 | Percent of | Change in |
|---|---------------------|---------------------|---------------------------------|---------------------------------|------------------------------|
| | as of 6/30/19 | as of 6/30/18 | Collective NPL as of 6/30/19 | Collective NPL as of 6/30/18 | Percent of Collective NPL |
| <u>PERS</u> | | | | | |
| School District Proportionate Share | \$ 2,111,191 | \$ 2,647,456 | 0.1012% | 0.1359% | (0.0348%) |
| State of Montana Proportionate Share associated with Employer | <u>777,302</u> | <u>121,958</u> | <u>0.1495%</u> | <u>0.6215%</u> | <u>(0.4721%)</u> |
| Total | <u>\$ 2,888,492</u> | <u>\$ 2,769,414</u> | <u>0.2506%</u> | <u>0.7575%</u> | <u>(0.5069%)</u> |
| <u>TRS</u> | | | | | |
| School District Proportionate Share | \$ 8,099,052 | \$ 7,476,217 | 0.4363% | 0.4434% | (0.0071%) |
| State of Montana Proportionate Share associated with Employer | <u>5,034,660</u> | <u>4,745,760</u> | <u>0.2712%</u> | <u>0.2815%</u> | <u>(0.0103%)</u> |
| Total | <u>\$13,133,712</u> | <u>\$12,221,977</u> | <u>0.7075%</u> | <u>0.7249%</u> | <u>(0.0174%)</u> |

At June 30, 2019, the employer recorded a liability for its proportionate share of the NPL of \$2,111,191 and \$8,099,052 for PERS and TRS, respectively. At June 30, 2019, the employer’s proportion was 0.1012 percent and 0.4363 percent for PERS and TRS, respectively.

The NPL was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of:

- June 30, 2017 and applying standard roll forward procedures for PERS. 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.
- July 1, 2018 for TRS. 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, 2017 through June 30, 2018, relative to the total employer contributions received from all of TRS’ participating employers.

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2019

| | PERS | TRS |
|---|--|---|
| <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"> • Working Retiree Limitation – 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. • Refunds: <ol style="list-style-type: none"> 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. • 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. • Disabled PERS Defined Contribution (DC) Members – PERS members hired after July 1, 2011 have a normal retirement age of 65. PERS 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. | <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, 2019

14. f. PENSION EXPENSE

| | Pension Expense as of 6/30/19 | Pension Expense as of 6/30/18 |
|--|--|--|
| <u>PERS</u> (as of measurement date) | | |
| School District's Proportionate Share | \$ 117,058 | \$ 272,869 |
| Employer Grant Revenue – State of Montana Proportionate Share for employer | 51,876 | 6,502 |
| Employer Grant Revenue – State of Montana State Appropriation for employer | <u>0</u> | <u>37,872</u> |
| Total | <u>\$ 168,934</u> | <u>\$ 317,243</u> |
| <u>TRS</u> | | |
| School District's Proportionate Share | \$ 646,274 | \$ 626,109 |
| State of Montana Proportionate Share associated with the Employer | <u>238,214</u> | <u>209,586</u> |
| Total | <u>\$ 884,488</u> | <u>\$ 835,695</u> |

At June 30, 2019, the employer recognized a Pension Expense of \$168,934 and \$884,488 for its proportionate share of the PERS and TRS Pension Expense, respectively. The employer also recognized grant revenue of \$51,876 and \$238,214 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, 2019, 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:

| | <u>PERS</u> | | <u>TRS</u> | |
|---|---|--|---|--|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between actual and expected economic experience | \$ 160,542 | \$ 0 | \$ 57,797 | \$ 5,054 |
| Changes in actuarial assumptions | 179,525 | 0 | 660,200 | 11,990 |
| Difference between projected and actual investment earnings | 0 | 32,787 | 0 | 73,107 |
| Changes in proportion and differences between actual and expected contributions | 0 | 0 | 3,158 | 128,560 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 0 | 462,413 | 0 | 0 |
| Contributions paid subsequent to the measurement date – FY 2018 Contributions * | <u>146,764</u> | <u>0</u> | <u>553,772</u> | <u>0</u> |
| Total | <u>\$ 486,831</u> | <u>\$ 495,200</u> | <u>\$ 1,274,927</u> | <u>\$ 218,711</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, 2020.

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NOTES TO THE FINANCIAL STATEMENTS (continued)
For 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 of deferred outflows and deferred inflows recognized in future years as an increase or (decrease) to Pension Expense | Deferred Outflows of Resources (a) | Deferred Inflows of Resources (b) | Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense (a) – (b) |
| 2019 | \$ 29,348 | | | |
| 2020 | (15,272) | \$ 380,492 | \$ 65,613 | \$ 314,879 |
| 2021 | (155,737) | 280,054 | 45,709 | 234,345 |
| 2022 | (13,472) | 192,771 | 201,842 | (9,071) |
| 2023 | 0 | 0 | 37,707 | (37,707) |
| 2024 | 0 | 0 | 0 | 0 |
| Thereafter | 0 | 0 | 0 | 0 |

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 | \$ 7,957,750 | \$ 26,200,077 | \$ 34,157,827 |
| Fiduciary Net Position | 5,846,559 | 18,101,025 | 23,947,584 |
| Net Pension Liability | 2,111,191 | 8,099,052 | 10,210,243 |
| Deferred Outflows of Resources | 486,831 | 1,274,927 | 1,761,758 |
| Deferred Inflows of Resources | 495,200 | 218,711 | 713,911 |
| Pension Expense | 168,934 | 884,488 | 1,053,422 |

NOTE 15. COOPERATIVE

15. a. SPECIAL EDUCATION

The School District is a member of the Central Montana Learning Resource Center, a Special Education Cooperative (the 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 the School District, 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 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. SUBSEQUENT REPORTABLE EVENTS

On July 10, 2019, the School District acquired land and a building from the United States Department of Education for consideration amounting to \$1 (one dollar). For a period of 30 years, the School District is required to use the property for educational purposes. Further, the School District must retain ownership and provide maintenance of the property for the same period.

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NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2019

NOTE 17. 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.

17. a. MULTIDISTRICT COOPERATIVE

Section 20-3-363, MCA allows for the creation of a multidistrict cooperative between any School District and other public entities 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.

17. a. 1. TECHNICAL SUPPORT

The School District has entered into an agreement between 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.

17. a. 2. INTERLOCAL AGREEMENT FUND

The School District has entered into multi-district agreements between Lewistown Elementary and Fergus High School, for the purpose of collectively funding salaries, technology, curriculum, utilities and supplies as well as transportation essentials for the participating districts. 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. During fiscal year ended June 30, 2019 Lewistown Elementary general fund and Fergus High School general fund transferred \$20,103 and \$52,630, respectively, into the high school's Interlocal agreement fund.

NOTE 18. 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. For the year ended June 30, 2019, School District payments to the city under the terms of the agreement amounted to \$53,121.

NOTE 19. EVELYN ECCLES FOUNDATION ENDOWMENT

The School District has an endowment from the Evelyn Eccles Foundation. The objective of the foundation was to assist ambitious youth attain worthwhile heights of accomplishment through higher education. At June 30, 2019, the endowment fund 2019 amounted to \$115,094 and there was one outstanding loan balance amounting to \$505. The School District administers the endowment in accordance with the endowment directives as follows:

- At the end of each school year, the School District's Board of 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 Board of Trustees will determine an amount of the loan "sufficient to materially aid and enable students to attend an Institution of higher learning." A no-Interest promissory note 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.

LEWISTOWN SCHOOL DISTRICT NO. 1

SCHEDULE OF FUNDING PROGRESS
 Other Postemployment Benefits Other Than Pensions
 For the year ended June 30, 2019

**OTHER POSTEMPLOYMENT BENEFITS –
CHANGE IN LIABILITY**

| Fiscal Year End | Service Cost (a) | Interest (b) | Changes in Benefit Terms (c) | Changes in 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)=(h) |
|------------------------|-------------------------|---------------------|-------------------------------------|---|-----------------------------|---|---|--|
| 6/30/18 | \$ 263,917 | \$ 160,658 | \$ 0 | \$ 2,330,713 | \$ (77,880) | \$ 2,677,408 | \$ 1,392,046 | \$ 4,069,454 |
| 6/30/19 | 271,452 | 147,140 | 0 | 325,669 | (113,183) | 631,078 | 4,069,454 | 4,700,532 |

**OTHER POSTEMPLOYMENT BENEFITS
PAYROLL RATIO**

| Fiscal Year End | Covered Employee Payroll (i) | Total OPEB Liability as a Percentage of Covered Employee Payroll (h)/(i)=(j) |
|------------------------|-------------------------------------|---|
| 6/30/18 | \$ 5,903,289 | 68.94% |
| 6/30/19 | 6,124,663 | 76.75% |

These schedules are 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, 2019

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% |
| 2018 | 0.1012% | 2,111,191 | 777,302 | 2,888,492 | 1,718,275 | 122.87% | 73.47% |

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% |
| 2018 | 0.4363% | 8,099,052 | 5,034,660 | 13,133,712 | 5,828,310 | 138.96% | 69.09% |

These schedules are 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, 2019

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 | 140,899 | 0 | 145,458 | 0 | 1,773,887 | 8.20% |
| 2019 | 139,998 | 0 | 139,998 | 0 | 1,686,719 | 8.30% |

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% |
| 2019 | 553,772 | 553,772 | 0 | 5,851,796 | 9.46% |

These schedules are 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, 2019

NOTE 1. PUBLIC EMPLOYEE RETIREMENT SYSTEM

1. a. CHANGES OF BENEFIT TERMS

The following changes to the Public Employee Retirement System (PERS) plan provision were made as identified:

2017:

Working Retiree Limitations – for PERS

Effective July 1, 2017, 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.

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.

Interest credited to member accounts

Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%.

Lump-sum payouts

Effective July 1, 2017, lump-sum payouts in all systems are limited to the member's accumulated contributions rate than the present value of the member's benefit.

Disabled PERS Defined Contribution (DC) Members

PERS members hired after July 1, 2011 have a normal retirement age of 65. PERS 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.

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 2016 Experience Study:

| | |
|-------------------------------|--|
| General Wage Growth* | 3.50% |
| Investment Rate of Return* | 7.65% |
| *Includes inflation at | 2.75% |
| Merit salary increase | 0.00% to 6.30% |
| Asset valuation method | Four-year smoothed market |
| Actuarial cost method | Entry age Normal |
| Amortization method | Level percentage of payroll, open |
| Remaining amortization period | 30 years |
| 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 |

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, 2019

| | |
|-------------------------------|--|
| Mortality (Disabled members) | For Males and Females: RP 2000 Combined Mortality Table, with no projections |
| 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 Teachers' Retirement System (TRS) plan provisions were made as identified:

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

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

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

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, 2019

-
- The supplemental employer contribution will increase by 0.1% each fiscal year for fiscal year 2014 thru fiscal year 2024. Fiscal years beginning after June 30, 2024 the total supplemental employer contribution will be equal to 2%.
 - Members hired prior to July 1, 2013 (Tier 1) under HB 377 are required to contribute a supplemental contribution equal to an additional 1% of the member's earned compensation.
 - Each employer is required to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position to the System.

Changes in actuarial assumptions and other inputs:

The following changes to the actuarial assumptions were adopted in 2018:

- Assumed rate of inflation was reduced from 3.25% to 2.50%
- Payroll growth assumption was reduced from 4.00% to 3.25%
- Investment return assumption was reduced from 7.75% to 7.50%.
- Wage growth assumption was reduced from 4.00% to 3.25%
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
 - For Males and Females: RP-2000 Healthy Combined Mortality Table projected to 2022 adjusted for partial credibility setback for two years.
 - The tables include margins for mortality improvement which is expected to occur in the future.
- Mortality among disabled members was updated to the following:
 - For Males: RP 2000 Disabled Mortality Table, set back three years, with mortality improvements projected by Scale BB to 2022.
 - For Females: RP 2000 Disabled Mortality Table, set forward two years, with mortality improvements projected by Scale BB to 2022.
- Retirement rates were updated
- Termination rates were updated
- Rates of salary increases were updated

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.
- 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:

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, 2019

- 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 | 22 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, 2019

| | General (Elem.) | | | Flexibility (Elem.) | | |
|--|--------------------|------------------|-------------------|---------------------|------------------|-------------------|
| | Original Budget | Final Budget | Actual | Original Budget | Final Budget | Actual |
| REVENUES: | | | | | | |
| District Levies | \$ 1,813,932 | \$ 1,813,932 | \$ 1,824,011 | \$ - | \$ - | \$ - |
| Interest | 7,790 | 7,790 | 11,124 | - | - | 2,397 |
| Other | - | - | - | - | - | 689 |
| State | 4,459,573 | 4,459,573 | 4,441,608 | - | - | - |
| Total Revenues | <u>6,281,295</u> | <u>6,281,295</u> | <u>6,276,743</u> | <u>-</u> | <u>-</u> | <u>3,086</u> |
| EXPENDITURES: | | | | | | |
| Current: | | | | | | |
| Instructional Services | | | 3,916,736 | | | 10,916 |
| Support Services | | | 196,216 | | | - |
| Educational Media Services | | | 141,023 | | | - |
| General Administrative Services | | | 993,985 | | | - |
| Operation and Maintenance Services | | | 722,078 | | | - |
| Transportation Services | | | 3,342 | | | - |
| School Food Services | | | 137,177 | | | - |
| Extracurricular | | | 62,775 | | | - |
| Capital Outlay | | | 3,952 | | | - |
| Total Expenditures | <u>6,281,295</u> | <u>6,281,295</u> | <u>6,177,284</u> | <u>117,022</u> | <u>117,022</u> | <u>10,916</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>-</u> | <u>-</u> | <u>99,459</u> | <u>(117,022)</u> | <u>(117,022)</u> | <u>(7,830)</u> |
| OTHER FINANCING SOURCES (USES): | | | | | | |
| Fund Transfers (Out) | | | (20,104) | | | - |
| Total Other Financial Sources (Uses) | <u>-</u> | <u>-</u> | <u>(20,104)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balance | <u>-</u> | <u>-</u> | <u>79,355</u> | <u>(117,022)</u> | <u>(117,022)</u> | <u>(7,830)</u> |
| FUND BALANCE: | | | | | | |
| Beginning of the Year | | | 458,624 | | | 117,022 |
| End of the Year | | | <u>\$ 537,979</u> | | | <u>\$ 109,192</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, 2019

| | General (HS) | | | Flexibility (HS) | | |
|--|--------------------|------------------|-------------------|--------------------|------------------|-------------------|
| | Original Budget | Final Budget | Actual | Original Budget | Final Budget | Actual |
| REVENUES: | | | | | | |
| District Levies | \$ 991,211 | \$ 991,211 | \$ 996,774 | \$ - | \$ - | \$ - |
| Interest | 3,934 | 3,934 | 5,093 | - | - | 2,774 |
| Other | - | - | - | - | - | 2,568 |
| State | 2,278,447 | 2,278,447 | 2,270,820 | - | - | - |
| Total Revenues | <u>3,273,592</u> | <u>3,273,592</u> | <u>3,272,687</u> | <u>-</u> | <u>-</u> | <u>5,342</u> |
| EXPENDITURES: | | | | | | |
| Current: | | | | | | |
| Instructional Services | | | 1,547,272 | | | 15,000 |
| Support Services | | | 110,275 | | | - |
| Educational Media Services | | | 96,841 | | | - |
| General Administrative Services | | | 586,129 | | | - |
| Operation and Maintenance Services | | | 627,521 | | | - |
| Transportation Services | | | 34,297 | | | - |
| School Food Services | | | 21,871 | | | - |
| Extracurricular | | | 194,809 | | | - |
| Capital Outlay | | | 1,947 | | | - |
| Total Expenditures | <u>3,273,592</u> | <u>3,273,592</u> | <u>3,220,962</u> | <u>179,161</u> | <u>179,161</u> | <u>15,000</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>-</u> | <u>-</u> | <u>51,725</u> | <u>(179,161)</u> | <u>(179,161)</u> | <u>(9,658)</u> |
| OTHER FINANCING SOURCES (USES): | | | | | | |
| Fund Transfers (Out) | | | (52,630) | | | - |
| Total Other Financial Sources (Uses) | <u>-</u> | <u>-</u> | <u>(52,630)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balance | <u>-</u> | <u>-</u> | <u>(905)</u> | <u>(179,161)</u> | <u>(179,161)</u> | <u>(9,658)</u> |
| FUND BALANCE: | | | | | | |
| Beginning of the Year | | | 307,393 | | | 179,161 |
| End of the Year | | | <u>\$ 306,488</u> | | | <u>\$ 169,503</u> |

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

LEWISTOWN SCHOOL DISTRICT NO. 1

NOTES TO THE SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the year ended June 30, 2019

NOTE 1. BUDGETS

1. a. BUDGETS

Budgets are adopted in accordance with 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 (e.g., Transportation, Bus Depreciation, Tuition, Retirement, Adult Education, Technology, and Flexibility), debt service funds, and budgeted capital project funds (e.g., 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 Montana statutes. Budgeted funds are those for which a legal budget must be adopted to have expenditures as noted above. All other funds are non-budgeted, meaning a legal budget is not required in order to have expenditures. The Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and 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 Miscellaneous and Interlocal funds are not included because they are non-budgeted funds.

1. a. 2 BUDGET OPERATIONS

The School District operates within the budget requirements for School Districts as specified by Montana 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 (Board) 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 Montana statutes. Montana statutes prohibit the expenditures of a budgeted fund to 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 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (continued)
 For the year ended June 30, 2019

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

| | Sub-funds | | | | | | Total General Fund |
|---|-------------------|--------------------------------------|-----------------------|-------------------|------------------------------------|---------------------|--------------------------|
| | General (Elem) | Metal Mines Tax Reserve (Elem) | Flexibility (Elem) | General (HS) | Metal Mines Tax Reserve (HS) | Flexibility (HS) | |
| Revenues: | | | | | | | |
| District Levies | \$1,824,011 | \$ 0 | \$ 0 | \$ 996,774 | \$ 0 | \$ 0 | \$ 2,820,785 |
| Interest Earnings | 11,124 | 2,026 | 2,397 | 5,093 | 2,748 | 2,774 | 26,162 |
| Other | 0 | 0 | 689 | 0 | 0 | 2,568 | 3,257 |
| State Sources | <u>4,441,608</u> | <u>0</u> | <u>0</u> | <u>2,270,820</u> | <u>0</u> | <u>0</u> | <u>6,712,428</u> |
| Total Revenues | 6,276,743 | 2,026 | 3,086 | 3,272,687 | 2,748 | 5,342 | 9,562,632 |
| Expenditures: | | | | | | | |
| Instructional Services | 3,916,736 | 0 | 10,916 | 1,547,272 | 0 | 15,000 | 5,489,924 |
| Support Services | 196,216 | 0 | 0 | 110,275 | 0 | 0 | 306,491 |
| Educational Media | 141,023 | 0 | 0 | 96,841 | 0 | 0 | 237,864 |
| General Admin | 993,985 | 0 | 0 | 586,129 | 0 | 0 | 1,580,114 |
| Operation and Maintenance | 722,078 | 0 | 0 | 627,521 | 0 | 0 | 1,349,599 |
| Transportation | 3,342 | 0 | 0 | 34,297 | 0 | 0 | 37,639 |
| School Food | 137,177 | 0 | 0 | 21,871 | 0 | 0 | 159,048 |
| Extracurricular | 62,775 | 0 | 0 | 194,809 | 0 | 0 | 257,584 |
| Capital Outlay | <u>3,952</u> | <u>0</u> | <u>0</u> | <u>1,947</u> | <u>0</u> | <u>0</u> | <u>5,899</u> |
| Total Expenditures | <u>6,177,284</u> | <u>0</u> | <u>10,916</u> | <u>3,220,962</u> | <u>0</u> | <u>15,000</u> | <u>9,424,162</u> |
| Excess (Deficiency) of Revenues over Expenditures | 99,459 | 2,026 | (7,830) | 51,725 | 2,748 | (9,658) | 138,470 |
| Other Financing Sources and Uses: | | | | | | | |
| Fund Transfers In | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Fund Transfers (Out) | <u>(20,104)</u> | <u>0</u> | <u>0</u> | <u>(52,630)</u> | <u>0</u> | <u>0</u> | <u>(72,734)</u> |
| Total Other Financing Sources and Uses | <u>(20,104)</u> | <u>0</u> | <u>0</u> | <u>(52,630)</u> | <u>0</u> | <u>0</u> | <u>(72,734)</u> |
| Net Change in Fund Balances | 79,355 | 2,026 | (7,830) | (905) | 2,748 | (9,658) | 65,736 |
| Fund Balance: | | | | | | | |
| Beginning of the Year | 458,624 | 91,557 | 117,022 | 307,393 | 172,153 | 179,161 | 1,325,910 |
| Prior Period Adjustment | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| End of the Year (GAAP) | <u>537,979</u> | <u>93,583</u> | <u>109,192</u> | <u>306,488</u> | <u>174,901</u> | <u>169,503</u> | <u>\$ 1,391,646</u> |
| Current-year Encumbrances | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | |
| End of the Year (Budget) | <u>\$ 537,979</u> | <u>\$ 93,583</u> | <u>\$ 109,192</u> | <u>\$ 306,488</u> | <u>\$ 174,901</u> | <u>\$ 169,503</u> | |

In the General sub-funds combining schedule above, the elementary and high school General funds, elementary and high school Metal Mines Tax Reserve funds, and elementary and high school Flexibility funds 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 fund 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 balances.

On the Schedule of Revenues, Expenditures, and Changes in Fund Balances - 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 sub-funds display budget and 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
STUDENT ACTIVITY EXPENDABLE TRUST FUND
For the year ended June 30, 2019

| Activity Account Name | Beginning Balance 7/1/2018 | Revenues | Expenses | Ending Balance 6/30/2019 |
|-----------------------------------|----------------------------------|----------|----------|--------------------------------|
| Annual | \$ 876 | \$ 8,200 | \$ 4,011 | \$ 5,065 |
| AP Testing | 3,021 | 3,577 | 3,226 | 3,372 |
| Band | 192 | 574 | 624 | 142 |
| Eastern Mt Jazz Festival | 13 | 0 | 0 | 13 |
| BPA | 1,152 | 8,013 | 7,664 | 1,501 |
| Ct Mt Mentors | 221 | 0 | 0 | 221 |
| Cheerleaders | 7,484 | 14,727 | 11,831 | 10,380 |
| Concessions - Fund Balance | 7,240 | 21,102 | 16,711 | 11,631 |
| NHS/CLAWS | 0 | 500 | 500 | 0 |
| Eagle Renaissance | 2,838 | 460 | 0 | 3,298 |
| F Club | 1,806 | 0 | 0 | 1,806 |
| FFA | 8,121 | 24,552 | 19,620 | 13,053 |
| FCCLA | 3,784 | 7,393 | 8,114 | 3,063 |
| Fly Fishing | 1,038 | 0 | 0 | 1,038 |
| Spanish Club | 1,830 | 4,054 | 4,099 | 1,785 |
| How Club | 347 | 0 | 204 | 143 |
| Vica/Skills USA | 436 | 0 | 0 | 436 |
| Key Club | 3,508 | 1,247 | 1,208 | 3,547 |
| Art Club | 2,149 | 100 | 65 | 2,184 |
| Science Club | 1,890 | 1,600 | 1,789 | 1,701 |
| Ski Club | 6,445 | 6,985 | 9,218 | 4,212 |
| Student Council | 3,838 | 9,023 | 8,851 | 4,010 |
| Thespians | 1,081 | 0 | 0 | 1,081 |
| Trophy | 2,237 | 0 | 0 | 2,237 |
| Vocal Music | 2,156 | 165 | 1,556 | 765 |
| Dist. 8 MUSCH Festival | 2,143 | 6,450 | 5,351 | 3,242 |
| Weight Club | 205 | 0 | 0 | 205 |
| AP Govt | 115 | 630 | 0 | 745 |
| Career Fair | 2,002 | 0 | 0 | 2,002 |
| Eagle Wear | 1,359 | 1,167 | 0 | 2,526 |
| Model UN | 0 | 330 | 330 | 0 |
| Leadership | 50 | 208 | 0 | 258 |
| Astronomy Club | 204 | 110 | 78 | 236 |
| Gay-Straight Alliance | 0 | 296 | 284 | 12 |
| Class Of 2019 | 4,136 | 99 | 4,235 | 0 |
| Class Of 2020 | 25 | 16,284 | 11,594 | 4,715 |
| Class Of 2021 | 72 | 834 | 134 | 772 |
| Class Of 2022 | 67 | 371 | 52 | 386 |
| School Sponsored X-Curr | 34,392 | 136,346 | 154,246 | 16,492 |
| Girls Softball/Boys Cross Country | 20,494 | 34,034 | 27,126 | 27,402 |
| General Activities | 61,524 | 15,468 | 14,603 | 62,389 |
| LC Service Council | 958 | 940 | 821 | 1,077 |
| Builders Club | 142 | 6 | 0 | 148 |
| Cheerleaders | 1,321 | 0 | 9 | 1,312 |
| Consumer Tech | 628 | 2,882 | 2,766 | 744 |
| FACS | 903 | 2,213 | 2,529 | 587 |
| BC, SC Store | 933 | 3,863 | 4,076 | 720 |
| Subtotal | 195,376 | 334,803 | 327,525 | 202,654 |

LEWISTOWN SCHOOL DISTRICT NO. 1

SCHEDULE OF REVENUES, EXPENSES, AND BALANCES
 STUDENT ACTIVITY EXPENDABLE TRUST FUND (continued)
 For the year-ended June 30, 2019

| | | | | |
|--------------------------|-------------------|-------------------|-------------------|-------------------|
| Balance forward | 195,376 | 334,803 | 327,525 | 202,654 |
| Music | 1,150 | 20 | 873 | 297 |
| Photo Club | 2,612 | 3,259 | 2,336 | 3,535 |
| Service Learning | 391 | 162 | 167 | 386 |
| Ski Club | 1,388 | 5,726 | 7,147 | (33) |
| Student Council | 320 | 516 | 351 | 485 |
| News | 170 | 0 | 0 | 170 |
| GIS Club | 313 | 1,000 | 0 | 1,313 |
| Computer Serv Learning | 129 | 0 | 0 | 129 |
| Field Trip Ski Day | 858 | 0 | 0 | 858 |
| Robotics Club | 439 | 0 | 0 | 439 |
| Science Olympiad | 156 | 1,590 | 1,265 | 481 |
| Expedition Yellowstone | 8,492 | 1,817 | 7,270 | 3,039 |
| Miscellaneous difference | <u>0</u> | <u>(7)</u> | <u>0</u> | <u>(7)</u> |
| Total | <u>\$ 211,794</u> | <u>\$ 348,886</u> | <u>\$ 346,934</u> | <u>\$ 213,746</u> |

LEWISTOWN SCHOOL DISTRICT NO. 1

SCHEDULE OF REPORTED ENROLLMENT

For the year ended June 30, 2019

| Fall Enrollment – October 2018 | | | | | | | | | |
|---------------------------------------|---------------------------|------------|----------|---------------------------|-----------|-----------|-----------|----------|----------|
| | Full-time Students | | | Part-time Students | | | | | |
| | Reported | Audited | Variance | Less Than | | | | Audited | Variance |
| | | | | 181 hours | 359 hours | 539 hours | 719 hours | | |
| Elementary | | | | | | | | | |
| Kindergarten Full | 104 | 104 | 0 | 0 | 0 | 1 | 0 | 1 | 0 |
| Grade 1 - 6 | 559 | 559 | 0 | 0 | 0 | 0 | 1 | 1 | 0 |
| Grade 7 - 8 | <u>185</u> | <u>185</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total | <u>848</u> | <u>848</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>1</u> | <u>1</u> | <u>2</u> | <u>0</u> |
| High School | | | | | | | | | |
| Grade 9 - 12 | <u>337</u> | <u>337</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| 19-year old | 0 | 0 | 0 | | | | | | |
| Youth Challenge | 1 | 1 | 0 | | | | | | |
| Job Corps | 0 | 0 | 0 | | | | | | |
| Early Graduates | 0 | 0 | 0 | | | | | | |

| Spring Enrollment – February 2019 | | | | | | | | | |
|--|---------------------------|------------|----------|---------------------------|-----------|-----------|-----------|----------|----------|
| | Full-time Students | | | Part-time Students | | | | | |
| | Reported | Audited | Variance | Less Than | | | | Audited | Variance |
| | | | | 181 hours | 359 hours | 539 hours | 719 hours | | |
| Elementary | | | | | | | | | |
| Kindergarten Full | 102 | 102 | 0 | 0 | 0 | 1 | 0 | 1 | 0 |
| Grade 1 - 6 | 549 | 549 | 0 | 0 | 0 | 0 | 1 | 1 | 0 |
| Grade 7 - 8 | <u>182</u> | <u>182</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total | <u>833</u> | <u>833</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>1</u> | <u>1</u> | <u>2</u> | <u>0</u> |
| High School | | | | | | | | | |
| Grade 9 - 12 | <u>333</u> | <u>333</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>1</u> | <u>1</u> | <u>0</u> |
| 19-year old | 0 | 0 | 0 | | | | | | |
| Youth Challenge | 0 | 0 | 0 | | | | | | |
| Job Corps | 0 | 0 | 0 | | | | | | |
| Early Graduates | 0 | 0 | 0 | | | | | | |

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2019

| 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 | \$ - | \$ 35,164 |
| National School Lunch Program (fn1) | 10.555 | N/A | - | 273,930 |
| Total Child Nutrition Cluster | | | - | 309,094 |
| Total U.S. Department of Agriculture | | | - | 309,094 |
| U.S. DEPARTMENT OF EDUCATION | | | | |
| DIRECT: | | | | |
| Rural Education | 84.358 | NA | - | 24,303 |
| PASSED THROUGH CENTRAL MONTANA LEARNING RESOURCE CENTER COOPERATIVE: | | | | |
| Special Education Grants to States | 84.027 | 014-9691-56-12-259a | - | 58,500 |
| PASSED THROUGH MONTANA DEPARTMENT OF HEALTH AND HUMAN SERVICES: | | | | |
| Rehabilitation Services Vocational Rehabilitation Grants to States | 84.126 | 19-01-175-0034 | - | 15,311 |
| PASSED THROUGH MONTANA OFFICE OF PUBLIC INSTRUCTION: | | | | |
| Title I Grants to Local Education Agencies | 84.010 | 014-0258-32-19 | - | 410,858 |
| Career and Technical Education - Basic Grants to States (Carl Perkins) | 84.048 | 014-0259-81-19 | - | 25,042 |
| Total U.S. Department of Education | | | - | 534,014 |
| Total Federal Financial Assistance | | | <u>\$ -</u> | <u>\$ 843,108</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, 2019

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (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, 2019. 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 elected to not 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, 2019, and the related notes to the financial statements, which collectively comprise Lewistown School District No. 1's basic financial statements and have issued our report thereon dated January 31, 2020.

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 opinion 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 or significant deficiencies 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 31, 2020



STROM & ASSOCIATES, P.C.

Certified Public Accountants

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E-mail: audit@stromcpa.net

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, 2019. 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, 2019

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 noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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 31, 2020

LEWISTOWN SCHOOL DISTRICT NO. 1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2019

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, 2019.
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, 2019.
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, 2019 was:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|---|
|--------------------|---|

| | |
|--------|---|
| 84.010 | Title I Grants to Local Education Agencies – Part A, Improving Basic Programs |
|--------|---|

10. The threshold used to distinguish between Type A and Type B programs was \$750,000.
11. This School District qualifies 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 year for the fiscal year ended June 30, 2018.

Current year findings

There were no findings or recommendations in the audit for the fiscal year ended June 30, 2019.

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, 2019.