

GARDINER SCHOOL DISTRICT NO. 7 AND 4

Financial Statements

June 30, 2015

**Gardiner School District No. 7 and 4**  
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**June 30, 2015**

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GARDINER SCHOOL DISTRICT NO. 7 AND 4

2014 – 2015  
ORGANIZATION

BOARD OF TRUSTEES

|                   |            |
|-------------------|------------|
| Patricia Baltzley | Chair      |
| Bob Fuhrmann      | Vice Chair |
| Holly Long        | Trustee    |
| Colleen Eldred    | Trustee    |
| Dan Rhodes        | Trustee    |
| Victoria Byrd     | Trustee    |

OFFICERS

|                   |                            |
|-------------------|----------------------------|
| JT Stroder        | District Superintendent    |
| Tamara Cunningham | District Clerk (part year) |
| Cindy Sanders     | District Clerk (part year) |



## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Gardiner School District No. 7 and 4

### 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 Gardiner School District No. 7 and 4 ("the District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter – Change in Accounting Principle**

As described in Note 1 to the financial statements, in 2015, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, the supplemental schedule of employee group benefit plan information and the schedule of pension liabilities and contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information listed in the table of contents as required by the Montana Office of Public Instruction are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information as required by the Montana Office of Public Instruction is the responsibility of management and was derived from and relates 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, information required by the Montana Office of Public Instruction is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Rudd + Company, PLLC*

Bozeman, Montana  
December 9, 2015

## MANAGEMENT DISCUSSION AND ANALYSIS



**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Management Discussion and Analysis**  
**For the Year Ended June 30, 2015**

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The discussion and analysis of Gardiner School District's financial performance provides an overall review of the school district's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2015 include:

- The District's assets and deferred outflows exceed liabilities and deferred inflows at June 30, 2015 by \$4,204,209. Due to prior period adjustments related to implementing GASB 68 for pensions, the unrestricted net position is negative \$(4,194,401).
- The District's net position decreased by \$168,903 as a result of this year's operations and by \$2,024,142 as a result of the prior period adjustment.

**Using the Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to present a detailed outline of specific activities.

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in a single column. For the District, the General Fund is by far the most significant fund. However, the Elementary Bus Depreciation, Elementary and High School Miscellaneous Programs Funds are also considered major funds for fiscal year 2015.

**Reporting the School District as a Whole**

*Statement of Net Position and Statement of Activities*

This report includes two district-wide statements that focus on operations of the district as a whole. These statements measure inputs and outflows using an economic resources measurement focus, and use the accrual basis of accounting. The accrual basis of accounting is similar to the accounting system used by most private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash was received or paid. Activities that are fiduciary in nature are not included in these statements.

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Management Discussion and Analysis**  
**For the Year Ended June 30, 2015**

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**Reporting the School District as a Whole (continued)**

*Statement of Net Position and Statement of Activities (continued)*

While this report contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question “How did we do financially during the 2014-2015 fiscal year?” The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets (what is owned), deferred outflows of resources (future resources to be consumed) liabilities (what is owed), deferred inflows of resources (revenues currently unavailable) and the net position (the resources that would remain if all obligations were settled) of the District. The statement categorizes assets to show that some assets are very liquid, such as cash equivalents. 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.

These two statements report the District's net position and changes in those positions. This change in net position is important because it identifies whether the financial position of the District has improved or diminished for the District as a whole. The cause of this change may be the result of many factors, some financial and some not. Non-financial factors include the District's property tax base, current Montana property tax laws, increases or decreases in enrollment, required educational programs, facility growth, and other factors. Financial factors include timeliness of tax collections, unexpected expenditures, changes to state funding, increases or decreases in the rate of return on investments, and other factors.

In the Statement of Net Position and the Statement of Activities, the School District has one distinct kind of activity:

**Governmental Activities** – Most of the District's programs and services are reported here, including instruction, support services, general administration, operation, and maintenance of plant, pupil transportation, food services and extracurricular activities.

**Reporting the School District's Most Significant Funds**

*Fund Financial Statements*

Fund financial statements provide detailed information about the funds used by the school district. State law and generally accepted accounting principles (GAAP) establish the fund structure of school districts. State law generally requires school districts to segregate money generated for certain specific purposes, like transportation and debt service, in separate fund accounts. The District uses many funds to account for a multitude of financial transactions.

The fund financial statements report balances and activities of the most significant, or major funds separately and combine activities of less significant funds under a single category.

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Management Discussion and Analysis**  
**For the Year Ended June 30, 2015**

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**Reporting the School District's Most Significant Funds (continued)**

*Fund Financial Statements*

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. The District's major funds are the General Fund, the Elementary Bus Depreciation Fund, and the Elementary and High School Miscellaneous Programs Funds.

The Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance are shown for governmental 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 bases. 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, capital assets and 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 the miscellaneous trust fund 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 operations. The District is responsible for ensuring these assets are used for their intended purpose.

**Budget-to-Actual Comparisons**

The budgetary comparison schedules as listed in the table of contents show how actual expenditures compared to the original and final budgeted expenditures for the general fund and the elementary bus depreciation fund. The District's expenditures were within budget for the fiscal year.

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Management Discussion and Analysis**  
**For the Year Ended June 30, 2015**

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**The School District as a Whole**

The perspective of the statement of net position is of the District as a whole.

Table 1 provides a summary of the District's net position for fiscal years 2015 and 2014.

Table 1  
Summarized Schedule of Net Assets

|                                  | Governmental Activities |              | Total change<br>2014-2015 |
|----------------------------------|-------------------------|--------------|---------------------------|
|                                  | 2015                    | 2014         |                           |
| <b>Assets</b>                    |                         |              |                           |
| Current and Other Assets         | \$ 4,254,773            | \$ 3,760,332 | \$ 494,441                |
| Capital Assets (net)             | 2,639,739               | 2,788,035    | \$ (148,296)              |
| Total Assets                     | \$ 6,894,512            | \$ 6,548,367 | \$ 346,145                |
|                                  |                         |              |                           |
| <b>Deferred Outflows</b>         |                         |              |                           |
| Pension related items            | \$ 209,209              | \$ -         | \$ 209,209                |
|                                  |                         |              |                           |
| <b>Liabilities</b>               |                         |              |                           |
| Current Liabilities              | \$ 27,148               | \$ 8,606     | \$ 18,542                 |
| Long-term Liabilities            | 2,552,728               | 480,312      | \$ 2,072,416              |
| Total Liabilities                | \$ 2,579,876            | \$ 488,918   | \$ 2,090,958              |
|                                  |                         |              |                           |
| <b>Deferred Inflows</b>          |                         |              |                           |
| Pension related items            | \$ 319,636              | \$ -         | \$ 319,636                |
|                                  |                         |              |                           |
| <b>Net Position</b>              |                         |              |                           |
| Net Investment in Capital Assets | \$ 2,639,739            | \$ 2,788,035 | \$ (148,296)              |
| Restricted                       | 5,758,871               | 2,510,284    | \$ 3,248,587              |
| Unrestricted                     | (4,194,401)             | 761,130      | \$ (4,955,531)            |
| Total Net Position               | \$ 4,204,209            | \$ 6,059,449 | \$ (1,855,240)            |

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Management Discussion and Analysis**  
**For the Year Ended June 30, 2015**

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**The School District as a Whole (continued)**

Table 2 shows the changes in net position for fiscal year 2015, compared to fiscal year 2014 results:

Table 2  
Changes in Net Position

|  | Governmental Activities |                     | Total change<br>2014-2015 |
|--|-------------------------|---------------------|---------------------------|
|  | 2015                    | 2014                |                           |
| <b>Revenues</b>                        |                         |                     |                           |
| <i>Program Revenues:</i>               |                         |                     |                           |
| Charges for services                   | \$ 55,737               | \$ 63,238           | \$ (7,501)                |
| Operating grants and contributions     | 900,955                 | 759,681             | 141,274                   |
| <i>General Revenues:</i>               |                         |                     |                           |
| Property taxes                         | 667,063                 | 669,404             | (2,341)                   |
| State of Montana                       | 1,377,509               | 1,363,360           | 14,149                    |
| Other general revenues                 | 392,587                 | 335,452             | 57,135                    |
| <b>TOTAL REVENUES</b>                  | <b>3,393,851</b>        | <b>3,191,135</b>    | <b>202,716</b>            |
| <b>Expenses</b>                        |                         |                     |                           |
| Instruction                            | 1,746,210               | 1,809,496           | (63,286)                  |
| Support services                       | 200,736                 | 309,870             | (109,134)                 |
| General administration                 | 492,777                 | 479,781             | 12,996                    |
| Operations and maintenance             | 372,806                 | 433,325             | (60,519)                  |
| Student transportation                 | 181,483                 | 200,214             | (18,731)                  |
| School food                            | 105,481                 | 111,479             | (5,998)                   |
| Extracurricular                        | 125,455                 | 185,030             | (59,575)                  |
| <b>TOTAL EXPENSES</b>                  | <b>3,224,948</b>        | <b>3,529,195</b>    | <b>(304,247)</b>          |
| <b>CHANGES IN NET POSITION</b>         | <b>168,903</b>          | <b>(338,060)</b>    | <b>506,963</b>            |
| <i>Net Position, Beginning of Year</i> | <i>6,059,448</i>        | <i>6,397,509</i>    | <i>(338,061)</i>          |
| Prior Period Adjustment                | (2,024,142)             |                     | (2,024,142)               |
| Restated Net Position                  | 4,035,306               |                     |                           |
| <b>Net Position, End of Year</b>       | <b>\$ 4,204,209</b>     | <b>\$ 6,059,449</b> | <b>\$ (1,855,240)</b>     |

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Management Discussion and Analysis**  
**For the Year Ended June 30, 2015**

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**The School District as a Whole (continued)**

*Governmental Activities*

In Montana, school districts must seek voter approval for any additional levy authority needed to operate the school district over what was approved in prior years and what will be received from the state. Property taxes made up 20 percent of revenues for governmental activities for the District in fiscal year 2015.

The major categories of expenses are presented on page 12. Of these expenses, the largest function is instruction, which comprises 54 percent of district expenses.

*Spending Levels Compared to Resource Levels*

The School District's revenue for governmental activities was \$168,903 more than the total expenses for the District. Please see page 9 for a presentation of this information.

**Analysis of Financial Information**

The following analysis is provided to help the reader understand the major operations of the District, where the resources come from, what the resources are used for, and trends, decisions and events that are expected to affect the District's financial situation in the future.

*General Information about Gardiner School District:* The District provides education for children in grades kindergarten through 12th grade, transportation to and from school, provides hot lunches, provides athletic and extracurricular activities, and participates in various federal programs.

*Where do the resources come from?* The majority of resources utilized by the District come from local property taxes, state aid, state and federal grants, and interest revenue. Page 11 shows the percent of the resource (revenue) components listed above to the total resources (revenues) of the District.

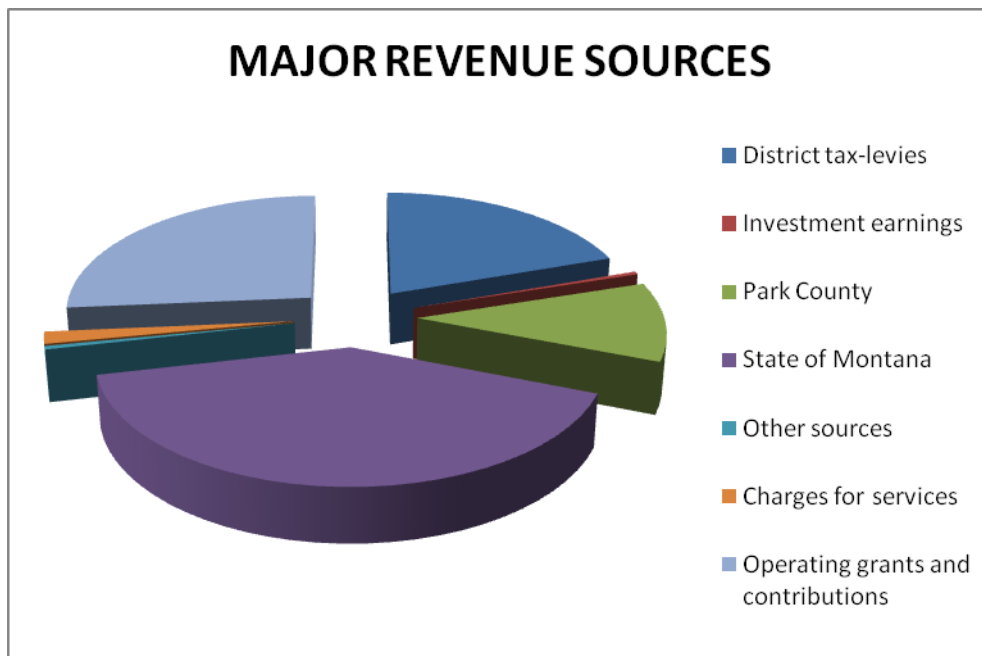
*What does it cost?* The major expenditure functions of the District include instructional, support services, operations, administration, capital outlay and transportation. Page 12 illustrates the costs of major functions and their relative size, compared to total expenditures.

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Management Discussion and Analysis**  
**For the Year Ended June 30, 2015**

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Table 3  
Major Resources

|                                    | Governmental Activities | Percent of Total |
|------------------------------------|-------------------------|------------------|
| <i>General revenues:</i>           |                         |                  |
| District tax-levies                | \$ 667,063              | 20%              |
| Investment earnings                | 14,238                  | 0%               |
| Park County                        | 362,327                 | 11%              |
| State of Montana                   | 1,377,509               | 41%              |
| Other sources                      | 20,982                  | 1%               |
| <b>Total general revenues</b>      | <b>\$ 2,442,119</b>     | <b>72%</b>       |
| Charges for services               | 55,737                  | 2%               |
| Operating grants and contributions | 900,955                 | 27%              |
| Special item: Loss on disposal     | (4,960)                 |                  |
| <b>TOTAL REVENUES</b>              | <b>\$ 3,393,851</b>     | <b>100%</b>      |

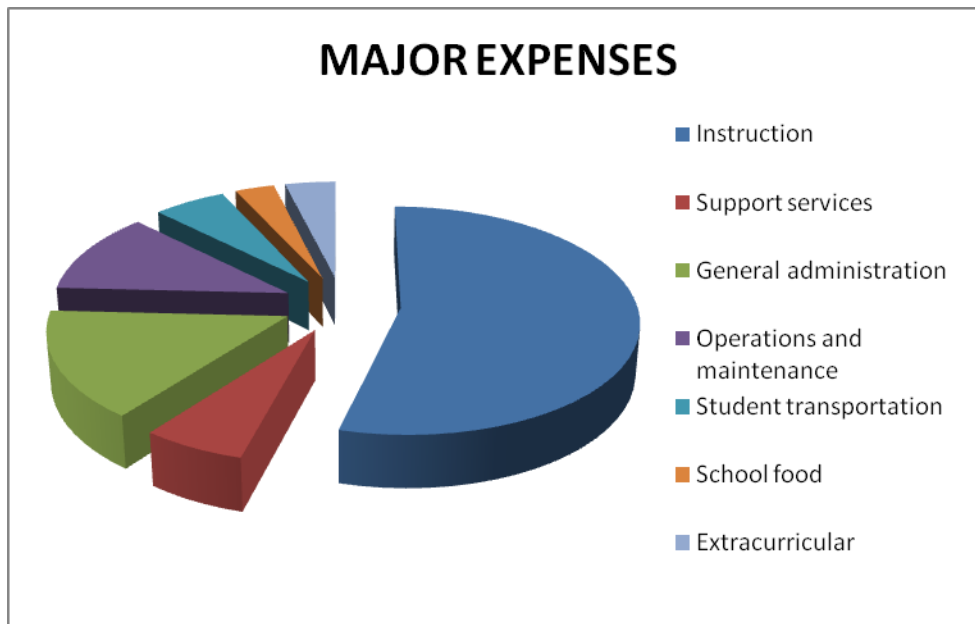


**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Management Discussion and Analysis**  
**For the Year Ended June 30, 2015**

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Table 4  
Major Expenditure Functions

| <i>Expenses</i>              | Governmental Activities | Percent of Total |
|------------------------------|-------------------------|------------------|
| Instruction                  | \$ 1,746,210            | 54.15%           |
| Support services             | 200,736                 | 6.22%            |
| General administration       | 492,777                 | 15.28%           |
| Operations and maintenance   | 372,806                 | 11.56%           |
| Student transportation       | 181,483                 | 5.63%            |
| School food                  | 105,481                 | 3.27%            |
| Extracurricular              | 125,455                 | 3.89%            |
| <b><i>TOTAL EXPENSES</i></b> | <b>\$ 3,224,948</b>     | <b>100.00%</b>   |





**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Management Discussion and Analysis**  
**For the Year Ended June 30, 2015**

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*What are the Capital Assets and Debt of the District?* Capital assets of the District are assets purchased for over \$5,000 with a useful life of one year or more. The majority of items included in the capital assets are buildings and building improvements and equipment such as copy machines and buses. Technology purchases are mainly funded by the technology fund, however, because of the \$5,000 capitalization threshold for the District; these purchases are rarely considered capital assets. The table below summarizes the capital assets for the District. Please refer to note 4 for further information on the District's capital assets.

Table 5  
Capital Assets

|   | Governmental<br>Activities |
|---|----------------------------|
| Land  | \$ 52,876                  |
| Land improvements   | 281,145                    |
| Buildings and improvements  | 5,120,580                  |
| Machinery and equipment   | 1,050,181                  |
| <i>Total capital assets</i>   | \$ 6,504,782               |
| Less accumulated depreciation                                       | (3,865,043)                |
| <b><i>Total capital assets, net of accumulated depreciation</i></b> | <b>\$ 2,639,739</b>        |

The long-term debt of the District is comprised of compensated absences, other post employment liabilities and net pension liabilities. Please refer to notes 6, 8 and 10 for further information on the District's long term liabilities.

*What changes and trends affect the district's future?* In the next few years, the District will undergo many changes and have many challenges. These changes and challenges will include, but are not limited to: 1) decreases in regular education student enrollment and needs, 2) increased costs associated with curriculum upgrades and needs, 3) increased costs in building maintenance 4) increased technology needs, increased costs associated with technology maintenance 5) increased costs associated with staffing needs 6) reductions in federal programs, such as Title Funds and Impact Aid. The District has developed a strategic plan to address the above issues.

**Contact for Further Information**

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the Districts' finances and to demonstrate the Districts' accountability for the resources it receives. If you have questions about this report or need additional information, contact the District Clerk, at Gardiner School District, 510 Stone Street, Gardiner, MT 59030.

## FINANCIAL STATEMENTS

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GOVERNMENT – WIDE FINANCIAL STATEMENTS

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Statement of Net Position**  
**June 30, 2015**

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <b>Assets</b>                             |                                    |
| Current Assets                            |                                    |
| Cash and cash equivalents                 | \$ 4,123,137                       |
| Property taxes receivable                 | 36,572                             |
| Due from other governments                | <u>95,064</u>                      |
| Total Current Assets                      | <u>4,254,773</u>                   |
| Capital Assets                            |                                    |
| Land                                      | 52,876                             |
| Land improvements                         | 281,145                            |
| Buildings and improvements                | 5,120,580                          |
| Machinery and equipment                   | 1,050,181                          |
| Less: accumulated depreciation            | <u>(3,865,043)</u>                 |
| Total Capital Assets                      | <u>2,639,739</u>                   |
| Total Assets                              | <u>6,894,512</u>                   |
| <b>Deferred Outflows of Resources</b>     |                                    |
| Deferred outflows - pension related items | <u>209,209</u>                     |
| Total Deferred Outflows of Resources      | <u>\$ 209,209</u>                  |

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

**GARDINER SCHOOL DISTRICT NO. 7 AND 4****Statement of Net Position****For the Year Ended June 30, 2015**

|  | <u>Governmental<br/>Activities</u> |
|--|------------------------------------|
| <b>Liabilities</b>                       |                                    |
| Current liabilities                      |                                    |
| Accounts payable                         | \$ 15,691                          |
| Due to other governments                 | 2,851                              |
| Compensated absences                     | <u>8,606</u>                       |
| Total Current Liabilities                | <u>27,148</u>                      |
| Noncurrent Liabilities                   |                                    |
| Compensated absences                     | 77,049                             |
| Other post employment liability          | 569,561                            |
| Net pension liability                    | <u>1,906,118</u>                   |
| Total Noncurrent Liabilities             | <u>2,552,728</u>                   |
| Total Liabilities                        | <u>2,579,876</u>                   |
| <b>Deferred Inflows of Resources</b>     |                                    |
| Deferred inflows - pension related items | <u>319,636</u>                     |
| Total Deferred Inflows of Resources      | <u>319,636</u>                     |
| <b>Net Position</b>                      |                                    |
| Net investment in capital assets         | 2,639,739                          |
| Restricted                               |                                    |
| For debt service                         | 2,516,521                          |
| For general government                   | 3,242,350                          |
| Unrestricted                             | <u>(4,194,401)</u>                 |
| Total Net Position                       | <u>\$ 4,204,209</u>                |

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

**GARDINER SCHOOL DISTRICT NO. 7 AND 4****Statement of Activities****For the Year Ended June 30, 2015**

| <u>Functions/Programs</u>                                | <u>Expenses</u>     | <u>Program Revenues</u> |                      | <u>Net (Expense)</u> |
|--|---------------------|-------------------------|----------------------|----------------------|
|  |                     | <u>Charges for</u>      | <u>Operating</u>     | <u>Revenue and</u>   |
|  |                     | <u>Services</u>         | <u>Grants and</u>    | <u>Changes In</u>    |
|  |                     |                         | <u>Contributions</u> | <u>Net Assets</u>    |
|  |                     |                         |                      | <u>Total</u>         |
|  |                     |                         |                      | <u>Governmental</u>  |
|  |                     |                         |                      | <u>Activities</u>    |
| Governmental activities:                                 |                     |                         |                      |                      |
| Instruction  | \$ 1,746,210        | \$ 6,600                | \$ 875,058           | \$ (864,552)         |
| Support services   | 200,736             | -                       | -                    | (200,736)            |
| General administration                                   | 492,777             | -                       | -                    | (492,777)            |
| Operations and maintenance                               | 372,806             | -                       | -                    | (372,806)            |
| Student transportation                                   | 181,483             | -                       | -                    | (181,483)            |
| Food services  | 105,481             | 49,137                  | 25,897               | (30,447)             |
| Extracurricular activities                               | 125,455             | -                       | -                    | (125,455)            |
| <b>Total governmental activities</b>                     | <b>\$ 3,224,948</b> | <b>\$ 55,737</b>        | <b>\$ 900,955</b>    | <b>(2,268,256)</b>   |
| General revenues:  |                     |                         |                      |                      |
| District tax-levies                                      |                     |                         |                      | 667,063              |
| State of Montana   |                     |                         |                      | 1,377,509            |
| Investment earnings                                      |                     |                         |                      | 14,238               |
| County sources   |                     |                         |                      | 362,327              |
| Other sources  |                     |                         |                      | 20,982               |
| <i>Special item</i> - Loss on disposal of capital assets |                     |                         |                      | (4,960)              |
| <b>Total general revenues</b>                            |                     |                         |                      | <b>2,437,159</b>     |
| Changes in net position                                  |                     |                         |                      | 168,903              |
| Net position, beginning of year                          |                     |                         |                      | 6,059,448            |
| Prior period adjustment (Note 12)                        |                     |                         |                      | (2,024,142)          |
| Net assets, beginning of year, restated                  |                     |                         |                      | 4,035,306            |
| Net position, end of year                                |                     |                         |                      | \$ 4,204,209         |

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

## FUND FINANCIAL STATEMENTS



**GARDINER SCHOOL DISTRICT NO. 7 AND 4****Balance Sheet – Governmental Funds****June 30, 2015**

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|  | Total General<br>Fund | Elementary Bus<br>Depreciation<br>Fund | Elementary<br>Miscellaneous<br>Fund |
|--|-----------------------|--|-------------------------------------|
| <b>Assets</b>  |                       |  |                                     |
| Cash and cash equivalents  | \$ 179,189            | \$ 455,303                             | \$ 1,522,292                        |
| Property taxes receivable  | 27,297                | 3,080                                  | -                                   |
| Due from other governments   | 48,947                | 6,026                                  | -                                   |
| Due from other funds   | 2,951                 | -                                      | -                                   |
| Total assets   | <u>\$ 258,384</u>     | <u>\$ 464,409</u>                      | <u>\$ 1,522,292</u>                 |
| <b>Liabilities, Deferred Inflows of<br/>Resources and Fund Balance</b> |                       |  |                                     |
| Accounts payable   | \$ 6,430              | \$ -                                   | \$ 4,314                            |
| Due to other governments   | 2,851                 | -                                      | -                                   |
| Due to other funds   | -                     | -                                      | -                                   |
| Total liabilities  | <u>9,281</u>          | <u>-</u>                               | <u>4,314</u>                        |
| Deferred inflows of resources:   |                       |  |                                     |
| Unavailable revenue - property taxes                                   | <u>27,297</u>         | <u>3,080</u>                           | <u>-</u>                            |
| Total deferred inflows of resources                                    | <u>27,297</u>         | <u>3,080</u>                           | <u>-</u>                            |
| Fund balances:   |                       |  |                                     |
| Nonspendable   | -                     | -                                      | -                                   |
| Restricted   | -                     | 461,329                                | 1,453,284                           |
| Committed  | -                     | -                                      | 64,139                              |
| Assigned   | 812                   | -                                      | 555                                 |
| Unassigned   | <u>220,994</u>        | <u>-</u>                               | <u>-</u>                            |
| Total fund balances  | <u>221,806</u>        | <u>461,329</u>                         | <u>1,517,978</u>                    |
| Total liabilities, deferred inflows<br>of resources and fund balances  | <u>\$ 258,384</u>     | <u>\$ 464,409</u>                      | <u>\$ 1,522,292</u>                 |

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

| High School<br>Miscellaneous<br>Fund | Total<br>Nonmajor<br>Funds | Total<br>Governmental<br>Funds |
|--------------------------------------|----------------------------|--------------------------------|
| \$ 535,830                           | \$ 1,430,523               | \$ 4,123,137                   |
| -                                    | 6,195                      | 36,572                         |
| -                                    | 40,091                     | 95,064                         |
| -                                    | -                          | 2,951                          |
| <u>\$ 535,830</u>                    | <u>\$ 1,476,809</u>        | <u>\$ 4,257,724</u>            |
| \$ 4,947                             | \$ -                       | \$ 15,691                      |
| -                                    | -                          | 2,851                          |
| 2,951                                | -                          | 2,951                          |
| <u>7,898</u>                         | <u>-</u>                   | <u>21,493</u>                  |
| -                                    | 6,195                      | 36,572                         |
| <u>-</u>                             | <u>6,195</u>               | <u>36,572</u>                  |
| -                                    | -                          | -                              |
| 498,672                              | 792,493                    | 3,205,778                      |
| 24,025                               | 662,554                    | 750,718                        |
| 5,235                                | 15,567                     | 22,169                         |
| -                                    | -                          | 220,994                        |
| <u>527,932</u>                       | <u>1,470,614</u>           | <u>4,199,659</u>               |
| <u>\$ 535,830</u>                    | <u>\$ 1,476,809</u>        | <u>\$ 4,257,724</u>            |

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

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**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Reconciliation of the Balance Sheet of Governmental Funds to the**  
**Statement of Net Position**  
**June 30, 2015**

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Amounts reported for governmental activities in the statement of net position are different because:

|   |                     |
|---|---------------------|
| Total fund balances - governmental funds  | \$ 4,199,659        |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$6,504,782 and the accumulated depreciation is \$3,865,043.  | 2,639,739           |
| Property tax revenue is recognized when earned (and the claim to resources is established) rather than when "available". All of the deferred inflows of resources from property tax revenue reported in the governmental funds is not available.  | 36,572              |
| The deferred outflows of resources related to the pension activity are not reported in the fund statements.   | 286,829             |
| Contributions to to the pension plan in the current fiscal year are reported as expenditures in the fund statements but are deferred outflows of resources on the government wide statements. This is the amount by which the prior year contributions exceed the current year contributions. | (77,620)            |
| The deferred inflows of resources related to the pension activity are not reported in the fund statements.  | (319,636)           |
| Long-term liabilities and compensated absences are not due and payable in the current period and therefore are not reported in the funds.   | <u>(2,561,334)</u>  |
| Total net position - governmental activities  | <u>\$ 4,204,209</u> |

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

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Statement of Revenues, Expenditures and Changes in Fund Balances –**  
**Governmental Funds**  
**For the Year Ended June 30, 2015**

|                                      | General Fund      | Elementary<br>School Bus<br>Depreciation<br>Fund | Elementary<br>Miscellaneous<br>Fund |
|--------------------------------------|-------------------|--|-------------------------------------|
| Revenues:                            |                   |  |                                     |
| District tax-levies                  | \$ 527,235        | \$ 62,453  | \$ -                                |
| Investment interest                  | 2,433             | 2,757  | 3,156                               |
| County                               | -                 | -  | -                                   |
| State of Montana                     | 1,339,485         | -  | 2,840                               |
| Federal                              | -                 | -  | 7,849                               |
| Other revenue sources                | 622               | -  | 324,534                             |
| Total revenues                       | <u>1,869,775</u>  | <u>65,210</u>                                    | <u>338,379</u>                      |
| Expenditures:                        |                   |  |                                     |
| Current:                             |                   |  |                                     |
| Instruction                          | 1,185,857         | -  | 24,139                              |
| Support services                     | 149,387           | -  | 9,539                               |
| General administration               | 335,519           | -  | 49,288                              |
| Operations and maintenance           | 66,426            | -  | 35,870                              |
| Student transportation               | 18,515            | -  | 11,720                              |
| Food services                        | -                 | -  | 24,998                              |
| Extracurricular activities           | 70,169            | -  | 12,576                              |
| Capital outlay                       | -                 | 17,056   | 3,564                               |
| Total expenditures                   | <u>1,825,873</u>  | <u>17,056</u>                                    | <u>171,694</u>                      |
| Revenues over (under) expenditures   | 43,902            | 48,154   | 166,685                             |
| Other financing sources (uses):      |                   |  |                                     |
| Operating Transfers                  | <u>227</u>        | <u>-</u>   | <u>-</u>                            |
| Excess of revenues over expenditures | 44,129            | 48,154   | 166,685                             |
| Fund balances, July 1, 2014          | <u>177,677</u>    | <u>413,175</u>                                   | <u>1,351,293</u>                    |
| Fund balances June 30, 2015          | <u>\$ 221,806</u> | <u>\$ 461,329</u>                                | <u>\$ 1,517,978</u>                 |

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

| High School<br>Miscellaneous<br>Fund | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--------------------------------------|-----------------------------------|--------------------------------|
| \$ -                                 | \$ 130,609                        | \$ 720,297                     |
| 1,131                                | 4,761                             | 14,238                         |
| -                                    | 362,327                           | 362,327                        |
| 4,468                                | 30,716                            | 1,377,509                      |
| 27,433                               | 348,564                           | 383,846                        |
| 134,100                              | 55,737                            | 514,993                        |
| <u>167,132</u>                       | <u>932,714</u>                    | <u>3,373,210</u>               |
| 109,063                              | 188,904                           | 1,507,963                      |
| 10,842                               | 23,660                            | 193,428                        |
| 21,000                               | 86,970                            | 492,777                        |
| 30,917                               | 101,372                           | 234,585                        |
| 15,584                               | 73,678                            | 119,497                        |
| -                                    | 73,395                            | 98,393                         |
| 41,229                               | 1,481                             | 125,455                        |
| 11,223                               | 40,136                            | 71,979                         |
| <u>239,858</u>                       | <u>589,596</u>                    | <u>2,844,077</u>               |
| (72,726)                             | 343,118                           | 529,133                        |
| -                                    | (227)                             | -                              |
| <u>(72,726)</u>                      | <u>342,891</u>                    | <u>529,133</u>                 |
| <u>600,658</u>                       | <u>1,127,723</u>                  | <u>3,670,526</u>               |
| <u>\$ 527,932</u>                    | <u>\$ 1,470,614</u>               | <u>\$ 4,199,659</u>            |

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

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**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**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, 2015**

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Amounts reported for governmental activities in the statement of activities are different because:

|  |                   |
|--|-------------------|
| Net change in fund balances - total governmental funds   | \$ 529,133        |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeds capital outlay.                | (143,336)         |
| The cash received from disposition of assets is the only item reported in the fund statements, however in the statement of activities, the gain or loss on the disposition is reported. This is the book value of the asset that remained upon disposition.                                      | (4,960)           |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.   | (53,234)          |
| The current period net increase in compensated absences and other postemployment benefits payable did not require the use of current financial resources and, therefore, generated no expenditure to be reported in the governmental funds.  | (166,298)         |
| Pension expense as reported in the funds is based on contributions made by the employer, however in the statement of activities it is based on the actuarial study performed for the pension plans. This is the amount by which the contributions to the plan exceed the actual pension expense. | 7,598             |
| Change in net position of governmental activities  | <u>\$ 168,903</u> |

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



**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Statement of Fiduciary Net Position**  
**June 30, 2015**

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|                            | Private-Purpose<br>Trust Funds | Agency Funds                |
|----------------------------|--------------------------------|-----------------------------|
|                            | <u>                    </u>    | <u>                    </u> |
| <b>Assets</b>              |                                |                             |
| Cash and investments       | \$      75,216                 | \$      44,578              |
| Total assets               | <u>\$      75,216</u>          | <u>\$      44,578</u>       |
| <b>Liabilities</b>         |                                |                             |
| Warrants payable           | \$          -                  | \$      38,580              |
| Other current liabilities  | <u>          -</u>             | <u>      5,998</u>          |
| Total liabilities          | <u>          -</u>             | <u>      44,578</u>         |
| <b>Net Position</b>        |                                |                             |
| Net position held in trust | <u>      75,216</u>            | <u>          -</u>          |
| Total net position         | <u>\$      75,216</u>          | <u>\$          -</u>        |

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

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Statement of Changes in Fiduciary Net Position**  
**For the Year Ended June 30, 2015**

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|                                      | <u>Private- Purpose<br/>Trust Funds</u> |
|--------------------------------------|---|
| Additions:                           |   |
| Investment interest                  | \$ 493                                  |
| Other                                | <u>71,902</u>                           |
| Total additions                      | <u>72,395</u>                           |
| Deductions:                          |   |
| Support services                     | 5,576                                   |
| Extracurricular                      | <u>67,925</u>                           |
| Total deductions                     | <u>73,501</u>                           |
| Change in net position held in trust | (1,106)                                 |
| Net Position, July 1, 2014           | <u>76,322</u>                           |
| Net Position, June 30, 2015          | <u>\$ 75,216</u>                        |

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

NOTES TO THE FINANCIAL STATEMENTS

# **GARDINER SCHOOL DISTRICT NO. 7 AND 4**

## **Notes to the Financial Statements**

**For the Year Ended June 30, 2015**

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### **1. Summary of Significant Accounting Policies**

The financial statements of Gardiner School District No. 7 and 4 have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

#### **Reporting Entity**

Gardiner School District No. 7 and 4, delivers public education services to students below the College and University level to residents of the District. Generally accepted accounting principles in the United States require that these financial statements present School District No. 7 and 4 (the primary government) and all component units, if any. Component units are separate organizations that are included in the District's reporting entity because of the significance of their operational or financial relationships with the District. All significant activities and organizations for which the District is financially accountable have been considered for inclusion in the general purpose financial statements. Gardiner School District No. 7 and 4 has no component units.

The District actually consists of two separate legal entities - High School and Elementary districts. Accounting records of both districts must be maintained separately per state law because of differences in funding and tax base. Yet, both are managed by one central Board of Trustees, elected in a district-wide election, and by a central administration appointed by and responsible to the Board. Although the District legally consists of two separate statutory entities, it is managed and operated as a single system. These financial statements present, as a single reporting entity, all activities over which the Board of Trustees exercises responsibility.

#### **Government Wide and Fund Financial Statements**

The District's financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

*Government-Wide Financial Statements* - The statement of net position and statement of activities report information on all of the non-fiduciary activities of the primary government. All internal activity has been eliminated.

# GARDINER SCHOOL DISTRICT NO. 7 AND 4

## Notes to the Financial Statements

For the Year Ended June 30, 2015

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### 1. Summary of Significant Accounting Policies (continued)

#### *Government Wide and Fund Financial Statements (continued)*

The statement of net position presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipient of the goods or services provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not properly included among program revenues are reported instead as general revenues. Special items such as the loss on disposal of equipment are also reported below general revenues.

The District's policy is to apply restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

*Fund Financial Statements* - Separate financial statements are provided for governmental funds and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. The focus of governmental fund financial statements is on major funds. For the District, the general fund, elementary bus depreciation fund, elementary miscellaneous programs fund and high school miscellaneous programs fund and are considered major and are presented in separate columns. Non-major funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and *the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected by the last day of the year. Therefore, all revenue items are considered to be measurable and available only when cash is received by the government.

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**

**Notes to the Financial Statements**

**For the Year Ended June 30, 2015**

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**1. Summary of Significant Accounting Policies (continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)**

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

The *General Fund* accounts for all financial resources of the general government, except those required to be accounted for in another fund. The revenue sources of the general fund include district tax levies, the state of Montana, and the federal government.

The *Elementary Bus Depreciation Fund* accounts for the financing of the maintenance and operation of district owned buses. The Bus Depreciation fund revenue sources consist primarily of district tax levies.

The *Elementary and High School Miscellaneous Programs Funds* account for miscellaneous grant funds. The Miscellaneous funds revenues sources consist primarily of federal and state grants.

Additionally, the government reports the following fund type:

The *Private-Purpose Trust Fund* is used to account for resources legally held in trust for student extracurricular activities and student scholarships. All resources of the funds, including any earnings on invested resources, may be used to support the purpose of the fund. *Agency funds* are custodial in nature and do not involve measurement of results of operations. These include a claims warrant clearing fund and a payroll warrant clearing fund.

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

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**1. Summary of Significant Accounting Policies (continued)**

**New Accounting Pronouncements**

During the year, the District implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB No. 68). This Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics: 1) Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable. 2) Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms. 3) Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members. The Statement established standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expenditures. This Statement also identifies the methods and assumptions that should be used to project benefit payments, discount project benefit payments to their actuarial present value and attribute that present value to periods of employee service.

**Encumbrances**

Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately to result if unperformed purchase orders or contracts in process at year-end were completed. They do not constitute expenditures or liabilities in the fund financial statements, but are included as expenditures in the budget basis financials.

Encumbrances are included as an assignment of fund balance in the fund balance sheet and have no effect on the statement of revenues, expenditures and changes in fund balance. See Note 11 for additional disclosure on the District's encumbrance commitments.

# GARDINER SCHOOL DISTRICT NO. 7 AND 4

## Notes to the Financial Statements

For the Year Ended June 30, 2015

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### 1. Summary of Significant Accounting Policies (continued)

#### Budgets

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

| <u>Fund</u>                | <u>Budgeted</u> | <u>Non-Budgeted</u> |
|----------------------------|-----------------|---------------------|
| General                    | X               |                     |
| Special Revenue:           |                 |                     |
| Transportation             | X               |                     |
| Bus Depreciation Fund      | X               |                     |
| School Food                |                 | X                   |
| Tuition                    |                 | X                   |
| Retirement                 | X               |                     |
| Miscellaneous Programs     |                 | X                   |
| Compensated Absences       |                 | X                   |
| Technology                 | X               |                     |
| Adult Education            | X               |                     |
| Traffic Education          |                 | X                   |
| Impact Aid Fund            |                 | X                   |
| Flexibility                |                 | X                   |
| Capital Projects:          |                 |                     |
| Building                   |                 | X                   |
| Trust and Agency:          |                 |                     |
| Extracurricular Activities |                 | X                   |
| Payroll Clearing           |                 | X                   |
| Claims Clearing            |                 | X                   |

The General Fund budget is formulated on basic and per student entitlement amounts and enrollment. Budgets for other funds are based primarily on expected revenues and expenditures. Budgeted fund expenditures are limited by State law to budgeted amounts however budgets may be amended for emergencies as defined by State law.

The budget policy is as follows:

- On the second Monday in August, the Board of Trustees must meet to legally adopt the final budget. This budget is adopted consistent with the basis of accounting described in Note 1.
- Upon adoption of the final budget, expenditures are limited to the total fund budget. The District has the right to transfer budgetary authority among the various line items of a fund, but not between funds. Unexpected and unencumbered appropriations lapse at year end.



# **GARDINER SCHOOL DISTRICT NO. 7 AND 4**

## **Notes to the Financial Statements**

**For the Year Ended June 30, 2015**

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### **1. Summary of Significant Accounting Policies (continued)**

#### **Property Taxes**

Property taxes are levied in August of each fiscal year, based on assessments as of the prior January 1. Taxes are normally billed in October and payable 50% by November 30 and 50% by May 31. Property taxes are maintained and collected by the County Treasurer; the District records such receipts when reported by the Treasurer.

The total mill levy for the year was 91.03 mills in the elementary district and 44.42 mills in the high school district. Taxable value for the elementary district was \$4,014,770 and \$5,449,840 for the high school district.

#### **Cash and Investments**

Cash, including the Student Extracurricular Fund (an expendable trust), is held by a local financial institution.

Authorized investments allowed by Section 20-0-213, MCA, include savings or time deposits in a state or national bank, savings and loan association, or credit union insured by the FDIC or NCUA located in the State, and the State Unified Investment Program. Further, Section 7-6-202, MCA authorizes investments in U.S. government treasury bills, notes, bonds, U.S. Treasury obligations, treasury receipts, general obligations of certain agencies of the United States, and U.S. government security money market funds if the fund meets certain conditions.

#### **Due from Other Governments**

These accounts are composed primarily of: (1) revenue accruals for property taxes received from the county and (2) revenue accruals for the various reimbursable type grants for which revenue is recognized as expenditures are made. If receipts exceed expenditures, the excess is generally deferred until expenditure of funds, but may be recognized as revenue depending on the terms of the particular grant agreement.

#### **Inventories**

Supplies obtained through the governmental funds are recorded as expenditures at the time of purchase. Inventory is valued at cost. Inventories of materials and supplies on hand are not maintained; however, they are not considered material.

#### **Capital Assets**

Capital assets, which include land, land improvements, buildings and improvements, and machinery and equipment, are reported in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$5,000. Land, buildings and equipment are stated on the basis of historical cost, except estimated historical costs were utilized where no historical records exist. Assets acquired through gifts or donations are recorded at their estimated fair market value at time of acquisition. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life is not capitalized.

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**

**Notes to the Financial Statements**

**For the Year Ended June 30, 2015**

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**1. Summary of Significant Accounting Policies (continued)**

**Capital Assets (continued)**

Depreciation is recorded using the straight-line method with the following lives:

|                                  |             |
|----------------------------------|-------------|
| Land improvements .....          | 20 Years    |
| Buildings and improvements ..... | 25-50 Years |
| Machinery and equipment.....     | 5-25 Years  |

**Liability for Compensated Absences**

Non-certified District employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated to a total not to exceed two times the maximum number of days earned annually.

Certified District employees earn between 10 to 12 sick days per year depending on their contract. No accumulated sick leave is paid on termination or retirement for certified employees. Sick leave is earned at a rate of one day per month, for non-certified District employees. Upon retirement or termination non-certified employees are paid 25% of unused sick leave. All District employees are paid 100% of unused vacation leave. Non-vesting sick leave is not accrued.

In governmental funds, sick leave and vacation leave are recorded as expenditures in the year paid, as it is the District's policy to satisfy any unpaid amounts at year end from future resources, not expendable available resources.

The District, in accordance with State Law, may appropriate year end General Fund cash and establish a reserve fund for the purpose of paying any accumulated amount of sick leave due to a non-teaching employee upon termination of employment. Such reserve (Special Revenue Fund Compensated Absence) may be used only for the purpose stated above and may not exceed 30% of the District liability for accumulated sick leave and vacation pay as of June 30, 2014.

**Other Post Employment Benefits**

The District recognizes and reports its postemployment health care benefits in accordance with GASB Statement 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*.

**Deferred Outflows and Inflows of Resources**

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

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

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**1. Summary of Significant Accounting Policies (continued)**

**Deferred Outflows and Inflows of Resources (continued)**

The District has several types of deferred outflows of resources and all relate to the net pension liability. They relate to the District's allocable share of the difference between actual and expected contributions, the difference between actual and expected experience and the effect of changes of assumptions during the year on the valuation of the net pension liability. It also includes the contributions paid to the pension plans subsequent to the measurement date. This amount is reported only in the government-wide financial statements. See Note 10 for detailed information.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The District has two types of items in this area. One item, unavailable revenue, only arises under a modified accrual basis of accounting. Accordingly, unavailable revenue is reported only in the governmental funds balance sheet and represents. Deferred inflows of resources reported in the governmental funds for unavailable revenues are as follows:

|                                      | Elementary<br>Bus<br>Depreciation<br>Fund | Nonmajor<br>Governmental<br>Funds | Total     |
|--------------------------------------|---|-----------------------------------|-----------|
| Unavailable Revenue - Property taxes | \$ 27,297                                 | \$ 3,080                          | \$ 6,195  |
|                                      |   |                                   | \$ 36,572 |

The District also has deferred inflows of resources related to the net pension liability. They relate to the difference between projected and actual earnings on the pension plans and changes in proportion and differences between employer contributions and proportionate share of contributions. See Note 10 for detailed information.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense, information about the fiduciary net position of the Teachers' Retirement System (TRS) and the Montana Public Employee Retirement System (PERS) and additions to/deductions from TRS's and PERS's fiduciary net position have been determined on the same basis as they are reported by TRS and PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

# **GARDINER SCHOOL DISTRICT NO. 7 AND 4**

## **Notes to the Financial Statements**

**For the Year Ended June 30, 2015**

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### **1. Summary of Significant Accounting Policies (continued)**

#### **Fund Equity**

In the fund financial statements, governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor how those amounts may be spent. Designations of fund balances as non-spendable, restricted, committed, assigned or unassigned are based upon the types of constraints placed upon the outstanding balances.

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

#### **Subsequent Events**

Subsequent events have been evaluated through December 9, 2015, the date the report was available to be issued.

### **2. Cash and Investments**

At June 30, 2015, the carrying amount of the District's cash and cash equivalents in bank accounts, excluding extracurricular funds, was \$3,085,804, and the bank balance was \$3,168,895. The bank balance was insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC), the remainder is collateralized.

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the District's deposits may not be returned or the District will not be able to recover the collateral securities in the possession of the outside party. The District minimizes custodial credit risk by restrictions set forth in state law. Types of securities that may be pledged as collateral are detailed in Section 17-6-103 of the Montana Code Annotated (MCA).

On June 30, 2015, the book value approximated the fair value of the investments, therefore no unrealized gain or loss was recorded for the year.

The Student Extracurricular Fund cash in checking has a carrying balance of \$36,001 and a bank balance of \$35,601 and is fully insured by the FDIC.

The following table provides information about the interest rate risks associated with the District's deposits and investment. The amounts in the following table are included in cash and cash equivalents.

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**

**Notes to the Financial Statements**

**For the Year Ended June 30, 2015**

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**2. Cash and Investments (continued)**

| <u>Investment</u>            | <u>Maturities</u> | <u>Credit<br/>Risk Rating</u> | <u>Fair Value</u>   |
|------------------------------|-------------------|-------------------------------|---------------------|
| Money market                 | N/A               | AAA                           | \$ 33,848           |
| U.S. Government agency funds | 2013-2017         | AAA                           | 715,597             |
| U.S. Government bond funds   | N/A               | AAA                           | 56,114              |
| Certificate of deposits      | 2014-2016         | AAA                           | 270,548             |
|                              |                   |                               | <u>\$ 1,076,107</u> |

Credit risk is defined as the risk that an issuer or other counterpart to an investment will not fulfill its obligation. The above credit risk rating indicates the probability that the issuer may default in making timely principal and interest payments. The credit ratings presented in the previous tables are provided by Standard and Poor's Corporation (S&P). The District's investment practice is to hold investments to maturity with the contractual understanding that these investments are low risk, locked in to a guaranteed rate of return, and are therefore not impacted significantly by changes in short term interest rates.

**3. Property taxes receivable**

Property is assessed by the County Assessor, an agent of the State of Montana. Valuations are determined under State law and submitted to the County Treasurer for the preparation of tax notices.

Property taxes are assessed against the owner of record as of January 1st with the taxes generally being levied in August and billed as of November 1st. Property taxes receivable are recorded as of the date levied. Uncollected taxes receivable at year-end are considered unavailable tax revenue.

Taxes are due in two payments, generally, November 30th and May 31st. Unpaid taxes become delinquent on December 1st and June 1st. After three years of delinquency, the County may proceed to take title to the property. Delinquent taxes may be collected for up to ten years. The County Treasurer may issue a writ of execution to the County Sheriff to seize the property and sell it to pay the taxes. Unpaid taxes at the end of ten years may be written off by the County Commissioners.

Because of the above described collection procedures, estimated uncollectible amounts are minimal and therefore not recorded.

**GARDINER SCHOOL DISTRICT NO. 7 AND 4****Notes to the Financial Statements****For the Year Ended June 30, 2015****3. Property taxes receivable (continued)**

Taxes paid under protest are placed in an escrow fund by the County pending settlement of the protest. Under State law (MCA 15-1-402), the School District may demand payment from the protested tax escrow fund of all or part of the protested taxes from the second and subsequent years of the protest. No demand for payment has been made by the District. The District policy is to not recognize this revenue until the protest is settled and taxes are distributed.

**4. Capital Assets**

A summary of capital assets follows:

|   | Beginning<br>June 30, 2014 | Additions           | Retirements        | Ending<br>June 30, 2015 |
|---|----------------------------|---------------------|--------------------|-------------------------|
| Capital assets not subject to depreciation:           |                            |                     |                    |                         |
| Land  | \$ 52,876                  | \$ -                | \$ -               | 52,876                  |
| Capital assets subject to depreciation:               |                            |                     |                    |                         |
| Land improvements                                     | 281,145                    | -                   | -                  | 281,145                 |
| Buildings and improvements                            | 5,120,580                  | -                   | -                  | 5,120,580               |
| Equipment and other                                   | 990,602                    | 71,979              | (12,400)           | 1,050,181               |
| Total capital assets                                  | <u>6,445,203</u>           | <u>71,979</u>       | <u>(12,400)</u>    | <u>6,504,782</u>        |
| Less accumulated depreciation for:                    |                            |                     |                    |                         |
| Land improvements                                     | 248,186                    | 12,483              | -                  | 260,669                 |
| Buildings and improvements                            | 2,566,881                  | 111,297             | -                  | 2,678,178               |
| Equipment and other                                   | 842,101                    | 91,535              | (7,440)            | 926,196                 |
| Total accumulated depreciation                        | <u>3,657,168</u>           | <u>215,315</u>      | <u>(7,440)</u>     | <u>3,865,043</u>        |
| Total capital assets, net of accumulated depreciation | <u>\$ 2,788,035</u>        | <u>\$ (143,336)</u> | <u>\$ (19,840)</u> | <u>\$ 2,639,739</u>     |

Depreciation expense has been charged to functions of the primary government, as follows:

|                            |                   |
|----------------------------|-------------------|
| Instruction                | \$ 7,800          |
| Support services           | 7,308             |
| Operations and maintenance | 138,221           |
| Transportation             | 61,986            |
|                            | <u>\$ 215,315</u> |

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

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**5. Non-Monetary Transactions**

The District received commodities from the U.S. Government valued at \$7,088. The value was provided by the State of Montana Office of Public Instruction.

**6. Compensated Absences**

The following is a summary of obligations of the District for the fiscal year ended June 30, 2015:

|                                     | <u>Compensated Absences</u> |
|-------------------------------------|-----------------------------|
| Balance July 1, 2014                | \$ 85,666                   |
| Additions                           | -                           |
| Reductions                          | (11)                        |
| Balance June 30, 2015               | <u>\$ 85,655</u>            |
| Current Portion Due Within One Year | \$ 8,606                    |
| LT Portion                          | \$ 77,049                   |

**7. Fund Balances**

Fund balance is classified on the relative strength of the spending constraints placed on the purpose for which resources can be used as follows:

**Nonspendable fund balance** – amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.

**Restricted fund balance** – amounts constrained to specific purposes externally imposed by creditors (such as through debt covenants), grantor and contributors or laws, or regulations or other governments, or through constitutional provisions, or by enabling legislation.

**Committed fund balance** - amounts that can only be used for specific purposes, pursuant to constraints imposed by formal action of the government’s highest level of decision making authority. The Board of Trustees is the highest level of decision making authority which has the authority to commit fund balance; however, the District Clerk has been delegated the authority to determine the specific amount to be committed.

**GARDINER SCHOOL DISTRICT NO. 7 AND 4****Notes to the Financial Statements****For the Year Ended June 30, 2015****7. Fund Balances (continued)**

**Assigned fund balance** – amounts that are constrained by the governments’ intent to be used for specific purposes, but are neither restricted nor committed. Funds can be assigned by the District Clerk, Superintendent of Schools or the Board of Trustees.

**Unassigned fund balance** – amounts that represent fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. In other governmental funds, it may be necessary to report a negative residual balance as unassigned.

The District has a policy to expend restricted amounts first when an expenditure has been incurred for purposes for which both restricted and unrestricted fund balances are available. The policy states the order of releasing fund balance for current expenditures is: restricted, committed, assigned and then unassigned.

|                                  | General<br>Fund | Special<br>Revenue<br>Funds | Debt Service<br>Funds | Capital<br>Project Funds | Total        |
|----------------------------------|-----------------|-----------------------------|-----------------------|--------------------------|--------------|
| Fund balance:                    |                 |                             |                       |                          |              |
| Restricted for:                  |                 |                             |                       |                          |              |
| Retirement Services Fund         | \$ -            | \$ 172,814                  | \$ -                  | \$ -                     | \$ 172,814   |
| Miscellaneous Funds              | -               | 1,951,956                   | -                     | -                        | 1,951,956    |
| Technology Fund                  | -               | 49,902                      | -                     | -                        | 49,902       |
| Transportation Fund              | -               | 141,334                     | -                     | -                        | 141,334      |
| Bus Depreciation Fund            | -               | 873,884                     | -                     | -                        | 873,884      |
| Debt Service Fund                | -               | -                           | 65                    | -                        | 65           |
| Compensated Absences Fund        | -               | 15,823                      | -                     | -                        | 15,823       |
| Subtotal Restricted Fund Balance | -               | 3,205,713                   | 65                    | -                        | 3,205,778    |
| Committed to:                    |                 |                             |                       |                          |              |
| Miscellaneous Funds              | -               | 88,164                      | -                     | -                        | 88,164       |
| Impact Aid Funds                 | -               | 629,141                     | -                     | -                        | 629,141      |
| Adult Education Fund             | -               | 21,516                      | -                     | -                        | 21,516       |
| Building Fund                    | -               | -                           | -                     | 11,897                   | 11,897       |
| Subtotal Committed Fund Balance  | -               | 738,821                     | -                     | 11,897                   | 750,718      |
| Assigned to:                     |                 |                             |                       |                          |              |
| General Fund                     | 812             | -                           | -                     | -                        | 812          |
| Miscellaneous Fund               | -               | 5,790                       | -                     | -                        | 5,790        |
| Traffic Education Fund           | -               | 15,543                      | -                     | -                        | 15,543       |
| Impact Aid Fund                  | -               | 24                          | -                     | -                        | 24           |
| Subtotal Assigned Fund Balance   | 812             | 21,357                      | -                     | -                        | 22,169       |
| Unassigned:                      | 220,994         | -                           | -                     | -                        | 220,994      |
| Total Fund Balances              | \$ 221,806      | \$ 3,965,891                | \$ 65                 | \$ 11,897                | \$ 4,199,659 |



**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

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**8. Other Post Employment Benefits**

As required by Governmental Accounting Standards Board (GASB) Statement No. 45 Other Postemployment Benefits, the District has calculated a postemployment benefit liability for the fiscal year ended June 30, 2015.

**Plan Description**

Gardiner School District No. 7 and 4 has a single-employer defined benefit medical plan. The plan currently provides defined healthcare insurance benefits for eligible employees, retirees, spouses and dependents. Participation is elected by the retiree at the time of retirement. Benefit provisions are approved annually by the Board of Trustees and may be revoked or altered at any time. The plan does not issue a publicly available financial report.

**Funding Policy**

The District provides no direct subsidy to the health insurance premiums for retirees. Retirees pay for the entire cost of the health insurance premium. Eligible retired employees include former full-time and certain other employees. As of June 2015 there was 1 retiree and/or survivor enrolled in the employer's sponsored health insurance plan.

**Annual OPEB Cost Obligation and Net OPEB Obligation**

The District's other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes on the District's net OPEB obligation:

|  |                   |
|--|-------------------|
| Annual required contribution (ARC)         | \$ 178,396        |
| Interest on net OPEB obligation            | 181               |
| Adjustment to annual required contribution | <u>(8,112)</u>    |
| Annual OPEB Cost                           | 170,465           |
| Contributions made                         | <u>(4,156)</u>    |
| Change in net OPEB obligation              | 166,309           |
| Net OPEB obligation - beginning of year    | <u>403,252</u>    |
| Net OPEB obligation - end of year          | <u>\$ 569,561</u> |

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

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**8. Other Post Employment Benefits (continued)**

**Trend Information**

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year ended June 30, 2015 and the two preceding fiscal years are presented below.

| Fiscal Year<br>Ended | Annual<br>OPEB Cost | Age Adjusted<br>Contribution | % of Annual<br>OPEB Cost<br>Contributed | Net OPEB<br>Obligation |
|----------------------|---------------------|------------------------------|---|------------------------|
| June 30, 2013        | 182,348             | 17,669                       | 9.69%                                   | 238,649                |
| June 30, 2014        | 168,287             | 3,684                        | 2.20%                                   | 403,252                |
| June 30, 2015        | 170,465             | 4,156                        | 2.44%                                   | 569,561                |

**Funded Status and Funding Progress**

As of June 30, 2014 (the most recent measurement date), the actuarial accrued liability (AAL) for benefits was \$1,103,879, all of which was unfunded. There are no assets set aside to fund these benefits as the District funds post-retirement health insurance benefits on a pay-as-you-go basis funded 100% by the retiring employees. The covered payroll (annual payroll of active employees covered by the plan) and ratio of UAAL to covered payroll are presented below.

**Actuarial Valuation**

|   |                     |
|---|---------------------|
| Actuarial Accrued Liability (AAL)           | \$ 1,103,879        |
| Actuarial Value of Assets (AVA)             | <u>-</u>            |
| Unfunded Actuarial Accrued Liability (UAAL) | <u>\$ 1,103,879</u> |
| Funded Ratio (AVA/UAAL)                     | 0%                  |
| Covered Payroll                             | 1,713,979           |
| UAAL as a Percentages of Covered Payroll    | 64.40%              |

## **GARDINER SCHOOL DISTRICT NO. 7 AND 4**

### **Notes to the Financial Statements**

**For the Year Ended June 30, 2015**

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#### **8. Other Post Employment Benefits (continued)**

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

#### **Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

- (1) Mortality rates are assumed to follow the RP2000 Mortality Table for Males and Females projected 10 years;
- (2) Amortization factor for a 30-year period as a level percent of payroll on an open basis, using a 0.05 percent discount rate and a 3.13 percent payroll growth assumption and inflation rate;
- (3) Average retirement age is 60 years;
- (4) Age adjustment factor of 1.936
- (5) Healthcare Cost Trend Rate of 8% initial and 4.7% ultimate
- (6) Health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

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**9. Interfund Transfers**

The interfund transfers as of June 30, 2015 are as follows:

|                                  | Interfund<br>Transfers | Interfund<br>Receivable<br>(Payable) |
|----------------------------------|------------------------|--------------------------------------|
| Major Funds                      |                        |                                      |
| General Fund                     | \$ 227                 | \$ 2,951                             |
| High School Miscellaneous Fund   | -                      | (2,951)                              |
| Nonmajor Funds                   |                        |                                      |
| Elementary Compensated Absences  | (106)                  | -                                    |
| High School Compensated Absences | (121)                  | -                                    |
|                                  | \$ -                   | \$ -                                 |

The transfers out of the compensated absences funds are in accordance with MCA, 20-9-512, to maintain the compensated absences liability fund as of June 30, 2015.

**10. Net Pension Liability**

**Plan Description**

***PERS***

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

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

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

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**10. Net Pension Liability (continued)**

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature.

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

***TRS***

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

The TRS Board is the governing body of the System and the TRS staff administers the system in conformity with the laws set forth in Title 19, chapter 20 of the Montana Code Annotated, and administrative rules set forth in Title 2, chapter 44 of the Administrative Rules of Montana. Additional information pertaining to membership, benefit structure, and prior years' actuarial valuations, as well as links to applicable statutes and administrative rules, may be obtained by visiting the TRS web site at [trs.mt.gov](http://trs.mt.gov).

**Summary of Benefits**

***PERS***

***Member's highest average compensation (HAC)***

Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months; Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months; Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's highest average compensation.

***Eligibility for benefit***

Service retirement:

Hired prior to July 1, 2011: Age 60, 5 years of membership service;  
Age 65, regardless of membership service; or  
Any age, 30 years of membership service.

Hired on or after July 1, 2011: Age 65, 5 years of membership service;  
Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011: Age 50, 5 years of membership service; or  
Any age, 25 years of membership service.

Hired on or after July 1, 2011: Age 55, 5 years of membership service.

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

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**10. Net Pension Liability (continued)**

*Vesting*

5 years of membership service

*Monthly benefit formula*

Members hired prior to July 1, 2011:

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

Members hired on or after July 1, 2011:

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

Guaranteed Annual Benefit Adjustment (GABA)\*

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007  
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

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

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

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

## GARDINER SCHOOL DISTRICT NO. 7 AND 4

### Notes to the Financial Statements

For the Year Ended June 30, 2015

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#### 10. Net Pension Liability (continued)

##### *TRS*

Through June 30, 2013, all members enrolled in TRS participated in a single-tiered plan ("Tier One"). Employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to creditable service years divided by 60 times the average final compensation. Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Beginning July 1, 2013, new members in TRS participate in a second benefit tier ("Tier Two"), which differs from Tier One as follows:

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

A guaranteed annual benefit adjustment (GABA) is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABA calculated prior to July 1, 2013, was 1.5% of the benefit payable as of January 1st. Effective July 1, 2013, the GABA to be calculated for Tier One and Tier Two members each year may vary from 0.5% to 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation. The legislative enactment that allows for reduction of the GABA for Tier One members is currently being litigated. A temporary restraining order requires continued calculation of the GABA at the full 1.5% rate for Tier One members pending resolution of the litigation.

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

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**10. Net Pension Liability (continued)**

**Overview of Contributions**

***PERS***

1. Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan.
2. Member contributions to the system:
  - a. Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.
  - b. The 7.90% member contributions is temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
3. Employer contributions to the system:
  - a. State and University System employers are required to contribute 8.27% of members' compensation.
  - b. Local government entities are required to contribute 8.17% of members' compensation.
  - c. School district employers contributed 7.90% of members' compensation.
  - d. Following the 2013 Legislative Session, PERS-employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates.
  - e. Effective July 1, 2013, the additional employer contributions for DCRP and MUS-RP is allocated to the defined benefit plan's Plan Choice Rate unfunded liability.
  - f. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
4. Non Employer Contributions
  - a. Special Funding
    - i. The State contributes 0.1% of members' compensation on behalf of local government entities.
    - ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
  - b. Not Special Funding
    - i. The State contributes from the Coal Tax Severance fund



**GARDINER SCHOOL DISTRICT NO. 7 AND 4**

**Notes to the Financial Statements**

**For the Year Ended June 30, 2015**

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**10. Net Pension Liability (continued)**

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

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

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

**School District and Other Employers**

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

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

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**10. Net Pension Liability (continued)**

**Stand-Alone Statements**

***PERS***

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

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

The latest actuarial valuation and experience study can be found at our website at <http://mpera.mt.gov/actuarialValuations.asp>

***TRS***

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

**Actuarial Assumptions**

***PERS***

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

Among those assumptions were the following:

- General Wage Growth\* 4.00%
- \*includes Inflation at 3.00%
- Merit Increases 0% to 6%
- Investment Return 7.75%
- Postretirement Benefit Increases

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

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

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

## GARDINER SCHOOL DISTRICT NO. 7 AND 4

### Notes to the Financial Statements

For the Year Ended June 30, 2015

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#### 10. Net Pension Liability (continued)

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

#### **TRS**

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

- Total Wage Increases\* 8.51%
- Investment Return 7.75%
- Price Inflation 3.25%
- Postretirement Benefit Increases 1.50%  
(starting three years after retirement)
- Mortality among contributing members, service retired members, and beneficiaries
  - For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members
  - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

\*Total Wage Increases include 4.00% general wage increase assumption and 4.51% merit and longevity increases.

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

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**10. Net Pension Liability (continued)**

**Discount Rate**

***PERS***

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non- employer contributing entities will be made based on the Board’s funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

***TRS***

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board’s funding policy, which establishes the contractually required rates under Montana Code Annotated. In addition to the contributions the State general fund will contribute \$25 million annually to the System payable July 1st of each year. Based on those assumptions, the System’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2116. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

**Target Allocations**

| <b>Asset Class</b>   | <b>PERS</b>                    |   |
|----------------------|--------------------------------|---|
|                      | <b>Target Asset Allocation</b> | <b>Long-Term Expected Real Rate of Return</b> |
| Cash and Equivalents | 2.00%                          | -0.25%  |
| Domestic Equity      | 36.00%                         | 4.80%   |
| Foreign Equity       | 18.00%                         | 6.05%   |
| Fixed Income         | 24.00%                         | 1.68%   |
| Private Equity       | 12.00%                         | 8.50%   |
| Real Estate          | 8.00%                          | 4.50%   |
|                      | <b>100.00%</b>                 |   |

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

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**10. Net Pension Liability (continued)**

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2014, is summarized in the above table.

|                            | <b>TRS</b>                         |   |
|----------------------------|------------------------------------|---|
|                            | <b>Target Asset<br/>Allocation</b> | <b>Real Rate of Return<br/>Arithmetic Basis</b> |
| Broad US Equity            | 36.00%                             | 4.80%   |
| Broad International Equity | 18.00%                             | 6.05%   |
| Private Equity             | 12.00%                             | 8.50%   |
| Intermediate Bonds         | 23.40%                             | 1.50%   |
| Core Real Estate           | 4.00%                              | 4.50%   |
| High Yield Bonds           | 2.60%                              | 3.25%   |
| Non-Core Real Estate       | 4.00%                              | 7.50%   |
|                            | <u>100.00%</u>                     |   |

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared every four years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

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**10. Net Pension Liability (continued)**

The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2014, is summarized in the above table.

**Sensitivity Analysis**

|   | 1.0% Decrease<br>(6.75%) | Current Discount<br>Rate | 1.0% Increase<br>(8.75%) |
|---|--------------------------|--------------------------|--------------------------|
| PERS' Net Pension Liability   | \$ 1,982,274,732         | \$ 1,246,010,898         | \$ 625,044,646           |
| District's Proportionate Share<br>of the PERS Net Pension Liability<br>at June 30, 2014 | \$ 365,141               | \$ 229,518               | \$ 115,135               |
| TRS' Net Pension Liability  | \$ 2,137,950,777         | \$ 1,538,849,077         | \$ 1,032,700,256         |
| District's Proportionate Share<br>of the TRS Net Pension Liability<br>at June 30, 2014  | \$ 2,329,330             | \$ 1,676,600             | \$ 1,125,143             |

In accordance with GASB 68 regarding the disclosure of the sensitivity of the Net Pension Liability to changes in the discount rate, the above table presents the Net Pension Liability calculated using the discount rate of 7.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

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**10. Net Pension Liability (continued)**

**Summary of Significant Accounting Policies**

***PERS***

The Montana Public Employee Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, Pension Expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

***TRS***

The Teachers' Retirement System prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position of the Teachers' Retirement System (TRS) and additions to/deductions from TRS's fiduciary net position have been determined on the same accrual basis as they are reported by TRS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. TRS adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

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

**Net Pension Liability**

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

**GARDINER SCHOOL DISTRICT NO. 7 AND 4****Notes to the Financial Statements****For the Year Ended June 30, 2015****10. Net Pension Liability (continued)**

In accordance with Statement 68, PERS and TRS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS and TRS on behalf of the employers to be used to provide pension benefits to the retired members of PERS and TRS. Due to the existence of this special funding situation, local governments and school districts are required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer.

For PERS only, the State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Severance Tax and interest. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer.

|  | Net Pension<br>Liability as of<br>6/30/13 | Net Pension<br>Liability as of<br>6/30/14 | Percent of<br>Collective NPL |
|--|---|---|------------------------------|
| District's PERS Proportionate Share                                | \$295,356                                 | \$229,518                                 | 0.018420%                    |
| State of Montana PERS Proportionate Share associated with employer | \$13,807                                  | \$10,729                                  | 0.089576%                    |
| Total  | \$309,163                                 | \$240,247                                 | 0.107996%                    |
| <br>   |   |   |                              |
| District's TRS Proportionate Share                                 | \$1,937,936                               | \$1,676,600                               | 0.109000%                    |
| State of Montana TRS Proportionate Share associated with employer  | \$1,330,295                               | \$1,150,900                               | 0.074800%                    |
| Total  | \$3,268,231                               | \$2,827,500                               | 0.183800%                    |

At June 30, 2015, the employer recorded a liability of \$229,518 and \$1,676,600 for its proportionate share of the Net Pension Liability in PERS and TRS, respectively. The Net Pension Liability was measured as of June 30, 2014, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2014. The employer's proportion of the Net Pension Liability was based on the employer's contributions received by PERS and TRS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERS' and TRS' participating employers. At June 30, 2014, the employer's proportion was 0.01842 percent and 0.1090 percent for PERS and TRS, respectively.



**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

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**10. Net Pension Liability (continued)**

*Changes in actuarial assumptions and methods:* For PERS, there were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability. For TRS, the following changes in assumptions or other inputs that affected the measurement of the Total Pension Liability have been made since the previous measurement date.

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

*Changes in benefit terms:* For both PERS and TRS, there have been no changes in benefit terms since the previous measurement date.

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

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

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**10. Net Pension Liability (continued)**

**Pension Expense**

|  | <u>Pension Expense as of 6/30/14</u> |                  |
|--|--------------------------------------|------------------|
|  | <u>PERS</u>                          | <u>TRS</u>       |
| District's Proportionate Share                                       | \$10,784                             | \$112,831        |
| State of Montana Proportionate<br>Share associated with the Employer | \$7,301                              | \$64,446         |
| Total  | <u>\$18,085</u>                      | <u>\$177,277</u> |

At June 30, 2015, the employer recognized a Pension Expense of \$18,085 and \$177,277 for its proportionate share of the PERS' and TRS' Pension Expense, respectively. The employer also recognized grant revenue of \$7,301 and \$64,446 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.

**Recognition of Beginning Deferred Outflow**

At June 30, 2015, the employer recognized a beginning deferred outflow of resources for the employers FY2014 contributions of \$16,985 for PERS and \$192,165 for TRS.

**GARDINER SCHOOL DISTRICT NO. 7 AND 4****Notes to the Financial Statements****For the Year Ended June 30, 2015****10. Net Pension Liability (continued)****Deferred Inflows and Outflows**

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

|   | PERS                                 |                                     | TRS                                  |                                     |
|---|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
| Differences between actual and expected experience  | \$ -                                 | \$ -                                | \$ 16,585                            | \$ -                                |
| Changes in assumptions  | -                                    | -                                   | 37,999                               | -                                   |
| Difference between projected and actual earnings on pension plan investments                              | -                                    | 59,304                              | -                                    | 259,682                             |
| Changes in proportion differences between employer contributions and proportionate share of contributions | -                                    | 650                                 | -                                    | -                                   |
| Difference between actual and expected contributions  | -                                    | -                                   | 23,095                               | -                                   |
| Contributions paid subsequent to the measurement date- FY 2015 contributions                              | 14,415                               | -                                   | 117,115                              | -                                   |
| Total   | \$ 14,415                            | \$ 59,954                           | \$ 194,794                           | \$ 259,682                          |

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**

**Notes to the Financial Statements**

**For the Year Ended June 30, 2015**

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**10. Net Pension Liability (continued)**

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

| Year ended<br>June 30: | Deferred Outflows of<br>Resources |           | Deferred Inflows of<br>Resources |           | Amount recognized in<br>Pension Expense as an |             |
|------------------------|-----------------------------------|-----------|----------------------------------|-----------|---|-------------|
|                        | PERS                              | TRS       | PERS                             | TRS       | PERS  | TRS         |
| 2016                   | \$ -                              | \$ 25,893 | \$ 15,043                        | \$ 64,921 | \$ (15,043)                                   | \$ (39,028) |
| 2017                   | \$ -                              | \$ 25,893 | \$ 15,043                        | \$ 64,921 | \$ (15,043)                                   | \$ (39,028) |
| 2018                   | \$ -                              | \$ 25,893 | \$ 15,043                        | \$ 64,920 | \$ (15,043)                                   | \$ (39,027) |
| 2019                   | \$ -                              |           | \$ 14,825                        | \$ 64,920 | \$ (14,825)                                   | \$ (64,920) |
| 2020                   | \$ -                              |           | \$ -                             |           | \$ -  | \$ -        |
| Thereafter             | \$ -                              |           | \$ -                             |           | \$ -  | \$ -        |

**11. Encumbrances**

Encumbrances are commitments made by the District at year end that have not been fulfilled as of June 30, 2015. They do not constitute expenditures or liabilities in the fund financial statements, but are included in expenditures in the budget basis financials. Encumbrances are reported as part of assigned and restricted fund balance for each fund. The schedule provides which portion of assigned and restricted fund balance relates to encumbrances:

|                             | Assigned        | Restricted  |
|-----------------------------|-----------------|-------------|
| General Fund                | \$ 812          | \$ -        |
| Miscellaneous Programs Fund | 5,790           | -           |
| Impact Aid                  | 24              | -           |
|                             | <u>\$ 6,626</u> | <u>\$ -</u> |

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

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**12. Prior Period Adjustments**

In accordance with GASB Statement No. 68, the government-wide financial statements have been restated to include beginning balances of the net pension liability and the related deferred outflows of resources. Below is a summary of the balances affected by the prior period adjustment:

|                                | Previously<br>Reported | Change         | Restated     |
|--------------------------------|------------------------|----------------|--------------|
| Deferred outflows of resources | \$ -                   | \$ 209,150     | \$ 209,150   |
| Net Pension Liability          | \$ -                   | \$ 2,233,292   | \$ 2,233,292 |
| Net position                   | \$ 6,059,448           | \$ (2,024,142) | \$ 4,035,306 |

**13. Risk Management**

The District faces a considerable number of risks of loss, including a) damage to and loss of property and contents, b) employee torts, c) professional liability, i.e., errors and omissions, d) environmental damage, e) workers' compensation, i.e., employee injuries, and f) medical insurance costs of employees. A variety of 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 content damage, employee torts, professional liabilities and medical insurance costs of employees. The District participates in a statewide public risk pool, Montana School Group's Workers' Compensation Risk Retention Program, for workers' compensation coverage. And, given the lack of coverage available, the District has no coverage for potential losses from environmental damages.

Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years, except for property and content coverage where the guaranteed values have been increased to approximate replacement costs of the assets. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**14. Joint Venture**

A joint venture is a legal entity or other organization created by a contractual agreement that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control for the purpose of pooling resources and sharing costs, risks and rewards of providing goods or services to the venture participants. The District is a member of the Park County Special Education Cooperative, which develops curriculum for special education. The Cooperative is comprised of eight member districts. The Cooperative is administered by a management board consisting of one member from each district.

REQUIRED SUPPLEMENTAL INFORMATION

**GARDINER SCHOOL DISTRICT NO. 7 AND 4****Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual  
General Fund and Elementary Bus Depreciation Fund  
For the Year Ended June 30, 2015**

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|                                    | General Fund               |                  |
|------------------------------------|----------------------------|------------------|
|                                    | Original &<br>Final Budget | Actual           |
| Revenues:                          |                            |                  |
| District tax-levies                | \$ 490,530                 | \$ 527,235       |
| Investment interest                | 3,077                      | 2,433            |
| County                             | -                          | -                |
| State of Montana                   | 1,339,484                  | 1,339,485        |
| Total revenues                     | <u>1,833,091</u>           | <u>1,869,775</u> |
| Expenditures:                      |                            |                  |
| Current:                           |                            |                  |
| Instruction                        | 1,190,831                  | 1,186,669        |
| Support services                   | 149,911                    | 149,387          |
| General administration             | 336,696                    | 335,519          |
| Operations and maintenance         | 66,659                     | 66,426           |
| Student transportation             | 18,580                     | 18,515           |
| Extracurricular                    | 70,415                     | 70,169           |
| Capital outlay                     | -                          | -                |
| Total expenditures                 | <u>1,833,091</u>           | <u>1,826,685</u> |
| Revenues over (under) expenditures | <u>\$ -</u>                | <u>\$ 43,090</u> |

See Independent Auditors' Report

The accompanying notes are an integral part of the required supplemental information.

| Elementary Bus<br>Depreciation Fund    |                  |
|--|------------------|
| <u>Original &amp;<br/>Final Budget</u> | <u>Actual</u>    |
| \$ 58,420                              | \$ 62,453        |
| -                                      | 2,757            |
| -                                      | -                |
| -                                      | -                |
| <u>58,420</u>                          | <u>65,210</u>    |
| -                                      | -                |
| -                                      | -                |
| -                                      | -                |
| -                                      | -                |
| -                                      | -                |
| -                                      | -                |
| <u>100,000</u>                         | <u>17,056</u>    |
| <u>100,000</u>                         | <u>17,056</u>    |
| <u>\$ (41,580)</u>                     | <u>\$ 48,154</u> |

See Independent Auditors' Report  
The accompanying notes are an integral part of the required supplemental information.  
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**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Employee Group Benefit Plan – Other Post Employment Benefits (OPEB)**  
**For the Year Ended June 30, 2015**

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**Schedule of Funding Progress**

---

| Fiscal Year                             |         | <u>2015</u>   | <u>2014</u>   | <u>2013</u>   |
|---|---------|---------------|---------------|---------------|
| Actuarial Valuation Date                |         | June 30, 2014 | June 30, 2014 | June 30, 2011 |
| Actuarial Value of Assets               | (a)     | -             | -             | -             |
| Actuarial Accrued Liability (AAL)       | (b)     | 1,103,879     | 1,103,879     | 935,259       |
| Unfunded AAL (UAAL)                     | (b-a)   | 1,103,879     | 1,103,879     | 935,259       |
| Funded Ratio (%)                        | (a/b)   | 0%            | 0%            | 0%            |
| Annual Covered Payroll                  | (c)     | 1,713,979     | 1,763,758     | 1,524,420     |
| UAAL as a Percentage of Covered Payroll | (b-a/c) | 64.40%        | 62.59%        | 61.35%        |

**History of Net OPEB Obligation**

---

| Fiscal Year Ended                          | June 30, 2015 | June 30, 2014 | June 30, 2013 |
|--|---------------|---------------|---------------|
| Age Adjusted Contribution                  | \$ 4,156      | \$ 3,684      | \$ 17,669     |
| Percentage of Annual OPEB Cost Contributed | 2.4%          | 2.2%          | 9.69%         |
| Net OPEB Obligation                        | \$ 569,561    | \$ 403,252    | \$ 238,649    |

See Independent Auditors' Report  
The accompanying notes are an integral part of the required supplemental information.

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**Montana Public Employees' Retirement System**  
**For the Year Ended June 30, 2015**

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|  | <u>2015</u>       |
|--|-------------------|
| District's proportion of the net pension liability   | 0.018420%         |
| District's proportionate share of the net pension liability  | \$ 229,519        |
| State's proportionate share of the net pension liability<br>associated with the District                       | 10,729            |
| Total  | <u>\$ 240,248</u> |
| District's covered-employee payroll  | \$ 1,713,979      |
| District's proportionate share of the net pension liability<br>as a percentage of its covered-employee payroll | 13.39%            |

See Independent Auditors' Report  
The accompanying notes are an integral part of the required supplemental information.

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**Teachers' Retirement System of Montana**  
**For the Year Ended June 30, 2015**

---

|  |                     |
|--|---------------------|
|  | 2015                |
| District's proportion of the net pension liability   | <u>0.109000%</u>    |
| District's proportionate share of the net pension liability  | \$ 1,676,600        |
| State's proportionate share of the net pension liability<br>associated with the District                       | 1,150,900           |
| Total  | <u>\$ 2,827,500</u> |
| District's covered-employee payroll  | \$ 1,713,979        |
| District's proportionate share of the net pension liability<br>as a percentage of its covered-employee payroll | 97.82%              |
| Plan fiduciary net position as a percentage of the total<br>pension liability                                  | 70.36%              |

See Independent Auditors' Report  
The accompanying notes are an integral part of the required supplemental information.

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Schedule of Contributions**  
**Montana Public Employees' Retirement System**  
**For the Year Ended June 30, 2015**

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|  | <u>2015</u>   |
|--|---------------|
| District's contractually required DB contribution                              | \$ 16,985     |
| District's Contribution in relation to the contractually required contribution | <u>16,985</u> |
| District's Contribution deficiency (excess)                                    | \$ -          |
| District's covered-employee payroll  | \$ 1,713,979  |
| Contributions as percentage of Covered Payroll                                 | 0.99%         |

See Independent Auditors' Report  
The accompanying notes are an integral part of the required supplemental information.

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Schedule of Contributions**  
**Teachers' Retirement System of Montana**  
**For the Year Ended June 30, 2015**

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|  | <u>2015</u>    |
|--|----------------|
| District's contractually required DB contribution                              | \$ 117,115     |
| District's Contribution in relation to the contractually required contribution | <u>117,115</u> |
| District's Contribution deficiency (excess)                                    | \$ -           |
| District's covered-employee payroll  | \$ 1,713,979   |
| Contributions as percentage of Covered Payroll                                 | 6.83%          |

See Independent Auditors' Report  
The accompanying notes are an integral part of the required supplemental information.

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Notes to Required Supplementary Information**  
**For the Year Ended June 30, 2015**

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**1. Budgets**

State law permits the inclusion of obligations for construction in progress and obligations for the purchase of personal property as expenditures for budget purposes (MCA 20-9-121). Because inclusion for these obligations is required for budgetary purposes, they have been included in expenditures in the statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual- General Fund and Elementary Bus Depreciation Fund.

|                             |                     |
|-----------------------------|---------------------|
|                             | <u>General Fund</u> |
| Expenditures - Budget Basis | \$ 1,826,685        |
| Changes in Encumbrances     | <u>(812)</u>        |
| Expenditures - GAAP Basis   | <u>\$ 1,825,873</u> |

A budget has not been adopted for the elementary or high school Miscellaneous Programs funds because the school is not legally required to have a budget for those funds. Accordingly, budgetary comparison information is not presented for those major special revenue funds.

**2. Other Post Employment Benefits (OPEB)**

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. This schedule is based on actuarial values as of June 30, 2014 and 2011.

**3. Net Pension Liability**

***PERS***

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

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Notes to Required Supplementary Information**  
**For the Year Ended June 30, 2015**

---

**3. Net Pension Liability (continued)**

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

|                               |   |
|-------------------------------|---|
| Actuarial cost method         | Entry age   |
| Amortization method           | Level percentage of pay, open   |
| Remaining amortization period | 30 years  |
| Asset valuation method        | 4-year smoothed market  |
| Inflation                     | 3.00 percent  |
| Salary increase               | 4.00 percent, including inflation   |
| Investment rate of return     | 7.75 percent, net of pension plan investment expense, and including inflation |

***TRS***

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

- Assumed rate of inflation was reduced from 3.50% to 3.25%
- Payroll Growth Assumption was reduced from 4.50% to 4.00%
- Assumed real wage growth was reduced from 1.00% to 0.75%
- Investment return assumption was changed from net of investment and administrative expensed to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:

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

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

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Notes to Required Supplementary Information**  
**For the Year Ended June 30, 2015**

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**3. Net Pension Liability (continued)**

- Mortality among disabled members was updated to the following:

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

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

*Method and assumptions used in calculations of actuarially determined contributions:*

The actuarially determined contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2014, determined as of June 30, 2014.

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

|                               |   |
|-------------------------------|---|
| Actuarial cost method         | Entry age   |
| Amortization method           | Level percentage of pay, open   |
| Remaining amortization period | 28 years  |
| Asset valuation method        | 4-year smoothed market  |
| Inflation                     | 3.25 percent  |
|                               | 4.00 to 8.51 percent, including inflation for Non-University Members and 5.00 percent for |
| Investment rate of return     | 7.75 percent, net of pension plan investment expense, and including inflation             |

See Independent Auditors' Report



SUPPLEMENTAL INFORMATION REQUIRED BY THE  
MONTANA OFFICE OF PUBLIC INSTRUCTION

Montana's Office of Public Instruction mandates that certain information be included in a school district's annual financial statements. These items include: schedule of enrollment and detail of student extracurricular funds by activity.

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**

**Schedule of Enrollment**

**For the Year Ended June 30, 2015**

| <u>ENROLLMENT</u>                                    | <u>PER<br/>ENROLLMENT<br/>RECORDS</u> | <u>AUDIT PER<br/>DISTRICT<br/>RECORDS</u> | <u>DIFFERENCE</u> |
|--|---------------------------------------|---|-------------------|
| <b>Fall Enrollment</b>                               |                                       |   |                   |
| <b>Elementary School District</b>                    |                                       |   |                   |
| <b>Pre-K-6:</b>                                      |                                       |   |                   |
| Pre-Kindergarten                                     | 0                                     | 0   | 0                 |
| Kindergarten - Half (enrolled 180+ hours per year)   | 0                                     | 0   | 0                 |
| Kindergarten - Half (enrolled <180 hours per year)   | 0                                     | 0   | 0                 |
| Grades K(Full) - 6 (enrolled 360+ hours per year)    | 87                                    | 87  | 0                 |
| Grades K(Full) - 6 (enrolled 180-359 hours per year) | 0                                     | 0   | 0                 |
| Grades K(Full) - 6 (enrolled <180 hours per year)    | 0                                     | 0   | 0                 |
| <b>7-8:</b>  |                                       |   |                   |
| Grades 7 - 8 (enrolled 360+ hours per year)          | 41                                    | 41  | 0                 |
| Grades 7 - 8 (enrolled 180-359 hours per year)       | 0                                     | 0   | 0                 |
| Grades 7 - 8 (enrolled <180 hours per year)          | 0                                     | 0   | 0                 |
| Total Elementary                                     | 128                                   | 128                                       | 0                 |
| <b>High School District</b>                          |                                       |   |                   |
| <b>9-12:</b>   |                                       |   |                   |
| Grades 9 - 12 (enrolled 360+ hours per year)         | 78                                    | 78  | 0                 |
| Grades 9 - 12 (enrolled 180-359 hours per year)      | 0                                     | 0   | 0                 |
| Grades 9 - 12 (enrolled <180 hours per year)         | 0                                     | 0   | 0                 |
| Total High School                                    | 78                                    | 78  | 0                 |
| 19 Year-olds included in Grades 9-12 above           | 0                                     | 0   | 0                 |
| Job Corps Students included in Grades 9-12 above     | 0                                     | 0   | 0                 |

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**

**Schedule of Enrollment (continued)**

**For the Year Ended June 30, 2015**

| <u>ENROLLMENT</u>                                    | <u>PER<br/>ENROLLMENT<br/>RECORDS</u> | <u>AUDIT PER<br/>DISTRICT<br/>RECORDS</u> | <u>DIFFERENCE</u> |
|--|---------------------------------------|---|-------------------|
| <b>Winter Enrollment</b>                             |                                       |   |                   |
| <b>Elementary School District</b>                    |                                       |   |                   |
| <b>Pre-K-6:</b>                                      |                                       |   |                   |
| Pre-Kindergarten                                     | 0                                     | 0   | 0                 |
| Kindergarten - Half (enrolled 180+ hours per year)   | 0                                     | 0   | 0                 |
| Kindergarten - Half (enrolled <180 hours per year)   | 0                                     | 0   | 0                 |
| Grades K(Full) - 6 (enrolled 360+ hours per year)    | 83                                    | 83  | 0                 |
| Grades K(Full) - 6 (enrolled 180-359 hours per year) | 0                                     | 0   | 0                 |
| Grades K(Full) - 6 (enrolled <180 hours per year)    | 0                                     | 0   | 0                 |
| <b>7-8:</b>  |                                       |   |                   |
| Grades 7 - 8 (enrolled 360+ hours per year)          | 41                                    | 41  | 0                 |
| Grades 7 - 8 (enrolled 180-359 hours per year)       | 0                                     | 0   | 0                 |
| Grades 7 - 8 (enrolled <180 hours per year)          | 0                                     | 0   | 0                 |
| Total Elementary                                     | 124                                   | 124                                       | 0                 |
| <b>High School District</b>                          |                                       |   |                   |
| <b>9-12:</b>   |                                       |   |                   |
| Grades 9 - 12 (enrolled 360+ hours per year)         | 78                                    | 78  | 0                 |
| Grades 9 - 12 (enrolled 180-359 hours per year)      | 1                                     | 1   | 0                 |
| Grades 9 - 12 (enrolled <180 hours per year)         | 0                                     | 0   | 0                 |
| Total High School                                    | 79                                    | 79  | 0                 |
| 19 Year-olds included in Grades 9-12 above           | 0                                     | 0   | 0                 |
| Job Corps Students included in Grades 9-12 above     | 0                                     | 0   | 0                 |

**GARDINER SCHOOL DISTRICT NO.7 AND 4**  
**Schedule of Enrollment (continued)**  
**For the Year Ended June 30, 2015**

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| <u>ENROLLMENT</u>                                    | <u>PER<br/>ENROLLMENT<br/>RECORDS</u> | <u>AUDIT PER<br/>DISTRICT<br/>RECORDS</u> | <u>DIFFERENCE</u> |
|--|---------------------------------------|---|-------------------|
| <b>Spring Enrollment</b>                             |                                       |   |                   |
| <b>Elementary School District</b>                    |                                       |   |                   |
| <b>Pre-K-6:</b>                                      |                                       |   |                   |
| Pre-Kindergarten                                     | 0                                     | 0   | 0                 |
| Kindergarten - Half (enrolled 180+ hours per year)   | 0                                     | 0   | 0                 |
| Kindergarten - Half (enrolled <180 hours per year)   | 0                                     | 0   | 0                 |
| Grades K(Full) - 6 (enrolled 360+ hours per year)    | 84                                    | 84  | 0                 |
| Grades K(Full) - 6 (enrolled 180-359 hours per year) | 0                                     | 0   | 0                 |
| Grades K(Full) - 6 (enrolled <180 hours per year)    | 0                                     | 0   | 0                 |
| <b>7-8:</b>  |                                       |   |                   |
| Grades 7 - 8 (enrolled 360+ hours per year)          | 40                                    | 40  | 0                 |
| Grades 7 - 8 (enrolled 180-359 hours per year)       | 0                                     | 0   | 0                 |
| Grades 7 - 8 (enrolled <180 hours per year)          | 0                                     | 0   | 0                 |
| Total Elementary                                     | 124                                   | 124                                       | 0                 |
| <b>High School District</b>                          |                                       |   |                   |
| <b>9-12:</b>   |                                       |   |                   |
| Grades 9 - 12 (enrolled 360+ hours per year)         | 80                                    | 80  | 0                 |
| Grades 9 - 12 (enrolled 180-359 hours per year)      | 1                                     | 1   | 0                 |
| Grades 9 - 12 (enrolled <180 hours per year)         | 1                                     | 1   | 0                 |
| Total High School                                    | 82                                    | 82  | 0                 |
| 19 Year-olds included in Grades 9-12 above           | 0                                     | 0   | 0                 |
| Job Corps Students included in Grades 9-12 above     | 0                                     | 0   | 0                 |

**GARDINER SCHOOL DISTRICT NO. 7 AND 4**  
**Schedule of Cash Collected and Disbursements and Transfers – Extracurricular Funds**  
**For the Year Ended June 30, 2015**

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|                                | Balance<br>June 30, 2014 | Revenue          | Expenditures       | Transfers In<br>(Out)/<br>Adjustments | Balance<br>June 30, 2015 |
|--------------------------------|--------------------------|------------------|--------------------|---------------------------------------|--------------------------|
| Vending                        | \$ -                     | \$ 7             | \$ (7)             | \$ -                                  | \$ -                     |
| Elementary - Volunteer         | 1,534                    | 643              | (722)              | -                                     | 1,455                    |
| Art                            | 253                      | 10               | (2)                | -                                     | 261                      |
| Elementary Concessions         | 7,865                    | 12,530           | (8,599)            | (680)                                 | 11,116                   |
| Activities Fund                | 3,833                    | 36,591           | (36,372)           | 235                                   | 4,287                    |
| Student Council                | 2,687                    | 2,003            | (1,910)            | -                                     | 2,780                    |
| Yearbook                       | 635                      | 5,335            | (6,283)            | 600                                   | 287                      |
| Family - Consumer Science      | 951                      | 1,121            | (457)              | -                                     | 1,615                    |
| FFA                            | 1,931                    | 10,009           | (8,329)            | 470                                   | 4,081                    |
| Music Activity Fund            | 1,914                    | -                | (848)              | -                                     | 1,066                    |
| Plays                          | 3,279                    | 506              | (721)              | -                                     | 3,064                    |
| Industrial Technology          | 3,547                    | 1,233            | (2,897)            | -                                     | 1,883                    |
| Senior Class                   | 1,878                    | 215              | (1,400)            | (600)                                 | 93                       |
| Junior Class                   | 569                      | 1,433            | (1,194)            | (25)                                  | 783                      |
| Sophomore Class                | 505                      | -                | (21)               | -                                     | 484                      |
| Freshman Class                 | 157                      | -                | -                  | -                                     | 157                      |
| 8th Grade Class                | 129                      | 106              | (1)                | -                                     | 234                      |
| 7th Grade Class                | 23                       | -                | -                  | -                                     | 23                       |
| Total cash basis               | <u>\$ 31,690</u>         | <u>71,742</u>    | <u>(69,763)</u>    | <u>\$ -</u>                           | <u>33,669</u>            |
| Plus FY2015 outstanding checks |                          | -                | 2,332              |                                       | 2,332                    |
| Less FY2014 outstanding checks |                          | -                | (494)              |                                       | -                        |
| Total modified accrual basis   |                          | <u>\$ 71,742</u> | <u>\$ (67,925)</u> |                                       | <u>\$ 36,001</u>         |

See Independent Auditors' Report

INTERNAL CONTROL AND COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees  
Gardiner School District No. 7 and 4

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gardiner School District No. 7 and 4 ("the District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Gardiner School District No. 7 and 4's basic financial statements, and have issued our report thereon dated December 9, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings, that we consider to be significant deficiencies: 2015-1.



## **Compliance and Other Matters**

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

## **District's Response to Findings**

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

## **Purpose of this Report**

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

*Rudd + Company, PLLC*

Bozeman, Montana  
December 9, 2015

**Gardiner School District No. 7 and 4  
Schedule of Findings and Responses and Summary of Prior Year Audit Findings  
For the Year Ended June 30, 2015**

---

**Significant Deficiency**

**2015-1 Number of Adjusting Entries**

Criteria

Several items on the trial balance did not match to supporting documentation.

Condition

During our audit, we identified and proposed adjusting entries to properly state Accounts Payable, Due from Other Governments and Due to Other Governments and Cash.

Context

There were 13 adjusting entries proposed. The largest one was \$54,000.

Effect

The balances reported to the Office of Public Instruction on the Trustees Financial Summary are incorrect.

Recommendation

Review the above noted accounts at year end and match all ending balances to supporting documentation provided by the County Treasurer or the bank. Also, review all expenditures made in July and August after year end and ensure that invoices received that are dated before year end are properly coded as Encumbrances or Accounts Payable.

District Response

We had our district clerk leave June 5, 2015. This left us a short window to find a new clerk and close the books for the end of the year. We do not expect this to be an issue next year.

**Gardiner School District No. 7 and 4  
Schedule of Findings and Responses and Summary of Prior Year Audit Findings  
For the Year Ended June 30, 2015**

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**State of Montana compliance**

**2015-2 Mills not included on budget**

Criteria

All mills charged by fund should be included on the budget document submitted to OPI.

Condition

During our audit, we noted that the transportation funds were receiving a significant amount of tax revenue, however there were no mills listed on the budget document.

Context

Mills were not listed for two funds. The Elementary Transportation fund was missing 6.62 mills and the High School transportation fund was missing 6.2 mills.

Effect

The mills reported to the Office of Public Instruction on the Elementary and High School Budget report are incorrect.

Recommendation

Review the budget document and the mills for each fund and ensure that all mills are listed.

District Response

We will review and make sure mills are in the next year's budget.

**Prior Year Audit Findings: None Reported**