

BIGFORK PUBLIC SCHOOLS
FLATHEAD COUNTY, MONTANA
Fiscal Year Ended June 30, 2016

AUDIT REPORT

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

BIGFORK PUBLIC SCHOOLS
FLATHEAD COUNTY, MONTANA

Fiscal Year Ended June 30, 2016

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BIGFORK PUBLIC SCHOOLS
FLATHEAD COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2016

BOARD OF TRUSTEES

Paul Sandry
Patricia Landon
Christina Relyea
Zack Anderson
Paul Sullivan Jr
Jessica Martinz
Dana Whitney

Chairperson
Vice Chairperson
Trustee
Trustee
Trustee
Trustee
Trustee

DISTRICT OFFICIALS

Matt Jensen
Lacey Porrovecchio
Jack Eggensperger
Ed Corrigan

District Superintendent
Business Manager
County Superintendent
County Attorney

**BIGFORK PUBLIC SCHOOLS
SCHOOL DISTRICT #38,
FLATHEAD COUNTY, MONTANA
MANAGEMENT’S DISCUSSION & ANALYSIS**

June 30, 2016

This management’s discussion and analysis provides an overview of the school’s financial activities for the fiscal year ended June 30, 2016.

USING THIS ANNUAL REPORT

This annual report consists of financial statements for the District as a whole with more detailed information for certain District funds. The Statement of Net Position and the Statement of Activities provide information about the activities of the District as a whole and present a long-term view of the District’s finances (they include capital assets and long term liabilities).

Fund financial statements present a short-term view of the District’s activities. They include only current assets expected to be collected and liabilities expected to be paid in the very near future. Generally accepted accounting principles require that only major funds are disclosed in these financial statements.

REPORTING THE SCHOOL DISTRICT AS A WHOLE

This report includes 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 using the accrual bases of accounting. This is similar to the basis of accounting used by most private-sector companies. Activities that are fiduciary in nature are not included in these statements.

The statement of net position comparison, on page 5, shows the “assets” (what is owned by the District), “liabilities” (what is owed by the district) and the “net position” (the resources that would remain if all obligations were settled) of the District. The change in net position over time is one indicator of whether the District’s financial health is improving or deteriorating. There are also other non-financial factors that influence the District’s fiscal health such as changes in enrollment, changes in the State’s funding of educational costs, changes in the economy, changes in the District’s tax base, etc. The change in total current assets for FY 16 was \$14,947,939.

The statement of activities comparison, on page 6, shows the amounts of program-specific and general school district expenditures and the revenues used to support the school district’s various functions in FY 16 and FY 15. Some programs included here are instructional, support services, administration, student transportation, and school food. Total revenues for the District, including program and general revenues, for FY 16 increased by \$467,548.

	FY 15	FY 16	Variance
Expenditures	8,862,707	9,376,011	513,304
Revenue	9,165,599	9,633,147	467,548
Changes in Net Position	302,892	257,136	(45,756)

**BIGFORK PUBLIC SCHOOLS
SCHOOL DISTRICT #38,
FLATHEAD COUNTY, MONTANA
MANAGEMENT’S DISCUSSION & ANALYSIS**

FUND FINANCIAL STATEMENTS - THE DISTRICT’S MOST SIGNIFICANT FUNDS

Government funds provide a short-term view of the district’s operations. They are reported using an accounting method which measures amounts using only cash and other short-term assets and liabilities (receivables and payables) that will soon be converted to cash or will soon be paid with cash.

CAPITAL ASSET AND DEBT ADMINISTRATION

The District’s capitalization policy sets our capitalization amount at \$5000. The district’s capital assets include land, buildings, buses and other vehicles, and other major equipment. Net capital assets for the District have increased by \$840,438.

The District does have outstanding general obligation bonds. In October 2007, the voters in the Bigfork Elementary School District authorized the issue and sale of general obligation bonds in the principal amount of \$5.5 million for the purpose of providing funds to pay the costs of designing, constructing, furnishing, and equipping improvements to the elementary school facilities and to make site improvements. Bonds were sold in November 2008: General Obligation Bonds, Series 2008). In October 2015, because of low interest rates, the elementary district refunded the general obligation bonds. Glacier Bank bought them for an overall savings to district taxpayers of approximately \$176,000. Final payment will be in July 2023.

On October 9, 2015 the high school bond asking for \$14,000,000 passed with 64% of votes cast in favor. Early work on the project began in March, 2016. Construction will include renovation of existing spaces, additions to the high school and relocation of the bus barn. The last major addition to the high school was in 1977. The first series of bonds, \$9,075,000, were sold to Glacier Bank in December 2015. The second series of bonds, \$4,925,000, were sold to Glacier Bank in June, 2016.

THE FUTURE OF THE DISTRICT

The fall enrollment report completed in October 2016 shows that our overall elementary enrollment has increased by 11 students. K-6 enrollment increased by 9 students and grade 7 & 8 enrollment increased by 2 students. Our high school enrollment gained students as well with an increase of 18 students.

ENROLLMENT	Fall 2016	2015-16	2014-15	2013-14
Elementary School (total)	583	572	559	540
K-6	436	427	423	416
7 & 8	147	145	136	124
High School	305	287	290	286

In the elementary, a few grade levels have reached or are near maximum levels based on state accreditation standards and we have had to turn away some out of district students. Currently some high school classes are held in the middle school. When the high school project is complete, those classes will be moved, alleviating crowding in the K-8 building for the time being.

**BIGFORK PUBLIC SCHOOLS
SCHOOL DISTRICT #38,
FLATHEAD COUNTY, MONTANA
MANAGEMENT’S DISCUSSION & ANALYSIS**

Special Education continues to be a major expenditure. Due to increased enrollment of special education students, the district no longer co-ops with Evergreen. The district employs its own Special Education Director and in FY16 used SB 191 to levy funds to pay for a Life Skills teacher, to better meet the needs of the students and the district. The cost of providing the required educational programs still exceeds the state special education funding, the required local match, and Federal Part B funding that we receive. The result is a decrease in funding available for the general education program. The Elementary special education expenses exceeded funds available by \$69,497 and the High School special education expenses exceeded funds available by \$64,459.50.

SPECIAL EDUCATION	Elementary School	High School
State Allowable Cost	\$116,726.40	\$60,480.00
Required District Match	\$38,519.71	\$19,958.40
Federal Part B	\$113,802.00	\$59,111.00
Tuition Fund	\$21,979.29	\$32,968.88
TOTALS	\$291,027.40	\$172,518.28
District Expenses	\$360,524.40	\$236,977.78

In FY16 the Food Service Fund continued to support itself. Expenditures in the Food Service Fund were \$223,554 and revenues were \$251,033.00. Efforts to decrease costs while at the same time increase revenues are working. The board implemented a no-charge policy for school lunches and staffing changes have contributed to the health of the Food Service Fund.

Given increasing operational costs, an increase in sustainable funding will be necessary to maintain desired staff levels and programs and to continue the District’s desire to improve teacher salaries and keep class sizes low. Should funding levels not increase to a sufficient level, staff will have to be reduced thus increasing class sizes and requiring a cut back in programs. Since school funding levels are decided bi-annually by the state legislature, the future of school funding is still uncertain.

For more information:

Bigfork School District
600 Commerce
PO Box 188
Bigfork, Montana 59911

Superintendent: Matthew Jensen, 406-837-7400, mattj@bigfork.k12.mt.us

Business Manager: Lacey Porrovecchio, 406-837-7400, lporrovecchio@bigfork.k12.mt.us

Table 1 - Net Position

	Governmental Activities		
	Change		
	FY16	FY15	Inc (Dec)
Current and other assets	\$ 17,719,461	\$ 2,771,522	\$ 14,947,939
Capital assets	7,979,669	7,139,231	840,438
Total assets	<u>25,699,130</u>	<u>9,910,753</u>	<u>15,788,377</u>
Long-term debt outstanding	\$ 18,046,051	\$ 4,368,309	\$ 13,677,742
Other liabilities	8,047,650	6,218,240	1,829,410
Total liabilities	<u>26,093,701</u>	<u>10,586,549</u>	<u>15,507,152</u>
Invested in capital assets, net of debt	2,155,728	3,734,231	(1,578,503)
Restricted	17,371,017	1,219,570	16,151,447
Unrestricted (deficit)	(19,921,316)	(5,629,597)	(14,291,719)
Total net position	<u>\$ (394,571)</u>	<u>\$ (675,796)</u>	<u>\$ 281,225</u>

Table 2 - Changes in Net Position

	Governmental Activities		
	Change		
	FY16	FY15	Inc (Dec)
Revenues			
<i>Program revenues (by major source):</i>			
Charges for services	\$ 103,189	\$ 121,881	\$ (18,692)
Operating grants and contributions	1,394,684	1,338,495	56,189
<i>General revenues (by major source):</i>			
Property taxes for general purposes	3,842,726	3,705,983	136,743
Grants and entitlements not restricted to specific programs	2,900,774	2,714,229	186,545
Other state grants	244,210	193,089	51,121
Investment earnings	55,780	14,041	41,739
Miscellaneous (other revenue)	11,348	9,100	2,248
State entitlement (block grants)	328,970	339,469	(10,499)
State technology	5,821	5,686	135
County retirement	745,645	723,626	22,019
Total revenues	<u>\$ 9,633,147</u>	<u>\$ 9,165,599</u>	<u>\$ 467,548</u>
Program expenses			
Instructional - regular	\$ 4,534,067	\$ 4,253,664	\$ 280,403
Instructional - special education	519,856	562,350	(42,494)
Instructional - vocational education	202,726	192,768	9,958
Supporting services - operations & maintenance	697,268	788,695	(91,427)
Supporting services - general	390,443	346,699	43,744
Supporting services - educational media services	178,888	185,282	(6,394)
Administration - general	397,614	249,484	148,130
Administration - school	490,804	477,104	13,700
Administration - business	215,017	241,846	(26,829)
Student transportation	686,776	673,156	13,620
Extracurricular	275,709	273,873	1,836
School food	236,095	222,556	13,539
Debt service expense - interest	298,281	129,041	169,240
Unallocated depreciation*	252,467	266,189	(13,722)
Total expenses	<u>\$ 9,376,011</u>	<u>\$ 8,862,707</u>	<u>\$ 513,304</u>
Excess (deficiency) before special items and transfers	\$ 257,136	\$ 302,892	\$ (45,756)
Increase (decrease) in net position	<u>\$ 257,136</u>	<u>\$ 302,892</u>	<u>\$ (45,756)</u>

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Bigfork Public Schools
Flathead County
Bigfork, Montana

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Bigfork Public Schools, Flathead County, Montana, as of and for the year ended June 30, 2016, and the respective changes in financial thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding for other post-employment benefits other than pensions, schedules of proportionate share of the net pension liability, and schedules of contributions on pages 2 through 5, 44 and 45, 46, 47 and 48, 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 schedule of revenues and expenditures for the extracurricular fund and the schedule of enrollment are presented for purposes of additional analysis and are not a required part of the financial statements.

The accompanying schedule of revenues and expenditures for the extracurricular fund and the schedule of enrollment are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenues and expenditures for the extracurricular fund and the schedule of enrollment are fairly stated in all material respects in relation to the 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 May 12, 2017, on our consideration of the Bigfork Public Schools, Flathead County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bigfork Public Schools, Flathead County, Montana's internal control over financial reporting and compliance.

Derring, Downey and Associates, CPA's, P.C.

May 12, 2017

Bigfork Public Schools, Flathead County, Montana
Statement of Net Position
June 30, 2016

		Governmental Activities
ASSETS		
Current assets:		
Cash and investments	\$	16,574,846
Taxes and assessments receivable, net		120,471
Due from other governments		193,040
Total current assets	\$	16,888,357
Noncurrent assets		
Capital assets - land		11,696
Capital assets - construction in progress		1,189,164
Capital assets - depreciable, net		6,778,809
Total noncurrent assets	\$	7,979,669
Total assets	\$	24,868,026
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources - district contributions	\$	429,806
Deferred outflows of resources - pensions		401,298
Total deferred outflows of resources	\$	831,104
LIABILITIES		
Current liabilities		
Accrued payroll		160,335
Current portion of long-term liabilities		7,000
Current portion of long-term capital liabilities		915,000
Current portion of compensated absences payable		123,382
Total current liabilities	\$	1,205,717
Noncurrent liabilities		
Noncurrent portion of long-term liabilities		527,141
Noncurrent portion of long-term capital liabilities		16,160,000
Noncurrent portion of compensated absences		313,528
Net pension liability		5,958,549
Total noncurrent liabilities	\$	22,959,218
Total liabilities	\$	24,164,935
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - pensions		368,988
Deferred inflows of resources - bond premium		1,559,778
Total Deferred Inflows of resources	\$	1,928,766
NET POSITION		
Net investment in capital assets	\$	2,155,728
Restricted for capital projects		14,538,249
Restricted for debt service		1,609,790
Restricted for special projects		1,222,978
Unrestricted		(19,921,316)
Total net position	\$	(394,571)

Bigfork Public Schools, Flathead County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Position Primary Government</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Primary government:				
Governmental activities:				
Instructional - regular	\$ 4,534,067	\$ 19,033	\$ 779,689	\$ (3,735,345)
Instructional - special education	519,856	-	287,184	(232,672)
Instructional - vocational education	202,726	-	27,168	(175,558)
Supporting services - operations & maintenance	697,268	-	-	(697,268)
Supporting services - general	390,443	-	-	(390,443)
Supporting services - educational media services	178,888	-	-	(178,888)
Administration - general	397,614	-	-	(397,614)
Administration - school	490,804	-	-	(490,804)
Administration - business	215,017	-	-	(215,017)
Student transportation	686,776	-	134,902	(551,874)
Extracurricular	275,709	-	-	(275,709)
School food	236,095	84,156	165,741	13,802
Debt service expense - interest	298,281	-	-	(298,281)
Unallocated depreciation*	252,467	-	-	(252,467)
Total primary government	\$ 9,376,011	\$ 103,189	\$ 1,394,684	\$ (7,878,138)
General Revenues:				
Property taxes for general purposes			\$	3,842,726
Grants and entitlements not restricted to specific programs				2,900,774
Other state grants				244,210
Investment earnings				55,780
Miscellaneous (other revenue)				11,348
State entitlement (block grants)				328,970
State technology				5,821
County retirement				745,645
Total general revenues, special items and transfers			\$	8,135,274
Change in net position			\$	257,136
Net position - beginning			\$	(675,796)
Restatements				24,089
Net position - beginning - restated			\$	(651,707)
Net position - end			\$	(394,571)

* This amount excludes the depreciation that is included in the direct expenses of the various programs
See accompanying Notes to the Financial Statements

Bigfork Public Schools, Flathead County, Montana
Balance Sheet
Governmental Funds
June 30, 2016

	General	Elementary Debt Service	High School Building	Other Governmental Funds	Total Governmental Funds
ASSETS					
Current assets:					
Cash and investments	\$ 867,525	\$ (2,981)	\$ 14,151,465	\$ 1,558,837	\$ 16,574,846
Taxes and assessments receivable, net	84,053	15,470	-	20,948	120,471
Due from other governments	77,959	14,338	-	100,743	193,040
Total assets	\$ 1,029,537	\$ 26,827	\$ 14,151,465	\$ 1,680,528	\$ 16,888,357
Current liabilities:					
Accrued payroll	\$ 112,754	\$ -	\$ -	\$ 47,581	\$ 160,335
Total liabilities	\$ 112,754	\$ -	\$ -	\$ 47,581	\$ 160,335
DEFERRED INFLOWS OF RESOURCES					
Total deferred inflows of resources	\$ 84,053	\$ 15,470	\$ -	\$ 20,948	\$ 120,471
FUND BALANCES					
Restricted	\$ -	\$ 11,357	\$ 14,151,465	\$ 1,611,999	\$ 15,774,821
Unassigned fund balance	832,730	-	-	-	832,730
Total fund balance	\$ 832,730	\$ 11,357	\$ 14,151,465	\$ 1,611,999	\$ 16,607,551

See accompanying Notes to the Financial Statements

Bigfork Public Schools, Flathead County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2016

Total fund balances - governmental funds	\$	16,607,551
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		7,979,669
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		120,471
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(18,046,051)
Proportionate share of ending collective net pension liability		(5,958,549)
Deferred outflows related to net pension liability		831,104
Deferred inflows related to net pension liability		(368,988)
Deferred inflows related to bond premium		(1,559,778)
Total net position - governmental activities	\$	<u><u>(394,571)</u></u>

See accompanying Notes to the Financial Statements

Bigfork Public Schools, Flathead County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	<u>General</u>	<u>Elementary Debt Service</u>	<u>High School Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Local revenue	\$ 2,638,220	\$ 472,042	\$ 38,009	\$ 937,386	\$ 4,085,657
County revenue	-	-	-	826,227	826,227
State revenue	3,404,508	-	-	327,183	3,731,691
Federal revenue	-	-	-	709,200	709,200
Total revenues	<u>\$ 6,042,728</u>	<u>\$ 472,042</u>	<u>\$ 38,009</u>	<u>\$ 2,799,996</u>	<u>\$ 9,352,775</u>
EXPENDITURES					
Instructional - regular	\$ 3,154,574	\$ -	\$ -	\$ 1,049,726	\$ 4,204,300
Instructional - special education	231,743	-	-	288,113	519,856
Instructional - vocational education	171,733	-	-	30,993	202,726
Supporting services - operations & maintenance	639,719	-	-	40,577	680,296
Supporting services - general	347,395	-	-	43,048	390,443
Supporting services - educational media services	160,598	-	-	18,290	178,888
Administration - general	246,167	-	102,671	48,776	397,614
Administration - school	409,829	-	-	80,975	490,804
Administration - business	179,717	-	714	34,586	215,017
Student transportation	64,925	-	-	559,023	623,948
Extracurricular	221,200	-	-	53,075	274,275
School food	-	-	-	231,358	231,358
Debt service expense - principal	-	3,815,000	-	-	3,815,000
Debt service expense - interest	-	142,522	-	155,759	298,281
Capital outlay	40,132	-	1,189,163	-	1,229,295
Total expenditures	<u>\$ 5,867,732</u>	<u>\$ 3,957,522</u>	<u>\$ 1,292,548</u>	<u>\$ 2,634,299</u>	<u>\$ 13,752,101</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 174,996</u>	<u>\$ (3,485,480)</u>	<u>\$ (1,254,539)</u>	<u>\$ 165,697</u>	<u>\$ (4,399,326)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds of general long term debt	\$ -	\$ 3,485,000	\$ 14,000,000	\$ -	\$ 17,485,000
Premium on general obligation bond issue	-	-	1,404,244	155,534	1,559,778
Transfers in	-	-	-	161,000	161,000
Transfers out	(111,000)	-	-	(50,000)	(161,000)
Total other financing sources (uses)	<u>\$ (111,000)</u>	<u>\$ 3,485,000</u>	<u>\$ 15,404,244</u>	<u>\$ 266,534</u>	<u>\$ 19,044,778</u>
Net Change in Fund Balance	<u>\$ 63,996</u>	<u>\$ (480)</u>	<u>\$ 14,149,705</u>	<u>\$ 432,231</u>	<u>\$ 14,645,452</u>
Fund balances - beginning	\$ 768,734	\$ 11,837	\$ 1,760	\$ 1,179,768	\$ 1,962,099
Fund balance - ending	<u>\$ 832,730</u>	<u>\$ 11,357</u>	<u>\$ 14,151,465</u>	<u>\$ 1,611,999</u>	<u>\$ 16,607,551</u>

See accompanying Notes to the Financial Statements

Bigfork Public Schools, Flathead County, Montana
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2016

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

Net change in fund balances - total governmental funds \$ 14,645,452

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

- Capital assets purchased 1,229,295
- Depreciation expense (357,055)

In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from the sale of these assets:

- Proceeds from the sale of capital assets (31,802)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

- Long-term receivables (deferred revenue) 36,162

The change in compensated absences is shown as an expense in the Statement of Activities

(21,658)

Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:

- Long-term debt principal payments 3,822,000

Long term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position:

- Proceeds from the sale of long-term debt (17,485,000)
- Premium on the sale of the long-term debt (1,559,778)

Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:

- Post-employment benefits other than retirement liability 3,173

Pension expense related to the net pension liability is shown as an expense on the Statement of Activities and not reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance

252,867

State aid revenue related to the net pension liability is shown as a revenue on the Statement of Activities and not reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance

(244,210)

Changes to deferred inflows and outflows related to Net Pension Liability

(32,310)

Change in net position - Statement of Activities \$ 257,136

See accompanying Notes to the Financial Statements

Bigfork Public Schools, Flathead County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2016

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and short-term investments	\$ 174,842	\$ 163,176
Total assets	\$ 174,842	\$ 163,176
LIABILITIES		
Warrants payable	\$ -	\$ 162,752
Due to other governments	-	424
Total liabilities	\$ -	\$ 163,176
NET POSITION		
Assets held in trust	\$ 174,842	

See accompanying Notes to the Financial Statements

Bigfork Public Schools, Flathead County, Montana
Statement of Changes in Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2016

		<u>Private Purpose Trust Funds</u>
ADDITIONS		
Contributions:		
Student activities	\$	163,046
Total additions	\$	<u>163,046</u>
 DEDUCTIONS		
Student activities	\$	<u>113,711</u>
Change in net position	\$	<u>49,335</u>
 Net Position - Beginning of the year	 \$	 <u>125,507</u>
 Net Position - End of the year	 \$	 <u><u>174,842</u></u>

See accompanying Notes to the Financial Statements

BIGFORK PUBLIC SCHOOLS
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The School District complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Financial Reporting Entity

In determining the financial reporting entity, the District complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, as amended by GASB statement No. 61, *The Financial Reporting Entity: Omnibus*, and includes all component units of which the District appointed a voting majority of the component units' board; the District is either able to impose its' will on the unit or a financial benefit or burden relationship exists. In addition, the Entity complies with GASB statement No. 39 *Determining Whether Certain Organizations Are Component Units* which relates to organizations that raise and hold economic resources for the direct benefit of the Entity.

Primary Government

The District was established under Montana law to provide elementary and secondary educational services to residents of the District. The District actually consists of two legally separate districts. The Elementary District provides education from kindergarten through the eighth grade and the High School District provides education from grades nine through twelve. Based on the criteria for determining the reporting entity (separate legal entity and financial or fiscal dependency on other governments) the District is a primary government as defined by GASB Cod. Sec. 2100 and has no component units.

Separate accounting records must be maintained for each District because of differences in funding and legal requirements. However, both districts are managed as a single system by a central board of trustees, elected in district-wide elections, and by a central administration appointed by and responsible to the Board. These financial statements present, as a single reporting entity, all activities over which the Board of Trustees exercises responsibility.

Basis of Presentation, Measurement Focus and Basis of Accounting

Government-wide Financial Statements:

Basis of Presentation

The Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole and its component units. They include all funds of the reporting entity except fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

BIGFORK PUBLIC SCHOOLS
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

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 program or function. The District does not charge indirect expenses to programs or functions. The types of transactions reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated.

Government-Wide Financial Statements:

Measurement Focus and Basis of Accounting

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred regardless of the timing of the 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. The District generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted net assets are available.

Fund Financial Statements:

Basis of Presentation

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Funds are organized into three categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is displayed in a separate column in the governmental funds statements. All of the remaining funds are aggregated and reported in a single column as non-major funds. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

BIGFORK PUBLIC SCHOOLS
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

- a. Total assets combined with deferred outflows of resources, liabilities combined with deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets combined with deferred outflows of resources, liabilities combined with deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise funds are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Measurement Focus and Basis of Accounting

Governmental Funds:

Modified Accrual

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The District defined the length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements to be upon receipt. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, charges for current services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the District.

Major Funds:

The District reports the following major governmental funds:

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

BIGFORK PUBLIC SCHOOLS
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

Elementary Debt Service Fund – Authorized by Section 20-9-348, MCA, for the purpose of paying interest and principal on outstanding bonds and special improvement district assessments.

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

Fiduciary Funds:

Fiduciary funds presented using the economic resources measurement focus and the accrual basis of accounting (except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans). The required financial statements are a statement of fiduciary net position and a statement of changes in fiduciary net position. The fiduciary funds are:

Private-purpose Trust Funds – To report all other trust arrangements under which the principal and income benefit individuals, private organizations, or other governments. The District has elected to report its Extracurricular Activities in this fund, which is explained in more detail below.

Agency Funds – To report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). This fund primarily consists of assets held by the District as an agent for individuals, private organizations, other local governmental entities and the District’s claims and payroll clearing funds

Student Extracurricular Activities Fund – The Student Extracurricular Activities Fund is authorized by Section 20-9-504, MCA, to account for various student activities, such as athletics, clubs, classes, student government organizations, student publications and other such activities. Separate fund accounts within the Extracurricular Fund are maintained to account for these various activities. Unlike other district funds, the money for these activities may be maintained in bank accounts outside the control of the County Treasurer. The fund is administered by school district administrators, faculty members, and student organizations under the guidelines and policies established by the Board of Trustees and in accordance with the “Student Activity Fund Accounting” guidelines. Required guidelines are available from the Montana Association of School Business Officials (MASBO) or from OPI.

BIGFORK PUBLIC SCHOOLS
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

The District's cash, except for the Student Extracurricular Fund (an expendable trust) is held by the County Treasurer and pooled with other County cash. School district cash which is not necessary for short-term obligations, the District participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. The County's investment portfolio as of June 30, 2016, consisted certificates of deposit, Federal Home Loans, U.S. Government Securities, and Federal Mortgage Association investments. The Flathead County Investment pool is unrated.

The School District does not own specific identifiable investment securities in the pool; therefore, is not subject to categorization. Information regarding investment risk, collateral, security, and fair values for Flathead County deposits and investments is available from Flathead County Treasurer's office, 800 South Main Street, Kalispell, MT 59901. Fair value approximates carrying value for investments as of June 30, 2016.

Authorized investments allowed by Section 20-9-213, MCA, include savings or time deposits in a state or national bank, building or loan association, or credit union insured by the FDIC or NCUA located in the state; repurchase agreements; and the State Unified Investment Program. 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 fund if the fund meets certain conditions.

Deposits

The District's deposit balance at year end was \$174,840 and the bank balance was \$176,543, which was fully insured by FDIC.

NOTE 3. RECEIVABLES

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts.

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

BIGFORK PUBLIC SCHOOLS
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

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

Taxes that become delinquent are charged interest at the rate of 5/6 of 1% a month plus a penalty of 2%. Real property on which taxes remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property is to be seized and sold after the taxes become delinquent.

NOTE 4. INVENTORIES

The cost of inventors are recorded as expenditures when purchased.

NOTE 5. CAPITAL ASSETS

The District's assets are capitalized at historical cost or estimated historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings	20-50 years
Improvements	20-50 years
Equipment	5-20 years
Vehicles and heavy equipment	8-20 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the District has included the value of all infrastructure into the 2016 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

A summary of changes in governmental capital assets was as follows:

BIGFORK PUBLIC SCHOOLS
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2016

Governmental activities:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2016</u>
Capital assets not being depreciated:				
Land	\$ 11,696	\$ -	\$ -	\$ 11,696
Construction in progress	-	1,189,164	-	1,189,164
Total capital assets not being depreciated	<u>\$ 11,696</u>	<u>\$ 1,189,164</u>	<u>\$ -</u>	<u>\$ 1,200,860</u>
Capital assets being depreciated:				
Buildings	\$ 10,218,992	\$ 27,796	\$ (60,000)	\$ 10,186,788
Improvements other than buildings	27,440	-	-	27,440
Machinery and equipment	2,359,249	12,335	-	2,371,584
Total other capital assets at historical cost	<u>\$ 12,605,681</u>	<u>\$ 40,131</u>	<u>\$ (60,000)</u>	<u>\$ 12,585,812</u>
Less: accumulated depreciation	<u>\$ (5,478,146)</u>	<u>\$ (357,055)</u>	<u>\$ 28,198</u>	<u>\$ (5,807,003)</u>
Total	<u><u>\$ 7,139,231</u></u>	<u><u>\$ 872,240</u></u>	<u><u>\$ (31,802)</u></u>	<u><u>\$ 7,979,669</u></u>

Governmental capital assets depreciation expense was charged to functions as follows:

Governmental Activities:	
Instructional – regular	\$ 18,617
Supporting services – operations and maintenance	16,972
Supporting services – general	62,828
Student transportation	4,737
Extracurricular	1,434
Unallocated	<u>252,467</u>
Total governmental activities depreciation expense	<u><u>\$ 357,055</u></u>

NOTE 6. OPERATING LEASE COMMITMENTS

The District is bound by several lease commitments which are considered for accounting purposes to be operating leases. Minimum lease payments for the fiscal year ended June 30, 2016, amounted to \$19,442. For those operating leases having remaining non-cancellable lease terms, the future minimum rental payments are as follows:

<u>Year Ended June 30</u>	<u>Items Leased – Copier Lease</u>
2017	\$19,442

BIGFORK PUBLIC SCHOOLS
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2016

NOTE 7. LONG TERM DEBT OBLIGATIONS

In the governmental-wide financial statements, outstanding debt is reported as liabilities.

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2016, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance			Balance		Due Within
	<u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2016</u>	<u>One Year</u>	
General obligation bonds	\$ 3,405,000	\$ 17,485,000	\$ (3,815,000)	\$ 17,075,000	\$	915,000
Compensated absences	415,252	21,658	-	436,910		123,382
Retiree Liability	21,000	-	(7,000)	14,000		7,000
Net pension liability*	5,172,826	785,723	-	5,958,549	#	-
Other post-employment benefits**	527,057	17,173	(24,089)	520,141		-
Total	<u>\$ 9,541,135</u>	<u>\$ 18,309,554</u>	<u>\$ (3,846,089)</u>	<u>\$ 24,004,600</u>	\$	<u>1,045,382</u>

*See Note 9

**See Note 8

In prior years the general fund and the compensated absences fund was used to liquidate compensated absences and claims and judgments.

General Obligation Bonds - The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation bonds outstanding as of June 30, 2016 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2016</u>
Elementary GO Refunding Bond Series 2015	10/20/15	2.10%	8yrs	7/1/23	3,485,000	Varies	3,075,000
High School GO School Building Bonds, Series 2015	12/10/15	2.00-4.00%	20yrs	7/1/36	9,075,000	Varies	9,075,000
High School GO School Building Bonds, series 2016	6/2/16	3.00-4.00%	20yrs	7/1/36	<u>4,925,000</u>	Varies	<u>4,925,000</u>
					<u>\$17,485,000</u>		<u>\$ 17,075,000</u>

BIGFORK PUBLIC SCHOOLS
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2016

Annual requirement to amortize debt:

<u>For Fiscal</u> <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 915,000	\$ 562,138
2018	945,000	533,175
2019	975,000	512,060
2020	1,000,000	490,235
2021	1,020,000	467,845
2022	1,050,000	444,995
2023	1,075,000	421,480
2024	615,000	393,550
2025	635,000	375,100
2026	660,000	353,800
2027	680,000	327,400
2028	710,000	300,200
2029	735,000	271,800
2030	765,000	242,400
2031	800,000	211,800
2032	830,000	179,800
2033	860,000	146,600
2034	900,000	112,200
2035	935,000	76,200
2036	970,000	38,800
Total	\$ 17,075,000	\$ 6,461,578

Compensated Absences

Compensated absences are absences for which employees will be paid for time off earned for time during employment, such as earned vacation and sick leave. Non-teaching District employees earn vacation leave ranging from fifteen to twenty-four days per year depending on the employee's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. Sick leave is earned at a rate of one day per month for non-teaching employees and upon retirement or termination, employees are paid for 100% of unused vacation leave and 25% of unused sick leave. Upon termination, all payments are made at the employee's current rate of pay.

The liability associated with governmental fund-type employees is reported in the governmental-type activities.

BIGFORK PUBLIC SCHOOLS
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2016

Special Retirement Benefits

The District Offers early retirement incentives which are intended to provide teachers flexibility in developing new career options through capitalization of financial incentives of value to both the teacher and to the District. The incentive offered certified staff in fiscal year ending June 30, 2012 was a cash payment of \$21,000 to be paid over three years beginning in fiscal year ended June 30, 2013. The District had 6 employees participating in this incentive. In addition, the District offered an administrative employee cash payment of \$49,000 to be paid over seven years beginning in fiscal year ended June 30, 2013. The District recorded a liability of \$14,000, for retirement incentives due as of June 30, 2016.

NOTE 8. POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description. The healthcare plan provides for, and Montana State Law (2-18-704) requires local governments to allow employees with at least 5 years of service and who are at least age 50 along with surviving spouses and dependents to stay on the government's health care plan as long as they pay the same premium. Since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. This benefit is reported as the Other Post Employment Benefits (OPEB) liability. The government has less than 100 plan members and thus qualifies to use the "Alternative Measurement Method" for calculating the liability. The above described OPEB plan does not provide a stand-alone financial report.

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

Funding Status and funding Progress. The funded status of the plan as of June 30, 2016, was as follows:

Actuarial Accrued Liability (AAL)	\$520,140
Actuarial value of plan assets	_____
Unfunded Actuarial Accrued Liability (UAAL)	\$520,140
Funded ratio (actuarial value of plan assets/AAL)	0
Covered payroll (active plan members)	\$ 3,827,168
UAAL as a percentage of covered payroll	13.6 %

Annual OPEB Cost and Net OPEB Obligation. The government's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the government's net OPEB obligation.

BIGFORK PUBLIC SCHOOLS
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2016

Annual Required Contribution (ARC)	\$83,376
Interest on net OPEB obligation	0
Adjustment to ARC	(66,203)
Annual OPEB cost (expense)	\$17,173
Contributions made	0
Increase in net OPEB obligation	\$17,173
Net OPEB obligation - beginning of year	527,057
Restatement	(24,089)
Net OPEB obligation - end of year	\$520,141

Actuarial Methods and Assumptions. The following actuarial methods and assumptions were used:

	Projected Unit Credit Funding Method
Actuarial cost method	
Participation	45%
Discount rate	4.25%
Average salary increase	2.50%
<u>Health care cost rate trend</u>	

<u>Year</u>	<u>% Increase</u>
2016	7.50%
2017	7.00%
2018	6.50%
2019	6.00%
2020	5.50%
2021	5.00%
2022+	4.50%

NOTE 9. NET PENSION LIABILITY

Plan Descriptions

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

The TRS Board is the governing body of the System and the TRS staff administers the system in conformity with the laws set forth in Title 19, chapter 20 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.

BIGFORK PUBLIC SCHOOLS
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The PERS-Defined Benefit Retirement Plan (PERS) 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. For members that choose to join the PERS-DCRP, a percentage of the employer contributions will be used to pay down the liability of the PERS-DBRP.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

Summary of Benefits

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 $1.6667 \times \text{AFC} \times \text{years of creditable service}$)

BIGFORK PUBLIC SCHOOLS
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

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 for Tier One members is 1.5% of the benefit payable as of January 1st. For Tier Two members the GABA each year may vary from 0.5% to 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation.

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.

Vesting

5 years of membership service

Member's highest average compensation (HAC)

- Hired prior to July 1, 2011- highest average compensation during any consecutive 36 months;
- Hired on or after July 1, 2011-highest average compensation during any consecutive 60 months;

Compensation Cap

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

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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)

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

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

Overview of Contributions

TRS

The System receives a portion of the total required statutory contributions directly from the State for all employers. The employers are considered to be in a special funding situation as defined by GASB 68 and the State is treated as a non-employer contributing entity in TRS. The System receives 2.49% of reportable compensation from the State's general fund for School Districts and Other Employers.

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.

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PERS

1. Rates are specified by state law for periodic employer and employee contributions.
 - a. 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. Local government entities are required to contribution 8.17% of members' compensation.
 - b. School district employers contributed 7.90% of members' compensation.
 - c. 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.
 - d. Effective July 1, 2013, the additional employer contributions for DCRP is allocated to the defined benefit plan's Plan Choice Rate unfunded liability. The portion of the employer contributions allocated to the PCR are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
 - e. 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 a portion of Coal Severance Tax income and earnings from the Coal Trust Permanent Trust fund.

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Stand-Alone Statements

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

The PERS stand-alone financial statements, actuarial valuations and experience studies can be found online at, <http://mpera.mt.gov/annualReports.shtml> and <http://mpera.mt.gov/actuarialValuations.asp>

Net Pension Liability (NPL)

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Montana Teachers' Retirement System (TRS) and Public Employees' Retirement System (PERS). Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability (NPL), Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions. In accordance with Statement 68, the System has a special funding situation in which the State of Montana is legally responsible for making contributions directly to TRS and PERS that are used to provide pension benefits to the retired members. Due to the existence of a special funding situation, employers are also required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer.

The 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 to PERS. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer. The following table displays the amounts and the percentages of Net Pension Liability for the fiscal years ended June 30, 2016 and June 30, 2015 (reporting dates).

	TRS NPL as of 6/30/15	TRS NPL as of 6/30/16	Percent of Collective NPL	PERS NPL as of 6/30/15	PERS NPL as of 6/30/16	Percent of Collective NPL	Total NPL as of 6/30/15	Total NPL as of 6/30/16	Percent of Collective NPL
Employer									
Proportionate Share	\$ 4,341,713	\$ 5,020,552	0.3056%	\$ 831,113	\$ 937,997	0.066887%	\$ 5,172,826	\$ 5,958,549	0.3725%
State of Montana									
Proportionate Share associated with Employer	2,976,125	3,368,079	0.2050%	38,852	43,935	0.003143%	3,014,977	3,412,014	0.2081%
Total	<u>\$ 7,317,838</u>	<u>\$ 8,388,631</u>	<u>0.5106%</u>	<u>\$ 869,965</u>	<u>\$ 981,932</u>	<u>0.070030%</u>	<u>\$ 8,187,803</u>	<u>\$ 9,370,563</u>	<u>0.5806%</u>

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At June 30, 2016, the employer recorded a liability of \$5,958,549 for its proportionate share of the Net Pension Liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The employer’s proportion of the net pension liability was based on the employer’s contributions received by TRS and PERS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of TRS and PERS participating employers. At June 30, 2016, the employer’s proportion was 0.3725 percent.

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

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three-year COLA deferral period for Tier 2 Members.
- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the \$500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to “retain membership in the System” are covered by the \$500 death benefit after termination.

There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability for PERS.

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

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

Pension Expense as of 6/30/16

	TRS	PERS	Total
Proportionate Share	\$ 392,197	\$ 60,259	\$ 452,456
State of Montana Proportionate Share associated with the Employer	219,041	2,730	221,771
Total	\$ 611,238	\$ 62,989	\$ 674,227

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At June 30, 2016, the employer recognized a Pension Expense of \$452,456 for its proportionate share of the pension expense. The employer also recognized grant revenue of \$221,771 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the employer.

Recognition of Beginning Deferred Outflow

At June 30, 2016, the employer recognized a beginning deferred outflow of resources for the employers FY 2015 contributions of \$413,007.

Deferred Inflows and Outflows

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

	<u>TRS Deferred Outflows of Resources</u>	<u>TRS Deferred Inflows of Resources</u>	<u>PERS Deferred Outflows of Resources</u>	<u>PERS Deferred Inflows of Resources</u>	<u>Total Deferred Outflows of Resources</u>	<u>Total Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 52,941	\$ -	\$ -	\$ 5,657	\$ 52,941	\$ 5,657
Changes in actuarial assumptions	71,049	10,603	-	-	71,049	10,603
Difference between projected and actual investment earnings	-	269,599	-	79,157	-	348,756
Difference between actual and expected contributions	275,127	-	-	-	275,127	-
Changes in proportion	-	-	2,179	3,972	2,179	3,972
*Contributions paid subsequent to the measurement date - FY 2016 Contributions	372,696	-	57,110	-	429,806	-
Total	\$ <u>771,813</u>	\$ <u>280,202</u>	\$ <u>59,289</u>	\$ <u>88,786</u>	\$ <u>831,102</u>	\$ <u>368,988</u>

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

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

TRS: Year ended June 30:	Deferred of Resources	Outflows	Deferred of Resources	Inflows	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	\$	155,340	\$	116,589	\$ 38,751
2018	\$	155,356	\$	116,589	\$ 38,767
2019	\$	88,422	\$	116,185	\$ (27,763)
2020	\$	69,160	\$	-	\$ 69,160
2021	\$	-	\$	-	-
Thereafter	\$	-	\$	-	-

PERS: Year ended June 30:	Deferred of Resources	Outflows	Deferred of Resources	Inflows	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	\$	-	\$	35,981	\$ (35,981)
2018	\$	-	\$	35,981	\$ (35,981)
2019	\$	-	\$	35,981	\$ (35,981)
2020	\$	-	\$	(20,587)	\$ 20,587
2021	\$	-	\$	-	-
Thereafter	\$	-	\$	-	-

Actuarial Assumptions

TRS

The Total Pension Liability as of June 30, 2016, is based on the results of an actuarial valuation date of July 1, 2015. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2015 valuation were based on the results of the last actuarial experience study, dated May 1, 2014. Among those assumptions were the following:

- Total Wage Increases* 4% - 8.51%
- 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.

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- 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.

PERS

The Total Pension Liability(TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to June 30, 2015. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- General Wage Growth* 4.00%
- *includes Inflation at 3.00%
- Merit Increases 0% to 6%
- Investment Return 7.75%
- Admin Expense as a % of Payroll .27%.
- Postretirement Benefit Increases

Guaranteed Annual Benefit Adjustment (GABA)

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

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2014
- Member hired on or after July 1, 2013:
 - 1.5% for each year PERS is funded at or above 90%;
 - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - 0% whenever the amortization period for PERS is 40 years or more.

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.

- 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.

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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 2119. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

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 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

TRS

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return*
Broad US Equity	36.00%	4.80%	1.73%
Broad International Equity	18.00%	6.05%	1.09%
Private Equity	12.00%	8.50%	1.02%
Intermediate Bonds	23.40%	1.50%	.35%
Core Real Estate	4.00%	4.50%	.18%
High Yield Bonds	2.60%	3.25%	.08%
Non-Core Real Estate	<u>4.00%</u>	7.50%	<u>.30%</u>
Total	<u>100.00%</u>		<u>4.75%</u>
		Inflation	<u>3.25%</u>
		Expected arithmetic nominal return	8.00%

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

The assumed long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared every four years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015, is summarized in the above table.

PERS

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	<u>8.00%</u>	4.25%
Total	<u>100.00%</u>	

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 June 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

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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, 2015, is summarized in the above table.

Sensitivity Analysis

	1.0% Decrease	Current Discount Rate	1.0% Increase
	-6.75%	Rate	-8.75%
TRS	\$ 6,897,835	\$ 5,020,552	\$ 3,440,927
PERS	\$ 1,441,564	\$ 934,997	\$ 507,214

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

Summary of Significant Accounting Policies

The Teachers' Retirement System (TRS) and The Montana Public Employee Retirement Administration (MPERA) prepare 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 TRS or MPERA. 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 and MPERA adhere to all applicable Governmental Accounting Standards Board (GASB) statements.

NOTE 10. LOCAL RETIREMENT PLANS

Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan available to all District employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

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NOTE 11. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

The government considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

The government considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Restricted Fund Balance

<u>Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Major Funds	\$ 11,357	Debt Service
	14,151,465	Future capital costs
All other aggregate	\$ 186,825	Student Transportation
	331,002	Bus Replacement
	74,096	Student Food Service
	211,963	Employer Cost of Benefits
	320,035	Third Party Grant Restrictions
	52,052	Student Instructional Services
	345,692	Operations and Maintenance
	23,063	Future Vacation and Sick Leave Payments
	14,932	Future Technology Upgrades
	119	Debt Services
	<u>52,220</u>	Future Capital Costs
Total	<u>\$15,774,821</u>	

NOTE 12. RESTATEMENTS

During the current fiscal year, the following adjustments relating to prior years' transactions were made to net position.

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
Governmental Activities	\$ <u>24,089</u>	Restated OPEB due to new actuarial valuation reducing the Actuarial Accrued

NOTE 13. RELATED PARTY TRANSACTIONS

Zach Anderson is a Bigfork School District Trustee. He is also owner of Anderson Masonry. For the new high school construction, the District contracted with Hammerquist Casalegno as contractor. Hammerquist Casalegno subcontracted the masonry work to Anderson Masonry in the amount of \$390,051. Anderson Masonry's bid was 20% less than the next lowest bidder. As of June 30, 2016, Anderson Masonry had not started work on the contract.

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NOTE 14. JOINT VENTURES

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose which are subject to joint control, in which the participating governments retain 1) an ongoing financial interest or 2) an ongoing financial responsibility.

The District is a member of the Northwest Montana Education Cooperative. The purpose is to maintain and employ personnel to oversee and coordinate the operation and management of education services including joint purchases of materials and the curriculum development process. The Cooperative is comprised of 22 member districts, each of which contributes to the operating costs of the Cooperative based on an annual fiscal budget adopted by the Cooperative and the benefits derived from the Cooperative's services. Every year, each member district appoints a member to the Joint Advisory Board. From this board, a five-member Management Council is elected to administer the Cooperative. The County Superintendent of Schools is the prime fiscal agent. The District's contribution to the Cooperative was \$ for fiscal year ended June 30, 20XX. Separate financial statements are available from the Flathead County Education Cooperative.

The District is a member of the Flathead Crossroads Interlocal Agreement which is a collaborative effort by the school districts of Flathead County to meet the needs of students who have severe emotional/behavioral needs. The Special Education Directors from the participating district will serve as the Advisory Board of the Interlocal. Evergreen School District, Flathead County, Montana is the host District. Each District electing to participate agrees to provide fiscal responsibility to the Host District which includes a participation fee based of \$400 for each participating student. Each District is charge a fee for each student participating in the program. For the fiscal year ended June 30, 2016, the District paid \$14,522 to the Interlocal.

The District entered into an Interlocal Agreement with Swan River School District and Swan Lake Salmon Elementary School District for the purpose of transporting students living in the two neighboring districts and attending Bigfork School District, at no cost.

District also established a Multidistrict Interlocal for the purpose of providing joint funding of operations and maintenance of both Elementary and High School districts. Bigfork Elementary District is designated as the prime agency and established a non-budgeted interlocal cooperative fund for the purpose of financial administration of the Interlocal.

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NOTE 15. SERVICES PROVIDED BY OTHER GOVERNMENTS

County Provided Services

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

NOTE 16. RISK MANAGEMENT

The District faces 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Insurance Policies:

Commercial policies transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage, employee torts, and professional liability. Employee medical insurance is provided for by a commercial carrier. And, given the lack of coverage available, the District has no coverage for potential losses from environmental damages.

Insurance Pools:

The Montana Schools Group Insurance Authority (MSGIA) was created pursuant to the Interlocal Cooperation Act by execution of an Interlocal Agreement creating the MSGIA. The MSGIA is responsible for paying all workers' compensation claims of the member school districts. Each member of the MSGIA is jointly and severally liable for the full amount of any and all known or unknown claims of each member arising during the member's participation in the program. The MSGIA purchases workers' compensation reinsurance to provide statutory excess limits. The MSGIA contracts with Montana School Boards Association (MTSBA) to provide third party administrative services to the program. The MTSBA provides general program management, claim management, and risk management services to its program members.

The Montana School Unemployment Insurance Program (MSUIP) was created pursuant to the Interlocal Cooperation Act by execution of an Interlocal Agreement creating the MSUIP. The MSUIP is responsible for paying all unemployment insurance claims of the member school districts. Each member of the MSUIP is jointly and severally liable for the full amount of any and all known or unknown claims of each member arising during the member's participation in the program. The MSUIP contracts with Montana School Boards Association (MTSBA) to provide third party administrative services to the program. The MTSBA provides general program management and technical services to its program members.

BIGFORK PUBLIC SCHOOLS
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

Separate audited financial statements are available from Montana Schools Group Insurance Authority for MSGIA and MSUIP.

Group Health Insurance:

The Northwest Montana Public Schools Health Consortium was created pursuant to MCA 20-3-363, to create a multi-district or interlocal cooperative to allow the participants to cooperate in and jointly fund certain services, activities, and undertakings deemed beneficial by the participating Districts. The consortium is made up of Kalispell Public Schools (KPS), Whitefish School District (WSD), and the Flathead Group, which includes Bigfork Public Schools. KPS has been designed as the primary agency to be vested with the financial administration of the cooperative arrangement. The participants have contracted with First Choice Administrators (FCHA) to provide third party administrative services to the group's respective plans.

The participants have agreed to form the consortium to jointly arrange for and purchase administrative services and stop loss insurance coverage for their respective health insurance plans. The consortium is not intended to provide for the joint payments of claims under the groups respective plans, and each group is responsible for all costs under its plan. In addition, the participants will be charged and be responsible for its own claims at renewal except those costs that exceed stop loss thresholds will be appropriated among all participants for purposes of renewal. The term of the initial agreement is for a three-year period beginning July 1, 2014.

Separate audited financial statements of the group health insurance plans are available from Kalispell Public Schools.

NOTE 17. CONSTRUCTION COMMITMENT

As of June 30, 2016, the District had entered into construction contracts to build a new high school totaling \$15,325,624 which includes all related costs of the project. As of June 30, 2016, \$1,189,163 had been expended on the construction. Other costs totaled \$259,768 including \$155,534 in interest costs associated with the general obligation bond issues. The District issued bonds totaling \$14,000,000 at a premium totaling \$1,559,778.

NOTE 18. LEASE AGREEMENTS

The District entered into a lease agreement in fiscal year 2016, with Gold Creek Cellular of Montana Limited Partnership d/b/a Verizon Wireless(Verizon) in which Verizon is leasing a portion of a parcel of property from Bigfork High School District. The lease agreement is effective for an initial term of five years. The first year's payment is \$22,800 per year paid in equal monthly installments. The annual rental for the 2nd year shall be equal to 102% of the annual rental payable with respect to the immediately preceding year.

The District entered into a communications site lease contract on September 5, 2012 with MontanaSky Networks, Inc. (MontanaSky) in which the District is leasing premises to MontanaSky for a period of 10 years for \$500 per month. MontanaSky has the right to extend the lease for one additional term of 10 years for \$575 per month.

**REQUIRED SUPPLEMENTAL
INFORMATION**

Bigfork Public Schools, Flathead County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2016

General

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u> <u>WITH FINAL</u> <u>BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	
			<u>(BUDGETARY</u> <u>BASIS) See Note A</u>	
RESOURCES (INFLOWS):				
Local revenue	\$ 2,723,253	\$ 2,723,253	\$ 2,637,686	\$ (85,567)
State revenue	3,465,896	3,465,896	3,364,808	(101,088)
Amounts available for appropriation	\$ <u>6,189,149</u>	\$ <u>6,189,149</u>	\$ <u>6,002,494</u>	\$ <u>(186,655)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Instructional - regular	\$ 3,233,954	\$ 3,122,954	\$ 3,199,313	\$ (76,359)
Instructional - special education	255,472	255,472	240,133	15,339
Instructional - vocational education	165,837	165,837	171,733	(5,896)
Supporting services - operations & maintenance	751,323	751,323	653,773	97,550
Supporting services - general	328,503	328,503	345,919	(17,416)
Supporting services - educational media services	160,599	160,599	161,385	(786)
Administration - general	276,262	276,262	212,046	64,216
Administration - school	385,138	385,138	411,285	(26,147)
Administration - business	192,922	192,922	180,007	12,915
Student transportation	63,296	63,296	65,061	(1,765)
Extracurricular	217,442	217,442	235,399	(17,957)
School food	10,000	10,000	-	10,000
Capital outlay	-	-	31,537	(31,537)
Total charges to appropriations	\$ <u>6,040,748</u>	\$ <u>5,929,748</u>	\$ <u>5,907,591</u>	\$ <u>22,157</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ -	\$ (111,000)	\$ (111,000)	\$ -
Total other financing sources (uses)	\$ <u>-</u>	\$ <u>(111,000)</u>	\$ <u>(111,000)</u>	\$ <u>-</u>
Net change in fund balance			\$ <u>(16,097)</u>	
Fund balance - beginning of the year			\$ <u>559,236</u>	
Fund balance - beginning of the year - restated			\$ <u>559,236</u>	
Fund balance - end of the year			\$ <u><u>543,139</u></u>	

Bigfork Public Schools, Flathead County, Montana
Budgetary Comparison Schedule
Budget-to-GAAP Reconciliation

**Note A - Explanation of differences between budgetary inflows and outflows and
GAAP Revenues and Expenditures**

	General
Sources/Inflows of resources	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 6,002,494
Combined funds (GASBS 54) revenues	40,234
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	\$ 6,042,728
Uses/Outflows of resources	
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 5,907,591
Combined funds (GASBS 54) expenditures	1,644
Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for <i>budgetary</i> purposes, but in the year the supplies are received for <i>financial reporting</i> purposes.	
- Encumbrances reported at the beginning of the year	156,453
- Encumbrances reported at the end of the year	(197,956)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 5,867,732

Bigfork Public Schools, Flathead County, Montana
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Funding Progress
For the Year Ended June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2009	\$ -	\$ 549,837	\$ 549,837	0%	\$ 3,454,921	15.9%
July 1, 2012	\$ -	\$ 742,127	\$ 742,127	0%	\$ 4,256,856	17.4%
July 1, 2015	\$ -	\$ 520,140	\$ 520,140	0%	\$ 3,827,168	13.6%

Changes since prior evaluation:

Changed plans offered

Rx copays increased for Generic and Preferred Brand

A revised methodology was applied to premium adjustment on post 65 retiree rates in accordance with GASB Alternative Measurement Method.

Bigfork Public Schools, Flathead County, Montana
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2016

	TRS 2016	TRS 2015	PERS 2016	PERS 2015
Employer's proportion of the net pension liability	0.3056%	0.2821%	0.066887%	0.066702%
Employer's proportionate share of the net pension liability associated with the Employer	\$ 5,020,552	\$ 4,341,713	\$ 937,997	\$ 831,113
State of Montana's proportionate share of the net pension liability associated with the Employer	\$ 3,368,079	\$ 2,976,125	\$ 43,935	\$ 3,852
Total	\$ 8,388,631	\$ 7,317,838	\$ 981,932	\$ 869,965
Employer's covered-employee payroll	\$ 3,900,154	\$ 3,558,012	\$ 807,064	\$ 781,201
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	128.73%	122.03%	115.852%	106.389%
Plan fiduciary net position as a percentage of the total pension liability	69.30%	70.36%	78.4%	79.9%

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

Bigfork Public Schools, Flathead County, Montana
Required Supplementary Information
Schedule of Contributions
For the Year Ended June 30, 2016

	TRS 2016	TRS 2015	PERS 2016	PERS 2015
Contractually required contributions	\$ 372,696	\$ 348,498	\$ 57,110	\$ 64,324
Contributions in relation to the contractually required contributions	\$ 372,696	\$ 348,498	\$ 57,110	\$ 64,324
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 4,337,012	\$ 3,900,154	\$ 693,114	\$ 807,064
Contributions as a percentage of covered-employee payroll	8.59%	8.94%	8.240%	7.970%

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

Bigfork Public Schools, Flathead County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year Ended June 30, 2016

Teachers Retirement System of Montana (TRS)

Changes of Benefit Terms:

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

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

The GABA for Tier 1 members has also been modified as follows:

- If the most recent actuarial valuation of the System shows that the funded ratio is less than 90%, then the maximum increase that can be granted is 0.50%.
- If the funded ratio is at least 90% and the increase is not projected to cause the System's funded ratio to be less than 85%, an increase can be granted that is greater than 0.50% but not more than 1.50%.

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

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

- Disability Retirement: A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination
- Guaranteed Annual Benefit Adjustment (GABA):
 - If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the Board.

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

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

Changes in actuarial assumptions and other inputs:

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

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three year COLA deferral period for Tier 2 Members.
- The 0.63% load applied to the projected retirement benefits of the university members "to account for larger than average annual compensation increases observed in the years immediately preceding retirement" is not applied to benefits expected to be paid to university members on account of death, disability and termination (prior to retirement eligibility).
- The actuarial valuation was updated to reflect the assumed rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.
- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the \$500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to "retain membership in the System" are covered by the \$500 death benefit after termination.

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

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

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

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

- Mortality among disabled members was updated to the following:

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

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

Method and assumptions used in calculations of actuarially determined contributions:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay,
open Remaining amortization period	26 years
Asset valuation method	4-year smoothed market
Inflation	3.25 percent
Salary increase	4.00 to 8.51 percent, including inflation for Non-University Members and 5.00% for University Members;
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation

Public Employees' Retirement System of Montana (PERS)

Changes of Benefit Terms

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

2013 Legislative Changes:

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

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

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

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

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

House Bill 454 - Permanent Injunction Limits Application of the GABA Reduction passed under HB 454

Guaranteed Annual Benefit Adjustment (GABA) - for PERS

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

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

2015 Legislative Changes:

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

Second Retirement Benefit - for PERS

1) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:

- refund of member's contributions from second employment plus regular interest (currently 0.25%);
- no service credit for second employment;
- start same benefit amount the month following termination; and
- GABA starts again in the January immediately following second retirement.

2) For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:

- member receives a recalculated retirement benefit based on laws in effect at second retirement;
- GABA starts in the January after receiving recalculated benefit for 12 months.

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

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

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

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

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

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

Admin Expense as % of Payroll 0.27%

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

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

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

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

SUPPLEMENTAL INFORMATION

**Bigfork Public Schools
Flathead County, Montana
SCHEDULE OF ENROLLMENT
For the Fiscal Year Ended June 30, 2016**

**Fall Enrollment - October, 2015
Elementary School District**

	FALL		
	Per Enrollment Reports	Audit Per District Records	Difference
Kindergarten Full	71	71	0
Kindergarten Part	0	0	0
Grades 1-6	355	355	0
Grades 7-8	145	145	0
Total Elementary	571	571	0

Part-time Students

Grade	Per Enrollment Reports				Audit per District Records				Difference
	< 181 hrs/yr	181-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	< 181 hrs/yr	181-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	
Kinder - Full	0	0	2	0	0	0	2	0	0
Kinder - Part	0	0	N/A	N/A	0	0	N/A	N/A	0
1-6	0	0	0	0	0	0	0	0	0
7-8	0	0	0	1	0	0	0	1	0

High School District

	FALL		
	Per Enrollment Reports	Audit Per District Records	Difference
Grades 9-12	287	287	0
19 year-olds	0	0	0
Job Corps students	1	1	0

Part-time Students

Grade	Per Enrollment Reports				Audit per District Records				Difference
	< 181 hrs/yr	181-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	< 181 hrs/yr	181-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	
9-12	0	4	0	1	0	4	0	1	0

**Spring Enrollment - February, 2016
Elementary School District**

	SPRING		
	Per Enrollment Reports	Audit Per District Records	Difference
Kindergarten - Full	70	70	0
Kindergarten - Part	0	0	0
Grades 1-6	355	355	0
Grades 7-8	144	144	0
Total Elementary	569	569	0

Part-time Students

Grade	Per Enrollment Reports				Audit per District Records				Difference
	< 181 hrs/yr	181-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	< 181 hrs/yr	181-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	
Kinder - Full	0	0	2	0	0	0	2	0	0
Kinder - Part	0	0	N/A	N/A	0	0	N/A	N/A	0
1-6	0	0	0	0	0	0	0	0	0
7-8	0	2	0	1	0	2	0	1	0

High School District

	SPRING		
	Per Enrollment Reports	Audit Per District Records	Difference
Grades 9-12	279	279	0
19 year-olds	0	0	0
Early Graduates	0	0	0
Job Corps students	1	1	0

Part-time Students

Grade	Per Enrollment Reports				Audit per District Records				Difference
	< 181 hrs/yr	181-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	< 181 hrs/yr	181-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	
9-12	1	1	3	0	1	1	3	0	0

Bigfork Public Schools
Flathead County, Montana
EXTRACURRICULAR FUND
SCHEDULE OF REVENUES AND EXPENDITURES - ELEMENTARY FUND ACCOUNTS
Fiscal Year Ended June 30, 2016

FUND ACCOUNT	Beginning Balance	Revenues	Expenditures	Transfers In(Out)	Ending Balance
Art Fund	\$ 1,024	\$ -	\$ -	\$ -	\$ 1,024
Athletics	(2,393)	9,930	3,693	-	3,844
Band	1,139	-	-	-	1,139
Bank fees	176	-	-	-	176
Eighth Grade	112	-	-	-	112
Enrichment	606	-	-	-	606
Fifth Grade	40	-	-	-	40
First Grade	1	-	-	-	1
Fourth Grade	7,669	6,280	7,869	-	6,080
General	2,466	3,718	3,048	-	3,136
Grade School	14	-	-	-	14
Japan	(2)	-	-	-	(2)
Library	1,644	89	268	-	1,465
Middle School Choir	154	-	-	-	154
Music Boosters	525	-	-	-	525
National History Day	2,221	16,975	4,372	-	14,824
National Junior Honor	547	-	-	-	547
Needy Kids	361	5,678	2,265	-	3,774
Partners Club	-	110	-	-	110
Ravenwood	1,084	-	-	-	1,084
Science	17	-	-	-	17
Second Grade	62	-	-	-	62
Seventh Grade	143	-	-	-	143
Sixth Grade	1,760	1,785	1,171	-	2,374
Student Activities - Other	6	-	-	-	6
Student Council	890	895	846	-	939
Student Store	188	-	-	-	188
Technology	84	-	-	-	84
Third Grade	888	-	-	-	888
Trish Shults - FOBS	250	-	-	-	250
Yearbook	1,998	1,780	1,569	-	2,209
Total	\$ 23,674	\$ 47,240	\$ 25,101	\$ -	\$ 45,813

Bigfork Public Schools
Flathead County, Montana
EXTRACURRICULAR FUND
SCHEDULE OF REVENUES AND EXPENDITURES - HIGH SCHOOL ACCOUNTS
Fiscal Year Ended June 30, 2016

FUND ACCOUNT	Beginning Balance	Revenues	Expenditures	Transfers In(Out)	Ending Balance
AFS	\$ 1,591	\$ -	\$ -	\$ -	\$ 1,591
Alpine Club	517	-	-	-	517
Annual	3,826	12,280	6,476	-	9,630
Art Club	1,048	150	120	-	1,078
Athletics	3,786	23,918	20,019	-	7,685
Auto Repair/Parts	4,293	5,081	8,556	-	818
Auto Shop	5,311	3,361	-	-	8,672
Band	1,238	3,073	2,724	-	1,587
Band Fundraising	-	4,036	3,146	-	890
Band Scholarship	291	-	100	-	191
Bio Club	179	-	-	-	179
Book Club	1,003	-	-	-	1,003
Boys Basketball	3,689	1,861	2,678	-	2,872
Cheerleaders	1,002	4,213	3,895	-	1,320
Choir	380	1,231	993	-	618
Class of 2015	1,958	-	-	(1,957)	1
Class of 2016	1,570	61	776	740	1,595
Class of 2017	1,224	1,423	1,846	739	1,540
Class of 2018	1,107	315	32	739	2,129
Class of 2019	-	125	-	739	864
Close Up	123	-	-	-	123
Computer Club	386	-	-	-	386
Concessions	120	-	-	-	120
Drama	2,380	-	-	-	2,380
Family & Consumer	653	-	-	-	653
Football Donations	2,703	1,945	1,568	-	3,080
General Activities	1,438	308	60	-	1,686
Girls Basketball	5,245	4,515	4,256	-	5,504
Golf	(30)	-	-	-	(30)
Greece and Italy Trip	543	9,849	10,392	-	-
Hiawatha Trail	733	-	-	-	733
HOSA	9	800	806	-	3
HS Pepsi #1	1,919	90	-	-	2,009
Indoor Track	1,973	542	360	-	2,155
Library Club	718	100	-	-	818
Lit Magazine	598	3,370	1,695	-	2,273
National Honor Society	318	131	175	-	274
Needy Kids Account	385	2,725	559	-	2,551
Newspaper	1,330	2,955	2,282	-	2,003

Bigfork Public Schools
Flathead County, Montana
EXTRACURRICULAR FUND

SCHEDULE OF REVENUES AND EXPENDITURES - HIGH SCHOOL ACCOUNTS - continued
Fiscal Year Ended June 30, 2016

Pepsi #1F-SB	1,575	1,179	-	(1,000)	1,754
Pepsi #2-SC	674	1,179	-	-	1,853
SADD	102	-	-	-	102
Scholarships	3,684	-	-	-	3,684
Science Club	4,035	-	-	-	4,035
Soccer	1,048	-	-	-	1,048
Spanish Club	(142)	-	-	-	(142)
Speech	1,327	1,035	1,270	-	1,092
Stand	75	-	-	-	75
Student Council	5,263	194	1,423	-	4,034
Student Store	662	-	-	-	662
Swimming	159	1,100	1,477	-	(218)
Tennis Club	11	-	-	-	11
Tennis Courts	25	-	-	-	25
Tournament	23,409	12,501	3,000	-	32,910
Volleyball	2,572	4,970	4,983	-	2,559
Washington DC Trip	1	-	-	-	1
Wood Shop	786	-	-	-	786
Wood Shop Club	350	-	-	-	350
Wrestling	62	763	475	-	350
Young Deomocrates	60	-	-	-	60
Conversion Account	537	-	58	-	479
Total	\$ <u>101,832</u>	\$ <u>111,379</u>	\$ <u>86,200</u>	\$ <u>-</u>	\$ <u>127,011</u>

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

**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
Bigfork Public Schools
Flathead County
Bigfork, Montana

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 Bigfork Public Schools, Flathead County, Montana, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Bigfork Public Schools's basic financial statements and have issued our report thereon dated May 12, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies 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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control that we consider to be significant deficiencies listed as item 2016-001 below.

2016-001 Student Activity Receipting (Repeat finding 2015-001)

Condition:

The following internal control weaknesses were noted during the review of extracurricular receipting process:

1. At the both Elementary and High School, the receipts for fundraisers and ticket sales did not include the supporting documentation of sales for the person receipting the monies to verify all monies received were turned in for deposit.
2. At the both Elementary and High School, two procedures were used for issuing receipts for monies collected, the manual receipt book and the Black Mountain electronic receipts. However, not all receipts entered into Black Mountain were receipted into the manual receipt book.
3. The High School Secretary verification of the amount received was not documented timely.

Context:

We reviewed FY16 internal controls of extracurricular receipting process at the Elementary and High School and assessed the internal control procedures.

Criteria:

Internal control procedures should be in place to ensure that all monies received are verified and turned in for deposit, and that all supporting documentation for ticket sales and fundraisers receipts is maintained.

Effect:

The internal control procedures were weak with regards to student activity fund/ account receipting.

Cause:

The secretaries had not yet implemented the proper internal control procedures for receipting and issuing receipts.

Recommendation:

Internal control procedures should be implemented to ensure that monies collected are verified timely and properly supported. Consistency in a receipting process should be implemented to ensure that a receipt is given at each time of collection.

Compliance and Other Matters

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

Bigfork Public Schools's Response to Findings

Bigfork Public Schools's response to the findings identified in our audit is described in the Auditee's Response to Findings. Bigfork Public Schools's response was not subject 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 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.

Denning, Downey and Associates, CPA's, P.C.

May 12, 2017

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

To the Board of Trustees
Bigfork Public Schools
Flathead County
Bigfork, Montana

The prior audit report two recommendations. The action taken on each recommendation is as follows:

<u>Recommendation</u>	<u>Action Taken</u>
Student Activity Receipting	Repeated
Disbursement Internal Control	Implemented

Denning, Downey and Associates, CPA's, P.C.

May 12, 2017

Corrective Action Plan - Auditee Response FY16 Audit

Subject: Student Activity Receipting (Repeat finding 2015-001)

Condition: The following internal control weaknesses were noted during the review of extracurricular receipting process:

1. At the both Elementary and High School, the receipts for fundraisers and ticket sales did not include the supporting documentation of sales for the person receipting the monies to verify all monies received were turned in for deposit.

Auditee Response:

Staff members will be required to turn in supporting documentation of sales when they turn in fundraising monies. Secretaries will require supporting documentation from staff members when receiving fundraising monies. The District Office will make sure fundraising monies have documentation before doing the deposit. Engaging support and participation at each level will help ensure this is not a finding in the future. The ticket system will be utilized at all events where people pay to get in. The starting and ending tickets will be recorded on the tracking form and turned in to the building secretaries.

2. At the both Elementary and High School, two procedures were used for issuing receipts for monies collected, the manual receipt book and the Black Mountain electronic receipts. However, not all receipts entered into Black Mountain were receipted into the manual receipt book.

Auditee Response:

Building secretaries will no longer use the manual receipt book. All monies will be receipted in Black Mountain.

3. The High School Secretary verification of the amount received was not documented timely.

Auditee Response:

We will require all monies turned in to the building secretaries to have a tracking form. The newly revised tracking form will include a date and signature for when monies are received by the secretary, and a date and signature space for when monies are receipted in to Black Mountain by the secretary. We will require the secretary to receipt monies in Black Mountain within 3 days of receipt.