

BIGFORK PUBLIC SCHOOLS
FLATHEAD COUNTY, MONTANA
Fiscal Year Ended June 30, 2017

AUDIT REPORT

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

BIGFORK PUBLIC SCHOOLS
FLATHEAD COUNTY, MONTANA

Fiscal Year Ended June 30, 2017

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BIGFORK PUBLIC SCHOOLS
FLATHEAD COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2017

BOARD OF TRUSTEES

Paul Sandry	Chairperson
Patricia Landon	Vice Chairperson
Christina Relyea	Trustee
Dana Whitney	Trustee
Jessica Martinz	Trustee
Zack Anderson	Trustee
Paul Sullivan Jr.	Trustee

DISTRICT OFFICIALS

Matt Jensen	District Superintendent
Lacey Porrovecchio	Business Manager
Jack Eggensperger	County Superintendent
Ed Corrigan	County Attorney

**BIGFORK PUBLIC SCHOOLS
SCHOOL DISTRICT #38,
FLATHEAD COUNTY, MONTANA
MANAGEMENT’S DISCUSSION & ANALYSIS
JUNE 30, 2017**

This management’s discussion and analysis provides an overview of the school’s financial activities for the fiscal year ended June 30, 2017.

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 17 was (\$8,872,590) due to the ongoing High School Building project and use of bond monies.

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 17 and FY 16. 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 17 increased by \$1,101,087.

	<u>FY 16</u>	<u>FY 17</u>	<u>Variance</u>
Expenditures	9,376,011	9,902,541	526,530
Revenue	9,633,147	10,734,234	1,101,087
Changes in Net Position	257,136	831,693	574,557

**BIGFORK PUBLIC SCHOOLS
SCHOOL DISTRICT #38,
FLATHEAD COUNTY, MONTANA
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2017**

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 \$10,346,524.

Both the elementary and high school districts have outstanding general obligation bonds totaling \$16,160,000 at the end of June 30, 2017. An interest payment is made in December and an interest and principal payment is made in June from the Debt Service Fund for each district that reduced the debt \$915,000 during the fiscal year. The final elementary payment will be in June 2023 and the final high school payment will be in June 2036.

This is the third year the District has reported its portion of the net pension liability under GASB 68. As of the end of June 30, 2017, the outstanding liability was \$6,653,539 which was an increase of \$694,990 from the previous fiscal year.

THE FUTURE OF THE DISTRICT

The fall enrollment report completed in October 2017 shows that our overall elementary enrollment decreased by 9 students. K-6 enrollment increased by 4 students and grade 7 & 8 enrollment decreased by 13 students. Our high school enrollment gained students with an increase of 7 students.

<u>ENROLLMENT</u>	<u>Fall 2017</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>
Elementary School (total)	574	583	572	559
K-6	440	436	427	423
7 & 8	134	147	145	136
High School	312	305	287	286

In the elementary, a few grade levels are at 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 this winter, 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
JUNE 30, 2017**

Special Education continues to be a major expenditure. The district employs its own Special Education Director and in FY 17 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 \$73,791.52 and the High School special education expenses exceeded funds available by \$53,680.43.

<u>SPECIAL EDUCATION</u>	<u>Elementary School</u>	<u>High School</u>
State Allowable Cost	\$ 136,660.50	\$ 58,450.26
Required District Match	39,240.01	19,288.59
Federal Part B	115,506.30	52,920.00
Tuition Fund	48,336.23	59,138.01
TOTALS	<u><u>\$ 339,743.04</u></u>	<u><u>\$ 172,518.28</u></u>
District Expenses	\$ 413,534.56	\$ 226,198.71

In FY 17 the Food Service Fund continued to support itself. Expenditures in the Food Service Fund were \$203,146 and revenues were \$230,216. 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 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

**BIGFORK PUBLIC SCHOOLS
SCHOOL DISTRICT #38,
FLATHEAD COUNTY, MONTANA
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2017**

Table 1 - Net Position

	Governmental Activities		
	FY17	FY16	Change Inc (Dec)
Current and other assets	\$ 8,846,871	\$ 17,719,461	\$ (8,872,590)
Capital assets	18,326,193	7,979,669	10,346,524
Total assets	<u>27,173,064</u>	<u>25,699,130</u>	<u>1,473,934</u>
Long-term debt outstanding	\$ 17,168,675	\$ 18,046,051	\$ (877,376)
Other liabilities	9,540,079	8,047,650	1,492,429
Total liabilities	<u>26,708,754</u>	<u>26,093,701</u>	<u>615,053</u>
Invested in capital assets, net of debt	2,166,193	2,155,728	10,465
Restricted	5,440,761	17,371,017	(11,930,256)
Unrestricted (deficit)	(7,142,644)	(19,921,316)	12,778,672
Total net position	<u>\$ 464,310</u>	<u>\$ (394,571)</u>	<u>\$ 858,881</u>

Table 2 - Changes in Net Position

	Governmental Activities		
	FY17	FY16	Change Inc (Dec)
Revenues			
<i>Program revenues (by major source):</i>			
Charges for services	\$ 106,400	\$ 103,189	\$ 3,211
Operating grants and contributions	1,256,154	1,394,684	(138,530)
<i>General revenues (by major source):</i>			
Property taxes for general purposes	4,784,037	3,842,726	941,311
Grants and entitlements not restricted to specific programs	2,983,464	2,900,774	82,690
Other state grants	311,389	244,210	67,179
Investment earnings	113,442	55,780	57,662
Miscellaneous (other revenue)	45,600	11,348	34,252
State entitlement (block grants)	328,969	328,970	(1)
State technology	5,847	5,821	26
County retirement	798,932	745,645	53,287
Total revenues	<u>\$ 10,734,234</u>	<u>\$ 9,633,147</u>	<u>\$ 1,101,087</u>
Program expenses			
Instructional - regular	\$ 4,801,356	\$ 4,534,067	\$ 267,289
Instructional - special education	\$ 544,417	\$ 519,856	24,561
Instructional - vocational education	\$ 175,234	\$ 202,726	(27,492)
Supporting services - operations & maintenance	\$ 770,300	\$ 697,268	73,032
Supporting services - general	\$ 380,431	\$ 390,443	(10,012)
Supporting services - educational media services	\$ 277,193	\$ 178,888	98,305
Administration - general	\$ 264,284	\$ 397,614	(133,330)
Administration - school	\$ 502,781	\$ 490,804	11,977
Administration - business	\$ 191,740	\$ 215,017	(23,277)
Student transportation	\$ 746,230	\$ 686,776	59,454
Extracurricular	\$ 276,397	\$ 275,709	688
School food	\$ 218,818	\$ 236,095	(17,277)
Debt service expense - interest	\$ 484,130	\$ 298,281	185,849
Unallocated depreciation*	\$ 249,943	\$ 252,467	(2,524)
Other current charges	\$ 19,000	\$ -	19,000
Special Assessments	\$ 287	\$ -	287
Total expenses	<u>\$ 9,902,541</u>	<u>\$ 9,376,011</u>	<u>\$ 526,530</u>
Excess (deficiency) before special items and transfers	831,693	257,136	574,557
Increase (decrease) in net position	<u>\$ 831,693</u>	<u>\$ 257,136</u>	<u>\$ 574,557</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
Kalispell, 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, 2017, 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, 2017, and the respective changes in financial position 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 progress 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, 47 through 51 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 February 6, 2018, 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, CPAs, P.C.

February 6, 2018

Big Fork Public Schools, Flathead County, Montana
Statement of Net Position
June 30, 2017

		Governmental Activities
ASSETS		
Current assets:		
Cash and investments	\$	7,386,580
Taxes and assessments receivable, net		135,309
Due from other governments		115,710
Total current assets	\$	7,637,599
Noncurrent assets		
Capital assets - land	\$	11,696
Capital assets - construction in progress		11,719,405
Capital assets - depreciable, net		6,595,092
Total noncurrent assets	\$	18,326,193
Total assets	\$	25,963,792
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources - pensions	\$	1,209,272
Total deferred outflows of resources	\$	1,209,272
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$	27,173,064
LIABILITIES		
Current liabilities		
Accounts payable	\$	1,056,437
Accrued payroll		170,877
Current portion of long-term liabilities		7,000
Current portion of long-term capital liabilities		945,000
Current portion of compensated absences payable		128,803
Total current liabilities	\$	2,308,117
Noncurrent liabilities		
Noncurrent portion of long-term liabilities	\$	575,245
Noncurrent portion of long-term capital liabilities		15,215,000
Noncurrent portion of compensated absences		297,627
Net pension liability		6,653,539
Total noncurrent liabilities	\$	22,741,411
Total liabilities	\$	25,049,528
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - pensions	\$	177,437
Deferred inflows of resources - bond premium		1,481,789
Total Deferred Inflows of resources	\$	1,659,226
NET POSITION		
Net investment in capital assets	\$	2,166,193
Restricted for capital projects		4,030,880
Restricted for debt service		30,000
Restricted for special projects		1,379,881
Unrestricted		(7,142,644)
Total net position	\$	464,310
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$	27,173,064

See accompanying Notes to the Financial Statements

Big Fork Public Schools, Flathead County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position Primary Government</u>
<u>Primary government:</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
Instructional - regular	\$ 4,801,356	\$ 19,368	\$ 529,577	\$ (4,252,411)
Instructional - special education	544,417	-	374,832	(169,585)
Instructional - vocational education	175,234	-	13,938	(161,296)
Supporting services - operations & maintenance	770,300	-	-	(770,300)
Supporting services - general	380,431	-	-	(380,431)
Supporting services - educational media services	277,193	-	88,667	(188,526)
Administration - general	264,284	-	-	(264,284)
Administration - school	502,781	-	-	(502,781)
Administration - business	191,740	-	-	(191,740)
Student transportation	746,230	-	72,860	(673,370)
Extracurricular	276,397	-	33,878	(242,519)
School food	218,818	87,032	142,402	10,616
Debt service expense - interest	484,130	-	-	(484,130)
Unallocated depreciation*	249,943	-	-	(249,943)
Other current charges	19,000	-	-	(19,000)
Special Assessments	287	-	-	(287)
Total governmental activities	\$ 9,902,541	\$ 106,400	\$ 1,256,154	\$ (8,539,987)
General Revenues:				
				\$ 4,784,037
				2,983,464
				311,389
				113,442
				45,600
				328,969
				5,847
				798,932
				\$ 9,371,680
				\$ 831,693
				\$ (394,571)
				27,188
				\$ (367,383)
				\$ 464,310

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

Big Fork Public Schools, Flathead County, Montana
Balance Sheet
Governmental Funds
June 30, 2017

	General	High School Building	Other Governmental Funds	Total Governmental Funds
ASSETS				
Current assets:				
Cash and investments	\$ 958,965	\$ 4,741,799	\$ 1,685,816	\$ 7,386,580
Taxes and assessments receivable, net	76,002	-	59,307	135,309
Due from other governments	50,171	-	65,539	115,710
TOTAL ASSETS	\$ 1,085,138	\$ 4,741,799	\$ 1,810,662	\$ 7,637,599
Current liabilities:				
Accounts payable	\$ -	\$ 1,056,437	\$ -	\$ 1,056,437
Accrued payroll	111,798	-	59,079	170,877
Total liabilities	\$ 111,798	\$ 1,056,437	\$ 59,079	\$ 1,227,314
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources	\$ 76,002	\$ -	\$ 59,307	\$ 135,309
Total deferred inflows of resources	\$ 76,002	\$ -	\$ 59,307	\$ 135,309
FUND BALANCES				
Restricted	\$ -	\$ 3,685,362	\$ 1,724,966	\$ 5,410,328
Assigned	290,117	-	-	290,117
Unassigned fund balance	607,221	-	(32,690)	574,531
Total fund balance	\$ 897,338	\$ 3,685,362	\$ 1,692,276	\$ 6,274,976
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	\$ 1,085,138	\$ 4,741,799	\$ 1,810,662	\$ 7,637,599

See accompanying Notes to the Financial Statements

Big Fork Public Schools, Flathead County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2017

Total fund balances - governmental funds	\$	6,274,976
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		18,326,193
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.		135,309
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(17,168,675)
Proportionate share of ending collective net pension liability		(6,653,539)
Deferred outflows related to net pension liability		1,209,272
Deferred inflows related to net pension liability		(177,437)
Deferred inflows related to bond premium		(1,481,789)
Total net position - governmental activities	\$	<u>464,310</u>

See accompanying Notes to the Financial Statements

Big Fork Public Schools, Flathead County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2017

	<u>General</u>	<u>High School Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Local revenue	\$ 2,719,620	\$ 86,522	\$ 2,341,934	\$ 5,148,076
County revenue	-	-	870,504	870,504
State revenue	3,505,551	-	224,553	3,730,104
Federal revenue	-	-	659,323	659,323
Total revenues	<u>\$ 6,225,171</u>	<u>\$ 86,522</u>	<u>\$ 4,096,314</u>	<u>\$ 10,408,007</u>
EXPENDITURES				
Instructional - regular	\$ 3,326,689	\$ -	\$ 959,726	\$ 4,286,415
Instructional - special education	237,921	-	306,496	544,417
Instructional - vocational education	133,912	-	41,322	175,234
Supporting services - operations & maintenance	709,576	-	42,972	752,548
Supporting services - general	336,944	-	43,487	380,431
Supporting services - educational media services	247,586	-	29,607	277,193
Administration - general	223,548	-	40,736	264,284
Administration - school	418,438	-	83,859	502,297
Administration - business	162,302	-	29,438	191,740
Student transportation	60,175	-	623,227	683,402
Extracurricular	223,774	-	50,304	274,078
School food	-	-	214,081	214,081
Debt service expense - principal	-	-	915,000	915,000
Debt service expense - interest	-	-	562,119	562,119
Capital outlay	86,643	10,553,475	61,849	10,701,967
Other current charges	-	-	19,000	19,000
Special Assessments	-	-	287	287
Total expenditures	<u>\$ 6,167,508</u>	<u>\$ 10,553,475</u>	<u>\$ 4,023,510</u>	<u>\$ 20,744,493</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 57,663</u>	<u>\$ (10,466,953)</u>	<u>\$ 72,804</u>	<u>\$ (10,336,486)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ 25,000	\$ 25,000
Transfers out	-	-	(25,000)	(25,000)
Net Change in Fund Balance	<u>\$ 57,663</u>	<u>\$ (10,466,953)</u>	<u>\$ 72,804</u>	<u>\$ (10,336,486)</u>
Fund balances - beginning	\$ 832,730	\$ 14,151,465	\$ 1,623,356	\$ 16,607,551
Restatements	6,945	850	(3,884)	3,911
Fund balances - beginning, restated	<u>\$ 839,675</u>	<u>\$ 14,152,315</u>	<u>\$ 1,619,472</u>	<u>\$ 16,611,462</u>
Fund balance - ending	<u>\$ 897,338</u>	<u>\$ 3,685,362</u>	<u>\$ 1,692,276</u>	<u>\$ 6,274,976</u>

See accompanying Notes to the Financial Statements

Big Fork 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, 2017

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

Net change in fund balances - total governmental funds	\$	(10,336,486)
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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		10,701,967
- Depreciation expense		(355,443)

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)		14,838
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The change in compensated absences is shown as an expense in the Statement of Activities

10,480

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		915,000
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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:

- Termination benefits		7,000
- Post-employment benefits other than retirement liability		(78,381)

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

(436,660)

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

311,389

Amortization of the bond premium is shown as offset to debt service - interest expense on the Statement of Activities and not reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance

77,989

Change in net position - Statement of Activities	\$	<u>831,693</u>
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See accompanying Notes to the Financial Statements

Big Fork Public Schools, Flathead County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2017

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and short-term investments	\$ 170,905	\$ 218,698
Total assets	<u>\$ 170,905</u>	<u>\$ 218,698</u>
LIABILITIES		
Warrants payable	\$ -	\$ 142,011
Accounts payable	-	76,687
Total liabilities	<u>\$ -</u>	<u>\$ 218,698</u>
NET POSITION		
Assets held in trust	<u>\$ 170,905</u>	

See accompanying Notes to the Financial Statements

Big Fork Public Schools, Flathead County, Montana
Statement of Changes in Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2017

		<u>Private Purpose Trust Funds</u>
ADDITIONS		
Contributions:		
Student activities	\$	<u>155,668</u>
Total additions	\$	<u>155,668</u>
DEDUCTIONS		
Student activities	\$	<u>159,605</u>
Total deductions	\$	<u>159,605</u>
Change in net position	\$	<u>(3,937)</u>
Net Position - Beginning of the year	\$	174,842
Net Position - End of the year	\$	<u><u>170,905</u></u>

See accompanying Notes to the Financial Statements

BIGFORK PUBLIC SCHOOLS
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIALS STATEMENTS
June 30, 2017

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 FINANCIALS STATEMENTS
June 30, 2017

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.

Measurement Focus and Basis of Accounting
Government-Wide Financial Statements

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 FINANCIALS STATEMENTS
June 30, 2017

- 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 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.

BIGFORK PUBLIC SCHOOLS
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIALS STATEMENTS
June 30, 2017

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.

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 assets. 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 consist 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 FINANCIALS STATEMENTS
June 30, 2017

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, 2017, consisted certificates of deposit, Federal Home Loans, U.S. Government Securities, Federal Mortgage Association investments and STIP. 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, 2017.

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 \$169,289 and the bank balance was \$171,081, 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 FINANCIALS STATEMENTS
June 30, 2017

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 costs of inventories are recorded as an expenditure 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
Infrastructure	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 2017 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

BIGFORK PUBLIC SCHOOLS
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIALS STATEMENTS
June 30, 2017

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

Governmental activities:

	Balance <u>July 1, 2016</u>	<u>Additions</u>	Balance <u>June 30, 2017</u>
Capital assets not being depreciated:			
Land	\$ 11,696	\$ -	\$ 11,696
Construction in progress	1,189,164	10,530,241	11,719,405
Total capital assets not being depreciated	<u>\$ 1,200,860</u>	<u>\$ 10,530,241</u>	<u>\$ 11,731,101</u>
Other capital assets:			
Buildings	\$ 10,186,788	\$ -	\$ 10,186,788
Improvements other than buildings	27,440	-	27,440
Machinery and equipment	2,371,584	171,726	2,543,310
Total other capital assets at historical cost	<u>\$ 12,585,812</u>	<u>\$ 171,726</u>	<u>\$ 12,757,538</u>
Less: accumulated depreciation	<u>\$ (5,807,003)</u>	<u>\$ (355,443)</u>	<u>\$ (6,162,446)</u>
Total	<u><u>\$ 7,979,669</u></u>	<u><u>\$ 10,346,524</u></u>	<u><u>\$ 18,326,193</u></u>

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

Governmental Activities:	
Instructional – regular	\$ 17,380
Administration - school	484
Supporting services – operations & maintenance	17,752
Student transportation	62,828
School food	4,737
Extracurricular	2,319
Unallocated	<u>249,943</u>
Total governmental activities depreciation expense	<u><u>\$ 355,443</u></u>

NOTE 6. LONG TERM DEBT OBLIGATIONS

In the governmental-wide, financial statements, outstanding debt is reported as liabilities. Bond issuance costs are expensed at the date of sale and bond discounts or premiums, are amortized over the bond term and reported and deferred outflow of resources.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2017, the following changes occurred in liabilities reported in long-term debt:

**BIGFORK PUBLIC SCHOOLS
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIALS STATEMENTS
June 30, 2017**

Governmental Activities:

	Balance <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	Balance <u>June 30, 2017</u>	Due Within <u>One Year</u>
General obligation bonds	\$ 17,075,000	-	\$ (915,000)	\$ -	\$ 16,160,000	\$ 945,000
Compensated absences	436,910	-	(10,480)	-	426,430	128,803
Retiree Liability	14,000	-	(7,000)	-	7,000	7,000
Net pension liability*	5,958,549	694,990	-	-	6,653,539	-
Other post-employment benefits**	520,141	78,381	-	(23,277)	575,245	-
Total	<u>\$ 24,004,600</u>	<u>\$ 773,371</u>	<u>\$ (932,480)</u>	<u>\$ (23,277)</u>	<u>\$ 23,822,214</u>	<u>\$ 1,080,803</u>

*See Note 9

**See Note 7

In prior years the general fund and the compensated absences fund were 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, 2017 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, 2017</u>
Elementary GO Refunding Bond Series 2015	10/20/15	2.10%	8 yrs	7/1/23	\$ 3,485,000	Varies	\$ 2,675,000
High School GO School Building Bonds, Series 2015	12/10/15	2.00-4.00%	20 yrs	7/1/36	9,075,000	Varies	8,730,000
High School GO School Building Bonds, Series 2016	6/2/16	3.00-4.00%	20 yrs	7/1/36	<u>4,925,000</u>	Varies	<u>4,755,000</u>
					<u>\$17,485,000</u>		<u>\$ 16,160,000</u>

Annual requirement to amortize debt:

BIGFORK PUBLIC SCHOOLS
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIALS STATEMENTS
 June 30, 2017

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
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	\$ <u>16,160,000</u>	\$ <u>5,899,440</u>

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 FINANCIALS STATEMENTS
 June 30, 2017

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 \$7,000, for retirement incentives due as of June 30, 2017.

NOTE 7. 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, 2017, was as follows:

Actuarial Accrued Liability (AAL)	\$575,245
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	\$575,245
Funded ratio (actuarial value of plan assets/AAL)	-
Covered payroll (active plan members)	\$ 3,827,168
UAAL as a percentage of covered payroll	15.0 %

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 FINANCIALS STATEMENTS
 June 30, 2017

Annual Required Contribution (ARC)	\$78,381
Interest on net OPEB obligation	0
Adjustment to ARC	0
Annual OPEB cost (expense)	\$78,381
Contributions made	0
Increase in net OPEB obligation	\$78,381
Net OPEB obligation - beginning of year	520,141
Restatement	(23,277)
Net OPEB obligation - end of year	\$575,245

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>
2017	7.00%
2018	6.50%
2019	6.00%
2020	5.50%
2021	5.00%
2022+	4.50%

NOTE 8. INTERFUND RECEIVABLES AND PAYABLES

Interfund Transfers

The following is an analysis of operating transfers in and out during Fiscal Year 2017:

<u>Purpose</u>	<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Multidistrict cooperative agreement transfer	Elementary Interlocal Agreement	Elementary Transportation	\$ <u>25,000</u>

BIGFORK PUBLIC SCHOOLS
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIALS STATEMENTS
June 30, 2017

NOTE 9. NET PENSION LIABILITY

Plan Descriptions

TRS

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.

PERS

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 provides retirement benefits to covered employees of 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 participants 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. All new members from the universities also have third option to join the university system's Montana University System Retirement Program (MUS-RP).

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.

BIGFORK PUBLIC SCHOOLS
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIALS STATEMENTS
June 30, 2017

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

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.

BIGFORK PUBLIC SCHOOLS
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIALS STATEMENTS
June 30, 2017

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.

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.

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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.

- 3.0% 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. The System also receives 0.11% of reportable compensation from the State's general fund for all TRS Employers including State Agency and University System Employers. Finally, the State is also required to contribute \$25 million in perpetuity payable July 1st of each year.

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.

PERS

1. Rates are specified by state law for periodic employer and employee contributions.
 - a. Contributions are deducted from each member's salary and remitted by participating employers;
 - b. The State legislature has the authority to establish and amend contribution rates to the plan.
2. Member contributions to the system:

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- 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. Effective July 1, 2014, following the 2013 Legislative session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below the 25 years following the reduction of both the additional employer and additional member contributions rates.
 - d. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
 - e. The Plan Choice Rate (PCR), that directed a portion of employer contributions for DC members to the PERS defined benefit plan, 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.
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 Severance Tax 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's financial statements of the Montana Public Employees Retirement Board (PERB) *Comprehensive Annual Financial Report* (CAFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, (406) 444-3154 or the MPERA website at <http://mpera.mt.gov/index.shtml>.

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, 2017 and June 30, 2016 (reporting dates).

	TRS NPL as of 6/30/16	TRS NPL as of 6/30/17	Percent of Collective NPL	PERS NPL as of 6/30/16	PERS NPL as of 6/30/17	Percent of Collective NPL	Total NPL as of 6/30/16	Total NPL as of 6/30/17	Percent of Collective NPL
Employer Proportionate Share	\$ 5,020,552	\$ 5,700,088	0.3120%	\$ 934,997	\$ 953,451	0.0560%	\$ 5,955,549	\$ 6,653,539	0.3680%
State of Montana Proportionate Share associated with Employer	3,368,079	3,716,622	0.2034%	43,935	44,560	0.0026%	3,412,014	3,761,182	0.2060%
Total	<u>\$ 8,388,631</u>	<u>\$ 9,416,710</u>	<u>0.5154%</u>	<u>\$ 978,932</u>	<u>\$ 998,011</u>	<u>0.0586%</u>	<u>\$ 9,367,563</u>	<u>\$ 10,414,721</u>	<u>0.5740%</u>

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At June 30, 2017, the employer recorded a liability of \$6,653,539 for its proportionate share of the Net Pension Liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of TRS and PERS participating employers. At June 30, 2017, the employer's proportion was 0.3680 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 portions 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.

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Pension Expense as of 6/30/17

	<u>TRS</u>	<u>PERS</u>	<u>Total</u>
Employer Proportionate Share	\$ 555,443	\$ 23,492	\$ 578,935
State of Montana Proportionate Share associated with the Employer	290,950	20,439	311,389
Total	<u>\$ 846,393</u>	<u>\$ 43,931</u>	<u>\$ 890,324</u>

At June 30, 2017, the employer recognized a Pension Expense of \$890,324 for its proportionate share of the pension expense. The employer also recognized grant revenue of \$311,389 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, 2017, the employer recognized a beginning deferred outflow of resources for the employers' FY 2016 contributions of \$429,806.

Deferred Inflows and Outflows

At June 30, 2017, 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:

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	<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	\$ 30,477	\$ 12,117	\$ 5,144	\$ 3,156	\$ 35,621	\$ 15,273
Changes in actuarial assumptions	36,274	35,827	89,701	-	125,975	35,827
Difference between projected and actual investment earnings	367,059		-		367,059	-
Difference between actual and expected contributions	229,837	-	-	126,337	229,837	126,337
Changes in proportion	-	-	-	-	-	-
*Contributions paid subsequent to the measurement date - FY 2017 Contributions	385,879	-	64,901	-	450,780	-
Total	<u>\$ 1,049,526</u>	<u>\$ 47,944</u>	<u>\$ 159,746</u>	<u>\$ 129,493</u>	<u>\$ 1,209,272</u>	<u>\$ 177,437</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.

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

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TRS: Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2018	\$ 191,098	\$ 18,084	\$ 173,014
2019	\$ 123,069	\$ 17,672	\$ 105,397
2020	\$ 217,719	\$ 12,187	\$ 205,532
2021	\$ 131,761	\$ -	\$ 131,761
2022	\$ -	\$ -	-
Thereafter	\$ -	\$ -	-

PERS: Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2018	\$ 4,343	\$ -	\$ 4,343
2019	\$ 50,974	\$ -	\$ 50,974
2020	\$ 32,030	\$ -	\$ 32,030
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, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2016 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% for Non-University
Members and 5.00% for
University Members
- Investment Return 7.75%
- Price Inflation 3.25%
- Postretirement Benefit Increases
 - Tier One Members: If the retiree has received benefits for at least 3 years, the retirement allowance will be increased by 1.5% on January 1st.
 - Tier Two Members, the retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the System to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.
- Mortality among contributing members, service retired members, and beneficiaries

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- For Males: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
- For Females: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- 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.

PERS

The Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2015, with update procedures to roll forward the TPL to June 30, 2016. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2016 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 (net of admin expense) | 7.75% |
| • Admin Expense as a % of Payroll | 0.27% |
| • 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.

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

Discount Rate

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 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

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 2117. 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.

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Target Allocations

TRS

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

*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 2009 through 2013, is outlined in a report dated May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2016, is summarized in the above table.

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PERS

<u>Asset Class</u>	<u>Target Asset Allocation</u>	Real Rate of Return Arithmetic Basis	Long-Term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%	0.10%
Domestic Equity	36.00%	4.55%	1.64%
Foreign Equity	18.00%	6.35%	1.14%
Fixed Income	23.40%	1.00%	0.23%
Private Equity	12.00%	7.75%	0.93%
Real Estate	<u>8.00%</u>	4.00%	<u>0.32%</u>
Total	<u>100.00%</u>		<u>4.37%</u>
	Inflation		3.00%
	Portfolio Return Expectation		7.37%

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. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2016, are summarized in the table above.

Sensitivity Analysis

	1.0% Decrease	Current	1.0% Increase
	<u>-6.75%</u>	<u>Discount Rate</u>	<u>-8.75%</u>
TRS	\$ 7,647,935	\$ 5,700,088	\$ 4,060,216
PERS	\$ 1,383,528	\$ 953,451	\$ 582,982

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.

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Summary of Significant Accounting Policies

TRS

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

PERS

MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the NPL; Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and Additions to or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

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.

NOTE 11. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

Governmental Fund equity is classified as fund balance. The Bigfork Public School, categorizes fund balance of the governmental funds into the following categories:

Restricted - constraint is externally imposed by a third party, State Constitution, or enabling legislation.

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Assigned – constraint is internally imposed by the body or official authorized to assign amounts for a specific purpose.

Unassigned – negative fund balance in all funds, or fund balance with no constraints in the General Fund.

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>
High School Building	\$ 3,685,362	Future capital costs
All other aggregate	233,648	Student transportation
	337,707	Bus replacement
	100,562	Student food services
	216,285	Employer costs of benefits
	348,163	Third party grant restrictions
	56,828	Student instructional services
	385,468	Operations and maintenance
	14,772	Future vacation and sick leave payments
	20,955	Future technology upgrades
	2,809	Debt service
	<u>7,769</u>	Future capital costs
	<u>\$ 5,410,328</u>	

Other Significant Commitments – Encumbrances

<u>Fund</u>	<u>Amount of Encumbrance</u>
General	\$ 290,117

NOTE 12. DEFICIT FUND BALANCES/NET POSITION

<u>Fund Name</u>	<u>Amount</u>	<u>Reason for Deficit</u>	<u>How Deficit will be eliminated</u>
High School Debt Service	\$ (32,690)	Negative cash balance	Future tax revenues
Governmental Activities	\$ (7,142,644)	Unfunded Net Pension Liability and OPEB Liability	Will not be eliminated as the District doesn't plan to fund

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NOTES TO THE FINANCIALS STATEMENTS
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NOTE 13. RESTATEMENTS

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

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
General	\$ 6,945	Prior period revenue adjustment
Elementary Transportation	1,126	Prior period revenue adjustment
Elementary Miscellaneous	(6,434)	Prior period expenditure adjustment
High School Transportation	1,126	Prior period revenue adjustment
High School Food Service	197	Prior period revenue adjustment
High School Miscellaneous	101	Prior period revenue adjustment
High School Building	850	Prior period revenue adjustment
Governmental Activities	<u>23,277</u>	OPEB and termination benefit adjustment
	<u>\$ 27,188</u>	

NOTE 14. 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, 2017, Anderson Masonry had completed the majority of the above contract and was paid a total of \$387,519 during the fiscal year. The contract was slightly revised during the year totaling \$2,367.

NOTE 15. 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 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, 2017, the District didn't have any student participate in the Interlocal.

BIGFORK PUBLIC SCHOOLS
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIALS STATEMENTS
June 30, 2017

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.

NOTE 16. 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 17. 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.

BIGFORK PUBLIC SCHOOLS
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIALS STATEMENTS
June 30, 2017

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.

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 Whitefish School District (WSD) and the Flathead Group, which includes Bigfork Public Schools. Kalispell Public Schools was the designed as the primary agency to be vested with the financial administration of the cooperative arrangement, but withdrew this responsibility as of the fiscal year ending June 30, 2017. 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.

NOTE 18. CONSTRUCTION COMMITMENT

As of June 30, 2017, 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, 2017, \$11,719,404 had been expended on the construction. The District issued bonds totaling \$14,000,000 at a premium totaling \$1,559,778 and had \$3,840,374 remaining to finance the future construction commitments totaling \$3,606,220.

**REQUIRED SUPPLEMENTAL
INFORMATION**

Big Fork Public Schools, Flathead County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2017

	General			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS (BUDGETARY BASIS) See Note A	WITH FINAL BUDGET
RESOURCES (INFLOWS):				
Local revenue	\$ 3,083,253	\$ 3,083,253	\$ 2,718,967	\$ (364,286)
State revenue	3,465,898	3,465,898	3,465,851	(47)
Amounts available for appropriation	\$ <u>6,549,151</u>	\$ <u>6,549,151</u>	\$ <u>6,184,818</u>	\$ <u>(364,333)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Instructional - regular	\$ 3,379,031	\$ 3,381,937	\$ 3,362,256	\$ 19,681
Instructional - special education	235,545	254,386	230,781	23,605
Instructional - vocational education	132,230	133,913	133,912	1
Supporting services - operations & maintenance	708,134	721,457	696,681	24,776
Supporting services - general	331,823	353,033	336,170	16,863
Supporting services - educational media services	228,051	247,781	245,928	1,853
Administration - general	247,186	247,186	220,912	26,274
Administration - school	436,371	436,371	418,506	17,865
Administration - business	172,152	172,461	163,907	8,554
Student transportation	52,111	55,601	60,039	(4,438)
Extracurricular	250,245	251,145	209,081	42,064
Capital outlay	16,272	120,939	110,105	10,834
Total charges to appropriations	\$ <u>6,189,151</u>	\$ <u>6,376,210</u>	\$ <u>6,188,278</u>	\$ <u>187,932</u>
Net change in fund balance			\$ <u>(3,460)</u>	
Fund balance - beginning of the year			\$ 543,139	
Restatements			<u>6,945</u>	
Fund balance - beginning of the year - restated			\$ <u>550,084</u>	
Fund balance - end of the year			\$ <u><u>546,624</u></u>	

Big Fork 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	\$ 6,184,818
Combined funds (GASBS 54) revenues	40,353
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances- governmental funds.	\$ 6,225,171
Uses/Outflows of resources	
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 6,188,278
Combined funds (GASBS 54) expenditures	71,390
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	197,956
- Encumbrances reported at the end of the year	(290,116)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 6,167,508

Bigfork Public Schools, Flathead County, Montana
Schedule of Funding Progress
For the Year Ended June 30, 2017

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
Schedule of Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2017

	TRS 2017	TRS 2016	TRS 2015
Employer's proportion of the net pension liability	\$ 5,700,088	\$ 5,020,552	\$ 4,341,713
Employer's proportionate share of the net pension liability associated with the Employer	0.312%	0.306%	0.282%
State of Montana's proportionate share of the net pension liability associated with the Employer	\$ 3,716,622	\$ 3,368,079	\$ 2,976,125
Total	<u>\$ 9,416,710</u>	<u>\$ 8,388,631</u>	<u>\$ 7,317,838</u>
Employer's covered-employee payroll	\$ 4,337,012	\$ 3,900,154	\$ 3,558,012
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	131.43%	128.73%	122.03%
Plan fiduciary net position as a percentage of the total pension liability	66.69%	69.30%	70.36%

	PERS 2017	PERS 2016	PERS 2015
Employer's proportion of the net pension liability	\$ 953,451	\$ 934,997	\$ 831,113
Employer's proportionate share of the net pension liability associated with the Employer	0.056%	0.067%	0.067%
State of Montana's proportionate share of the net pension liability associated with the Employer	\$ 44,560	\$ 43,935	\$ 38,852
Total	<u>\$ 998,011</u>	<u>\$ 978,932</u>	<u>\$ 869,965</u>
Employer's covered-employee payroll	\$ 693,114	\$ 807,064	\$ 781,201
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	137.56%	115.85%	106.39%
Plan fiduciary net position as a percentage of the total pension liability	74.71%	78.40%	79.87%

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, 2017

	TRS 2017	TRS 2016	TRS 2015
Contractually required contributions	\$ 385,879	\$ 372,696	\$ 348,498
Contributions in relation to the contractually required contributions	\$ 385,879	\$ 372,696	\$ 348,498
Contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered-employee payroll	\$4,141,737	\$4,337,012	\$3,900,154
Contributions as a percentage of covered-employee payroll	9.32%	8.59%	8.94%

	PERS 2017	PERS 2016	PERS 2015
Contractually required contributions	\$ 64,901	\$ 56,997	\$ 64,324
Contributions in relation to the contractually required contributions	\$ 64,901	\$ 56,997	\$ 64,324
Contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 766,246	\$ 693,114	\$ 807,064
Contributions as a percentage of covered-employee payroll	8.47%	8.22%	7.97%

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, 2017

Teachers' Retirement System of Montana (TRS)

Changes of Benefit Terms:

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

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

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

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

(7) **Disability Retirement:** A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination

(8) **Guaranteed Annual Benefit Adjustment (GABA):**

a. If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the Board.

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

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

Changes in actuarial assumptions and other inputs:

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

- The normal cost method has been updated to align the calculation of the projected compensation and the total present value of plan benefits so that the normal cost rate reflects the most appropriate allocation of plan costs over future compensation.
The following changes to the actuarial assumptions were adopted in 2015:
- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three year COLA deferral period for Tier 2 Members.
- The 0.63% load applied to the projected retirement benefits of the university members "to account for larger than average annual compensation increases observed in the years immediately preceding retirement" is not applied to benefits expected to be paid to university members on account of death, disability and termination (prior to retirement eligibility).

- The actuarial valuation was updated to reflect the assumed rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.
- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the \$500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to “retain membership in the System” are covered by the \$500 death benefit after termination.

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

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

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

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

- Mortality among disabled members was updated to the following:

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

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

Method and assumptions used in calculations of actuarially determined contributions:

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

Public Employees Retirement System (PERS)

Changes of Benefit Terms

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

2013 Legislative Changes:

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.

- 3.0% 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% reduced by 0.1% for each 2.0% 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 the January immediately following second retirement.
- 2) For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:
 - member receives a recalculated retirement benefit based on laws in effect at second retirement; and,
 - GABA starts the January after receiving recalculated benefit for 12 months.
- 3) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:
 - refund of member's contributions from second employment plus regular interest (currently 0.25%);
 - no service credit for second employment;
 - start same benefit amount the month following termination; and,
 - GABA starts again the January immediately following second retirement.
- 4) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:
 - member receives same retirement benefit as prior to return to service;
 - member receives second retirement benefit for second period of service based on laws in effect at second retirement; and

- GABA starts on both benefits in January after member receives original and new benefit for 12 months.

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

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

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

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

The following addition was adopted in 2014 based on implementation of GASB Statement 68:

Admin Expense as % of Payroll	0.27%
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There were no changes following the 2013 Economic Experience study.

The following Actuarial Assumptions were adopted from the June 2010 Experience Study:

General Wage Growth*	4.00%
*Includes inflation at	3.00%
Merit increase	0% to 6.0%
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation
Asset valuation method	4-year smoothed mark
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, 2017

Fall Enrollment - October, 2016

Elementary School District

	FALL		
	Per Enrollment	Audit Per	Difference
	<u>Reports</u>	<u>District Records</u>	
Kindergarten Full	70	70	0
Grades 1-6	366	366	0
Grades 7-8	147	147	0
Total Elementary	583	583	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	0	0	0	0	0	0	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	Audit Per	Difference
	<u>Reports</u>	<u>District Records</u>	
Grades 9-12	305	305	0
19 year-olds	1	1	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	5	3	2	1	5	3	2	0

Spring Enrollment - February, 2017

Elementary School District

	SPRING		
	Per Enrollment	Audit Per	Difference
	<u>Reports</u>	<u>District Records</u>	
Kindergarten - Full	68	68	0
Grades 1-6	367	367	0
Grades 7-8	142	142	0
Total Elementary	577	577	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	0	0	0	0	0	0	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

	SPRING		
	Per Enrollment	Audit Per	Difference
	<u>Reports</u>	<u>District Records</u>	
Grades 9-12	288	288	0
19 year-olds	0	0	0
Early Graduates	2	2	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	5	2	1	1	5	2	1	0

Bigfork Public Schools
Flathead County, Montana
EXTRACURRICULAR FUND
SCHEDULE OF REVENUES AND EXPENDITURES - ELEMENTARY FUND ACCOUNTS
Fiscal Year Ended June 30, 2017

FUND ACCOUNT	<u>Beginning Balance</u>	<u>Adjustment</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Transfers In(Out)</u>	<u>Ending Balance</u>
Art Fund	\$ 1,024	\$ -	\$ -	\$ -	\$ -	\$ 1,024
Athletics	3,844	-	860	3,363	-	1,341
Band	1,139	-	36	-	(2)	1,173
Bank fees	176	-	-	1	-	175
Eighth Grade	112	-	-	-	-	112
Enrichment	606	-	-	-	-	606
Fifth Grade	40	-	424	424	-	40
First Grade	1	-	320	320	-	1
Fourth Grade	6,080	-	1,093	150	-	7,023
General	3,136	-	3,892	3,063	-	3,965
Grade School	14	-	20	21	-	13
Japan	(2)	-	-	-	2	0
Library	1,465	-	90	50	-	1,505
Middle School Choir	154	-	-	-	-	154
Music Boosters	525	-	-	-	-	525
National History Day	14,824	-	15,702	21,375	200	9,351
National Junior Honor	547	-	-	-	-	547
Needy Kids	3,774	-	2,340	3,421	-	2,693
Partners Club	110	-	439	300	-	249
Ravenwood	1,084	-	-	-	-	1,084
Science	17	-	-	-	-	17
Second Grade	62	-	240	234	-	68
Seventh Grade	143	-	-	-	-	143
Sixth Grade	2,374	-	1,416	1,629	-	2,161
Student Activities - Other	6	-	-	-	-	6
Student Council	939	-	510	1,017	(200)	232
Student Store	188	-	-	-	-	188
Technology	84	-	-	-	-	84
Third Grade	888	-	312	154	-	1,046
Trish Shults - FOBS	250	-	-	-	-	250
Yearbook	2,209	-	1,464	1,190	-	2,483
Conversion	-	479	-	-	-	479
Total	\$ <u>45,813</u>	<u>479</u>	\$ <u>29,158</u>	\$ <u>36,712</u>	\$ <u>-</u>	\$ <u>38,738</u>

Bigfork Public Schools
Flathead County, Montana
EXTRACURRICULAR FUND
SCHEDULE OF REVENUES AND EXPENDITURES - HIGH SCHOOL ACCOUNTS
Fiscal Year Ended June 30, 2017

FUND ACCOUNT	Beginning Balance	Adjstments	Revenues	Expenditures	Transfers In(Out)	Ending Balance
AFS	\$ 1,591	\$ -	\$ -	\$ -	\$ -	\$ 1,591
Alpine Club	517	-	-	-	-	517
Annual	9,630	-	11,355	10,157	1,000	11,828
Art Club	1,078	-	700	541	-	1,237
Athletics	7,685	-	29,240	24,530	(1,040)	11,355
Auto Repair/Parts	818	-	-	-	-	818
Auto Shop	8,672	-	1,500	-	-	10,172
Band	1,587	-	476	95	(1,491)	477
Band Fundraising	890	-	47,089	49,241	1,654	392
Band Scholarship	191	-	112	-	-	303
Bio Club	179	-	-	-	-	179
Book Club	1,003	-	-	-	-	1,003
Boys Basketball	2,872	-	1,986	4,207	-	651
Cheerleaders	1,320	-	823	1,316	-	827
Choir	618	-	777	500	-	895
Class of 2016	1,595	-	-	-	(1,595)	-
Class of 2017	1,540	-	-	1,000	(100)	440
Class of 2018	2,130	-	2,569	2,028	-	2,671
Class of 2019	864	-	-	-	-	864
Class of 2020	-	-	-	150	1,595	1,445
Close Up	123	-	6,089	6,086	-	126
Computer Club	386	-	-	-	-	386
Concessions	120	-	-	-	-	120
Cross Country	-	-	100	100	-	-
Drama	2,380	-	-	-	-	2,380
Family & Consumer	653	-	-	-	-	653
FCCLA	-	-	125	69	-	56
Football Donations	3,080	-	1,980	951	-	4,109
General Activities	1,686	-	60	57	(390)	1,299
Girls Basketball	5,504	-	1,585	5,166	-	1,923
Golf	(30)	-	10	-	30	10
Greece and Italy Trip	-	-	1,100	-	-	1,100
Hiawatha Trail	733	-	-	-	-	733
HOSA	3	-	1,082	632	-	453
HS Pepsi #1	2,009	-	86	-	-	2,095
Indoor Track	2,155	-	50	-	-	2,205
Library Club	818	-	5	-	-	823
Lit Magazine	2,273	-	760	1,658	-	1,375
National Honor Society	274	-	351	126	-	499
Needy Kids Account	2,551	-	286	1,647	40	1,230
Newspaper	2,003	-	2,231	3,539	(500)	195

Bigfork Public Schools
Flathead County, Montana
EXTRACURRICULAR FUND

SCHEDULE OF REVENUES AND EXPENDITURES - HIGH SCHOOL ACCOUNTS - continued

Fiscal Year Ended June 30, 2017

Pepsi #1F-SB	1,754	-	533	-	-	2,287
Pepsi #2-SC	1,853	-	533	1,776	-	610
SADD	102	-	-	-	-	102
Scholarships	3,684	-	-	-	-	3,684
Science Club	4,035	-	6	1,667	-	2,374
Soccer	1,048	-	-	-	600	1,648
Spanish Club	(142)	-	-	-	142	(0)
Speech	1,092	-	739	859	(163)	809
Stand	75	-	-	-	-	75
Student Council	4,034	-	-	242	-	3,792
Student Store	662	-	-	-	-	662
Swimming	(218)	-	166	-	218	166
Tennis Club	11	-	-	-	-	11
Tennis Courts	25	-	-	-	-	25
Tournament	32,910	-	7,320	893	-	39,337
Volleyball	2,559	-	3,995	3,836	-	2,718
Washington DC Trip	1	-	-	-	-	1
Wood Shop	786	-	-	-	-	786
Wood Shop Club	350	-	135	-	-	485
Wrestling	350	-	423	437	-	336
Young Deomocrates	60	-	-	-	-	60
Youth Legislature	-	-	-	-	-	-
Conversion Account	479	(479)	1,147	-	-	1,147
Total	\$ <u>127,011</u>	\$ <u>(479)</u>	\$ <u>127,524</u>	\$ <u>123,506</u>	\$ <u>-</u>	\$ <u>130,550</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
Kalispell, 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, 2017, and the related notes to the financial statements, which collectively comprise the Bigfork Public School's basic financial statements and have issued our report thereon dated February 6, 2018.

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.

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. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses as identified as item 2017-001.

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. We consider the deficiencies described below to be significant deficiencies as identified as item 2017-002.

2017-001 School Auto Shop Controls

Condition:

The District does not have an internal control system related to the receipting and collection of monies in the District's Auto Shop.

Context:

The auditor completed an internal controls review in the Auto Shop using inquiry only, as there was no supporting documentation or other processes to test using observation and inspection of documentation.

Criteria:

Cash collection points should include adequate internal control procedures to help prevent loss due to error or misappropriation of assets.

Effect:

The District has increased risk of error or misappropriation of assets in the auto shop. The estimated undocumented and unrecorded receipts for fiscal year 2017 is \$9,953.

Cause:

The District did not set up an internal control system when the auto shop began servicing cars of the general public.

Recommendation:

We recommend that the District review the operations of the Auto Shop and implement an internal control system to include segregation of duties, receipting, recording, depositing, and reconciliation of those cash activities.

2017-002 Student Activity Receipting (Repeat finding 2016-001 and 2015-001)

Condition:

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

1. At the 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 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.

Context:

We reviewed fiscal year 2017 internal controls of extracurricular receipting process at the High School and assessed the internal control procedures using inquiry, observation, and inspection.

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 weakened increasing the risk of error or misappropriation of assets.

Cause:

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

Recommendation:

Internal control procedures should be implemented to ensure that monies collected are 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 School'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 School'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.

Derringer, Downey and Associates, CPAs, P.C.

February 6, 2018

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
Kalispell, Montana

The prior audit report contained one recommendation. The action taken on each recommendation is as follows:

<u>Recommendation</u>	<u>Action Taken</u>
Student Activity Receipting	Partially Implemented

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

February 6, 2018



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and

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Auditee Response FY17 Audit

Subject: School Auto Shop Controls

Condition: The District does not have an internal control system related to the receipting and collection of monies in the District's Auto Shop.

Auditee Response:

The District has developed and implemented internal controls for the Auto Shop. The controls include procedures for segregation of duties, receipting, recording, depositing, and reconciliation of cash activities.

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

1. At the 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. The district has developed a form staff will utilize to support funds raised. The high school 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 is used at all events where people pay for admittance. The starting and ending tickets are recorded on the tracking form and turned in to the high school secretaries.

2. At the 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:

The high school secretaries will receipt all student account monies in Black Mountain. High volume receipts, like student participation fees, can be receipted in a manual receipt book. The manual receipt numbers will be referenced in the Black Mountain receipt. This procedure was discussed with and approved by the auditor.