

**MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
FINANCIAL REPORT  
JUNE 30, 2016**

DRAFT



**MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1**

**FINANCIAL REPORT**

**JUNE 30, 2016**

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MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1

2015–2016

ORGANIZATION

BOARD OF TRUSTEES

Board Chair .....	Marcia Holland
Vice Chair/Elementary .....	Diane Lorenzen
Vice Chair/Secondary .....	Ann Wake
Trustee .....	Michael Beers
Trustee .....	Korbin Bragstad
Trustee .....	Grace Decker
Trustee .....	Debbie Dupree
Trustee .....	Heidi Kendall
Trustee .....	Diane Lorenzen
Trustee .....	Vicki McDonald
Trustee .....	Jennifer Newbold
Trustee .....	Michael Smith

OFFICERS

District Superintendent.....	Mark Thane
Director, Business Services/Clerk of Board.....	Pat McHugh
County Superintendent of Schools .....	Dr. Erin Lipkind
County Attorney .....	Kirsten H. Pabst

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Missoula County Public Schools  
School District No. 1  
Missoula, 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 Missoula County Public Schools, School District No. 1 (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Missoula County Public Schools, School District No. 1, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress—other postemployment benefits, budgetary comparison—general funds, the schedule of proportionate share of net pension liability, and the schedule of contributions 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 supplementary information required by the Montana Office of Public Instruction and the other supplementary information is presented for additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The supplementary information required by the Montana Office of Public Instruction and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.



In our opinion, the supplementary information required by the Montana Office of Public Instruction and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Prior-Year Comparative Information*

We have previously audited the District's June 30, 2015, financial statements, and we expressed unmodified opinions in our report dated March 18, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated, March 31, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Missoula, Montana  
March 31, 2017

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2016

The discussion and analysis of Missoula Public School District, School District No. 1 (the District) financial performance provides an overall review of the District's financial performance as a whole for the fiscal year ended June 30, 2016. Readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

### **FINANCIAL HIGHLIGHTS**

In November 2015, the Elementary District passed an \$88,000,000 bond levy election, and the High School District passed a \$70,000,000 bond levy election. Shortly thereafter, the Elementary District issued \$51,640,000 in bonds, and the High School District issued \$22,785,000 in bonds. The bond proceeds will be used to design, construct, improve, renovate, equip and furnish schools in accordance with the District's Smart Schools 2020 Strategic Facilities Plan. In addition to bond proceeds, the District received bond premium totaling nearly \$7,200,000. After deducting the underwriter's discount and other costs of issuance, total proceeds amounted to approximately \$81,100,000.

Another highlight for the 2016 fiscal year was the increase of the Elementary District's General Fund budget of approximately \$1,990,007 or 5.8%. This increase was due to an inflationary increase of 2.33% in the basic and per ANB (student) entitlements, and an increase in the ANB (student enrollment) of 178 in grades K-8. The ANB in the High School District, on the other hand, decreased and the General Fund increased by only \$290,373. With the budgetary increases, the Board of Trustees adopted budgets of \$36,174,332 in the Elementary District, and \$27,858,889 in the High School District.

During 2016, the District acquired and constructed approximately \$4,900,000 in capital assets, many of which were bond funded projects.

### **USING THIS FINANCIAL REPORT**

#### **Reporting the District as a Whole**

This report includes two District-wide statements that focus on operations of the District as a whole. These statements measure inflows and outflows using an economic resources measurement focus and the accrual basis of accounting. The *accrual basis of accounting* is similar to the accounting system used by most private sector companies. This basis takes into account all of the current year's revenues and expenses regardless of when the cash was received or paid.

The *Statement of Net Position* (pages 15 and 16) presents the "assets" (what is owned), "liabilities" (what is owed), deferred inflows, and the "net position" (the resources that would remain if all obligations were settled) of the District. The statement categorizes assets. Some assets are very liquid, such as cash and cash equivalents; some assets are restricted for certain purposes or reserved

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2016

for emergencies and cash flow purposes; some assets are invested in "fixed" or "capital" assets, such as buildings, equipment, and other long-lived property; and some assets are available to fund budgets of the following year. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* (page 17) presents information showing how the net position of the District changed during the most recent fiscal year.

The Statement of Net Position and the Statement of Activities provide information about the District's school functions, such as instruction, student services, administration, etc. Property taxes, state revenues, and federal revenues support most of these functions of the District. The District has no business-type activities.

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

Fund financial statements provide detailed information about the funds used by the District. State law and Generally Accepted Accounting Principles (GAAP) establish the fund structure of school districts. State law generally requires school districts to segregate money generated for certain specific purposes, like transportation, retirement, and debt service, into separate funds.

The financial statements report balances and activities of the "major" funds separately and combine activities of less significant funds under a single category. Significance of funds is determined by the proportional size of the fund, the relative importance of the activities of the fund to the school district's operations, and the existence of legal budget requirements.

The Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance are presented for governmental funds, such as the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Fund. These funds use the modified accrual basis of accounting and represent the majority of the District's activities and programs.

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

#### **Reporting the District's Trust and Fiduciary Responsibilities**

The District is the trustee, or fiduciary, for reporting the elementary and high school endowment funds and the elementary and high school student extracurricular funds. This report includes the activities in a separate Statement of Fiduciary Net Position and Changes in Fiduciary Net Position (pages 25 and 26). These activities are reported in this statement because the District cannot use these assets to fund operations. The District is responsible for ensuring these assets are used for their intended purpose.

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**Year Ended June 30, 2016**

**GENERAL FUND BUDGET**

As mentioned earlier, the High School District ANB (enrollment) for the 2016 fiscal year declined by 27. The ANB for the 2016 fiscal year is calculated from two enrollment counts taken in the prior fiscal year. ANB has a significant impact upon the calculations of a school district's General Fund budgets. If a district experiences an "unanticipated" enrollment increase compared to the counts taken the prior year, then that district can apply for a budget amendment. In October 2015, the High School District experienced an enrollment increase of 85 students compared to the Fall enrollment count from the prior year. This qualified the District for a budget amendment, and the District applied for and received a budget amendment of \$273,541 due to an unanticipated change in enrollment. Of the budget amendment increase, the District utilized approximately \$174,000 for teacher's salaries, student travel, books, printing, utilities and severance. Taking into account the budget amendment, there were no other significant variations between the final budget and actual expenditures. The Elementary District had no significant differences between the original budget and the final budget. Likewise, there were no significant variations between the final budget and actual expenditures.

The District tries to budget certain variable expenditures, like utilities, at a higher than average level so that, in a "worst case" year, adequate budget will be available to cover excess costs. In a normal year, excess budget is utilized to purchase textbooks and instructional supplies for new curriculum adoptions. The amount of excess funds has been shrinking in recent years as more and more pressure is put on the General Fund budgets. When funds are available near the end of the year, this is the main reason for budget transfers, though the transfers are relatively insignificant in relation to the total General Fund budget.

**THE DISTRICT AS A WHOLE**

Net position may serve as a useful indicator of a district's financial position. It is the amount by which assets exceed or (are less than) liabilities. District assets were less than liabilities by approximately \$22.5 million at the close of the most recent fiscal year. The District's net position improved by approximately \$2,700,000. Under current liabilities, the District's share of the net pension liability totaled approximately \$66,400,000 as of June 30, 2016. GASB Statement No. 68 (GASB 68) requires governmental entities to reflect a portion of the deficit resulting from underfunded pension plans if that governmental entity participates in the pension plan. Fiscal year 2015-16 was the second year that the District has implemented this accounting standard. Please see Notes to Financial Statements.

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**Year Ended June 30, 2016**

Table 1 summarizes the District's financial position.

**Table 1**

	<u>2016</u>	<u>2015</u>	<u>Variance</u>
Current assets	\$109,944,458	\$ 29,453,794	\$ 80,490,664
Capital assets	<u>41,006,180</u>	<u>37,708,178</u>	<u>3,298,002</u>
Total assets	150,950,638	67,161,972	83,788,666
Deferred outflows of resources	<u>6,655,411</u>	<u>7,036,937</u>	<u>(381,526)</u>
Total assets and deferred outflows	<u>157,606,049</u>	<u>74,198,909</u>	<u>83,407,140</u>
Current liabilities	11,396,360	6,170,499	5,225,861
Noncurrent debt payable	83,246,844	6,222,252	77,024,592
Other noncurrent liabilities	14,566,365	14,203,599	362,766
Pension liability	<u>66,386,818</u>	<u>61,937,578</u>	<u>4,449,240</u>
Total liabilities	175,596,387	88,533,928	87,062,459
Deferred inflows of resources	<u>4,525,189</u>	<u>10,848,465</u>	<u>(6,323,276)</u>
Total liabilities and deferred inflows	<u>180,121,576</u>	<u>99,382,393</u>	<u>80,739,183</u>
<b>NET POSITION</b>			
Net investment in capital assets	30,141,278	29,902,401	238,877
Restricted	8,365,641	8,779,549	(413,908)
Unrestricted	<u>(61,022,446)</u>	<u>(63,865,434)</u>	<u>2,842,988</u>
Total net position	<u>\$ (22,515,527)</u>	<u>\$ (25,183,484)</u>	<u>\$ 2,667,957</u>

Current assets are comprised mostly of cash and property taxes receivable. Current assets increased by approximately \$80,000,000 or 273%. This increase was primarily the result of the receipt of approximately \$81,100,000 of bond proceeds in the second half of the fiscal year.

Capital assets include all land owned by the District and buildings and equipment costing \$5,000 or more. Capital assets increased by approximately \$3,300,000. This change was the net result of depreciation expense totaling nearly \$1,580,000 and capital asset additions totaling \$4,875,000. The largest capital asset additions resulted from construction work-in-process discussed in a later section.

MISSOULA COUNTY PUBLIC SCHOOLS  
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2016

Current liabilities consist of items that are owed as of the financial statement date and are expected to be paid within the next twelve months. Current liabilities increased by \$5,315,000 as a result of higher accounts payable liabilities for construction work completed prior to June 30, 2016, but paid after that date. Also, current liabilities increased as a result of the new bond payments. Any bond payments due by June 30, 2017 would be considered a current liability as of June 30, 2016. Payments due within one year of June 30, 2016 totaled \$2,735,000.

Noncurrent debt consists of all bond liabilities, capital leases, and notes payable due in more than one year. Noncurrent liabilities increased by approximately \$82,000,000 in the 2016 fiscal year. This increase was primarily the result of the issuance of new bond debt in FY16 of \$74,425,000 and the increase in the net pension liability of \$4,500,000. The increase in net pension liability was calculated by an actuary hired by the State of Montana.

Net position is the difference between assets and deferred outflows and liabilities and deferred inflows. Some net position is restricted for capital projects and some is restricted for debt service. The Net Investment in Capital Assets portion of net position remained relatively unchanged compared to the prior year. Capital Assets purchased during the fiscal year are described in reasonable detail in a later section entitled "Capital Asset and Debt Administration."

Restricted net position decreased by \$650,000, primarily the result of a couple factors. First, the residual balances in the Debt Service Fund was utilized to make a bond interest payment that was not scheduled until the year of issuance. This resulted in a reduction of restricted net position of approximately \$155,000. Second, food service expenses exceeded revenues by approximately \$315,000.

#### Governmental Activities

In Montana, school districts must seek voter approval for additional levy authority to operate the school district over what was approved in prior years and what will be received from the state. The amount that school districts can levy for operating expenses in the General Fund is limited by state law. Overall, local property tax collections made up 38 percent of revenues for governmental activities for Missoula County Public Schools for fiscal year 2016 and approximately 37% for 2015.

The major categories of expenses are presented on Table 4 at page 12. Of these expenses, the largest function is instruction, which comprises 57 percent of total District expenses as was the case for the prior fiscal year.

#### Spending Levels Compared to Resource Levels

As shown on page 20, total expenses for governmental funds exceeded total revenues by approximately \$4,220,000 in the 2016 fiscal year. Approximately half of this excess is because the Building Fund capital outlay is reflected as an expense while the bond proceeds that fund the outlay is reflected as "other financing". The District's General Fund revenue exceeded expenses and other financing uses by approximately \$350,000. This excess was the result of a settlement

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SCHOOL DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2016

of an old tax protest in fiscal year 2016. General Fund tax collections totaled approximately \$450,000 more than budgeted for the 2016 fiscal year because of this settlement and release of approximately 75% of the taxes held in protest by the county.

As shown in Table 2 and 3, total General revenues increased in fiscal year 2016 by approximately \$2,792,000 (3.5%). The largest factor for this increase was the increases in property tax collections of approximately \$1,340,000. The increase in tax collections was the result of some modest increases in tax levies in the High School District's General Fund, Tuition Fund and Debt Service Fund which total approximately \$600,000. The increase was also the result of tax protest settlements by the Montana Department of Revenue with a number of large utilities.

The second largest reason for the increase in general revenue was the increase in state aid. The funding rate for the per ANB and BASIC entitlements increased by 2.33%, thereby providing an additional \$1,000,000 in direct state aid in the General Fund.

The final significant reason for the increase in general revenue was in the increases in the "other" revenue line item. Approximately \$600,000 of revenue accrued at the end of fiscal year 2016 which was a receivable from the E-rate program. The E-rate program provides discounts to schools and libraries for internet access as well as for wide area network and telephone services. Additionally, fiscal year 2016 was the first year where the construction costs of installing cabling and Wi-Fi capabilities was also added to the funding list. The District received approval for cabling and Wi-Fi discounts for almost all school buildings in fiscal year 2016.

Program revenue increased by more than \$1,300,000 or 6.8% compared to the prior year. The largest reason was an approximate increase of \$700,000 in Medicaid revenue received by the District and paid to contracted vendors providing mental health services to qualified students. The revenue in this area increased from approximately \$3,400,000 to around \$4,100,000 in fiscal year 2016. The increase in this revenue source was primarily due to an increase in the number of teams providing these services to qualified students.

Program revenue also increased because the state special education allotment in the General Fund increased by approximately \$225,000 in the 2016 fiscal year.

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**Year Ended June 30, 2016**

**Table 2**

	<u>2016</u>	<u>2015</u>	<u>Variance</u>
<b>REVENUES</b>			
General revenues	\$ 81,554,050	\$ 78,861,970	\$ 2,692,080
Program revenues	<u>21,057,128</u>	<u>19,717,009</u>	<u>1,340,119</u>
Total revenues	102,611,178	98,578,979	4,032,199
<b>EXPENSES</b>			
Governmental activities	<u>99,943,221</u>	<u>95,443,879</u>	<u>4,499,342</u>
Change in net position	<u>2,667,957</u>	<u>3,135,100</u>	<u>(467,143)</u>
Net position, beginning of year	(25,183,484)	38,451,486	(63,634,970)
Prior period adjustment	<u>-</u>	<u>(66,770,070)</u>	<u>66,770,070</u>
Net position, beginning of year restate	<u>(25,183,484)</u>	<u>(28,318,584)</u>	<u>3,135,100</u>
Net position, end of year	<u><u>\$ (22,515,527)</u></u>	<u><u>\$ (25,183,484)</u></u>	<u><u>\$ 2,667,957</u></u>

Table 2 reflects the total revenue increase of approximately \$4,032,000 as the result of the changes in program revenues and general revenues. This table also reflects total expenditures as well as a material prior period adjustment in the prior year. Both of these are covered in another section of this Management's Discussion and Analysis.

**Table 3**

	<u>2016</u>	<u>2015</u>	<u>Variance</u>
<b><u>General Revenues</u></b>			
District tax-levies	\$ 30,187,146	\$ 28,845,153	\$ 1,341,993
Missoula County	9,132,284	9,141,302	(9,018)
State of Montana	41,586,762	40,844,264	742,498
Investment earnings	141,072	29,577	111,495
Transfer	(100,000)	-	(100,000)
Other revenues	<u>606,786</u>	<u>1,674</u>	<u>605,112</u>
Total general revenues	<u><u>\$ 81,554,050</u></u>	<u><u>\$ 78,861,970</u></u>	<u><u>\$ 2,692,080</u></u>
<b><u>Program Revenues</u></b>			
Charges for services	\$ 1,520,285	\$ 1,482,027	\$ 38,258
Operating grants and contributions	<u>19,536,843</u>	<u>18,234,982</u>	<u>1,301,861</u>
Total program revenues	<u><u>\$ 21,057,128</u></u>	<u><u>\$ 19,717,009</u></u>	<u><u>\$ 1,340,119</u></u>



MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2016

**ANALYSIS OF FINANCIAL INFORMATION**

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

*What does the District do?* The District provides education for children in grades kindergarten through 12<sup>th</sup> grade, transportation to and from school, hot lunches, athletic and extracurricular activities, and services via various federal programs.

*Where do the resources come from?* The majority of resources utilized by the District come from local property taxes, state aid and state and federal grants. Table 3 shows the components of the general resources (revenues) and the program revenues of the District.

*What does it cost?* The major expenditure functions of the District include instructional services, support services, operations, administration, capital outlay, transportation, and debt service. Table 4 illustrates the costs of major functions as components of total expenditures.

Instructional expenditures increased by approximately \$1,713,000 or 3% in fiscal year 2016. The General Fund increase of \$2,300,000 primarily supported the cost of a 2% base salary increase for staff, as well as an increase of 9.5 new teachers and additional instructional paraprofessional positions.

One expense category with a significant change was "Other" expenses which increased by \$456,000. This increase is almost entirely due to bond issuance. Generally accepted accounting principles (GAAP) now call for these expenses to be fully expensed when incurred rather than amortized of the life of the bonds.

The final function with an expense variation considered to be noteworthy is the increase in interest costs of approximately \$1,300,000. This interest increase relates to the bonds issued in fiscal year 2016 from the time of issuance in early March 2016 to the end of the year.

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**Year Ended June 30, 2016**

**Table 4 Expenses**

	<u>2016</u>	<u>2015</u>	<u>Variance</u>
Instruction	\$ 56,558,860	\$ 54,846,151	\$ 1,712,709
Support services	13,155,695	12,947,124	208,571
General administration	8,457,005	8,331,393	125,612
Operations and maintenance	8,364,995	8,044,566	320,429
Student transportation	5,991,944	5,819,513	172,431
Food services	3,447,527	3,231,280	216,247
Extracurricular activities	2,064,596	2,054,846	9,750
Other	458,337	2,793	455,544
Interest and fiscal charges	1,444,261	166,213	1,278,048
	<u>\$ 99,943,221</u>	<u>\$ 95,443,879</u>	<u>\$ 4,499,342</u>

Overall, expenditures increased by approximately \$4,500,000 or 4.7%. The main reason for this increase was the additional bond interest expense, bond issuance costs, a 2% increase in base pay for staff, and new teaching positions.

Another relatively significant increase in expense was an approximate increase of 4% in the area of maintenance and operations. This change is primarily the result of an increase in contracted services associated with bond projects. The District contracted with a construction representative to aid in planning and execution of bond projects. These services are ongoing and will end up being capitalized as part of bond projects.

In the 2015 fiscal year, the District implemented GASB 68, as required by Generally Accepted Accounting Principles (GAAP). This new standard created guidance for reporting of pension liabilities. As a result, the District recognized a prior period adjustment of \$66,770,070 in fiscal year 2015. There was no such need to report a prior period adjustment in fiscal year 2016, resulting in the large variance in prior period adjustments from the 2014-2015 fiscal year to the 2015-2016 fiscal year.

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**Year Ended June 30, 2016**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

*Capital Assets*

*What are capital assets of the District?* Capital assets of the District are assets purchased for \$5,000 or more and having a useful life of more than one year. The majority of capital assets include buildings and building improvements and equipment. Technology purchases are mainly funded by the Technology Fund. However, because of the \$5,000 capitalization threshold for the District, these purchases are rarely considered capital assets.

**Table 5**

	<u>2016</u>	<u>2015</u>
Land	\$ 1,755,697	\$ 1,755,697
Construction in progress	3,673,550	-
Land improvements	1,222,194	1,222,194
Buildings and improvements	70,304,514	70,304,514
Equipment and other	<u>5,312,308</u>	<u>4,111,193</u>
Total capital assets	82,268,263	77,393,598
Less accumulated depreciation	<u>(41,262,083)</u>	<u>(39,685,420)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 41,006,180</u>	<u>\$ 37,708,178</u>

In looking at Table 5, total capital assets increased by \$3,300,000. During fiscal year 2016, the District added new network switches, wiring infrastructure, wireless access points, as well as new roofs to a number of buildings. Additionally, fiscal year 2016 marked the beginning of major construction and renovations projects financed with bond proceeds. Other fixed asset additions included the purchase of a new District-wide mower, a new grinder/mixer for an industrial education program, and a new Ray Jet cutter/engraver machine for the same industrial education program. Please refer to Note 3 for further information on the District's capital assets.

*Debt Administration*

In February 2016, the Elementary and High School Districts each went through the bond rating process in anticipation of issuing bonds. Each District received a rating of "Aa3". This rating is considered excellent and gives each District the ability to issue general obligation bonds at some of the lowest bond interest rates available to any government. The new bond rates in the Elementary District ranged from 2% to 4%, and had an average coupon rate of 3.73%. The High School District rates ranged from 2% to 4%, and have an average coupon rate of 3.499%. Please refer to Note 4 for further information on the District's debt.

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2016

**THE FUTURE OF THE DISTRICT**

The District continues to foster the development of an inspired 21<sup>st</sup> century educational culture that improves lifelong student achievement, develops remarkable educational leaders and engages the Missoula community in the future of its children. *See 2016 Annual Report.* In recent years the District has added the International Baccalaureate Programme, a Health Sciences Program, Dual Language Immersion at Paxson Elementary, as well as the Graduation Matters Missoula program. The goal of these programs, as well as others that have been added by the District, is to improve student engagement and achievement. To this end, the District Board of Trustees, administration, staff, and community members have developed a comprehensive long range facility plan based upon the 21<sup>st</sup> Century Model of Education. The bond election provided the necessary funds to pay the costs of improving the District's schools in accordance with the District's Smart Schools 2020 Strategies Facilities Plan. Significant progress has been made with many projects. For the start of the 2017-18 school year, the District expects to re-open Franklin Elementary School and Lowell Elementary School, which have been extensively remodeled and renovated. The District looks forward to a second bond issue in fiscal year 2018.

In the 2017 fiscal year, the District's General Fund Budgets increased by slightly more than \$2,000,000. With this increase, the District provided a 2% base salary increase for staff, added additional classroom and support staff, and increased other budget areas like utilities, insurance, extracurricular, severance and substitute pay. Of the \$2,000,000 increase, nearly \$1,225,000 was in the High School District.

Though the Montana State Legislature is still in session, it appears that the combined General Fund budget for the 2017-18 fiscal year will grow by approximately \$1,400,000, with about \$1,030,000 of growth in the Elementary District.

**CONTACT FOR FURTHER INFORMATION**

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Executive Director of Business Services, at the District, 915 South Avenue West, Missoula, Montana 59801.

FINANCIAL STATEMENTS

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**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**STATEMENT OF NET POSITION**  
**June 30, 2016**  
**(With Comparative Totals as of June 30, 2015)**

	<u>2016</u>	<u>2015</u>
<u>ASSETS AND DEFERRED OUTFLOWS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 106,071,248	\$ 25,503,810
Property taxes receivable	767,068	1,374,407
Due from other governments	2,483,453	1,844,949
Inventory	445,292	419,375
Prepaid expenses	5,575	31,536
Other current assets	<u>171,822</u>	<u>279,717</u>
Total current assets	<u>109,944,458</u>	<u>29,453,794</u>
CAPITAL ASSETS		
Land	1,755,697	1,755,697
Construction in progress	3,673,550	-
Land improvements	1,222,194	1,222,194
Buildings and improvements	70,304,514	70,304,514
Machinery and equipment	5,312,308	4,111,193
Less accumulated depreciation	<u>(41,262,083)</u>	<u>(39,685,420)</u>
Total capital assets	<u>41,006,180</u>	<u>37,708,178</u>
Total assets	<u>150,950,638</u>	<u>67,161,972</u>
DEFERRED OUTFLOW OF RESOURCES		
Contributions to pension plans in current fiscal year	<u>6,655,411</u>	<u>7,036,937</u>
Total deferred outflows of resources	<u>6,655,411</u>	<u>7,036,937</u>
Total assets and deferred outflows of resources	<u>\$ 157,606,049</u>	<u>\$ 74,198,909</u>

The Notes to Financial Statements are an integral part of this statement.

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**STATEMENT OF NET POSITION (CONTINUED)**  
**June 30, 2016**  
**(With Comparative Totals as of June 30, 2015)**

	<u>2016</u>	<u>2015</u>
<u>LIABILITIES, DEFERED INFLOWS AND NET POSITION</u>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and other current liabilities	\$ 4,504,418	\$ 2,425,390
Unearned revenue	1,604,322	1,579,497
Bonds payable - due within one year	4,505,714	1,240,000
Capital lease - due within one year	6,906	30,940
Compensated absences - due within one year	<u>775,000</u>	<u>894,672</u>
Total current liabilities	<u>11,396,360</u>	<u>6,170,499</u>
<b>NONCURRENT LIABILITIES</b>		
Bonds payable	83,115,339	6,085,000
Special improvement district and other debt	131,505	131,005
Capital lease	-	6,247
Compensated absences	9,318,301	9,067,652
OPEB liability	5,248,064	5,135,947
Pension liability	<u>66,386,818</u>	<u>61,937,578</u>
Total noncurrent liabilities	<u>164,200,027</u>	<u>82,363,429</u>
Total liabilities	<u>175,596,387</u>	<u>88,533,928</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension deferrals	4,252,237	10,520,923
Unamortized bond premium on refinanced bonds	<u>272,952</u>	<u>327,542</u>
Total deferred inflows of resources	<u>4,525,189</u>	<u>10,848,465</u>
<b>NET POSITION</b>		
Net investment in capital assets	30,141,278	29,902,401
Restricted	8,365,641	8,779,549
Unrestricted	<u>(61,022,446)</u>	<u>(63,865,434)</u>
Total net position	<u>(22,515,527)</u>	<u>(25,183,484)</u>
Total liabilities, deferred inflows and net position	<u>\$ 157,606,049</u>	<u>\$ 74,198,909</u>

The Notes to Financial Statements are an integral part of this statement.

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2016**  
**(With Comparative Totals as of June 30, 2015)**

Functions/Programs	Program Revenues			Net (Expense)	
	Expenses	Charges for Services	Operating Grants and Contributions	Revenue and	
				Changes in Net Position	
				2016	2015
Governmental Activities:					
Instruction	\$ 56,558,860	\$ 729,184	\$ 11,151,309	\$(44,678,367)	\$(44,326,196)
Support services	13,155,695	104,449	4,701,073	(8,350,173)	(8,956,195)
General administration	8,457,005	-	175,460	(8,281,545)	(7,595,380)
Operations and maintenance	8,364,995	134,819	9,684	(8,220,492)	(7,743,277)
Student transportation	5,991,944	-	934,513	(5,057,431)	(4,893,829)
Food services	3,447,527	551,833	2,421,568	(474,126)	(293,753)
Extracurricular activities	2,064,596	-	142,483	(1,922,113)	(1,897,223)
Other	458,337	-	753	(457,584)	145,196
Interest and bond issuance costs	<u>1,444,261</u>	<u>-</u>	<u>-</u>	<u>(1,444,261)</u>	<u>(166,213)</u>
Total governmental activities	<u>\$ 99,943,221</u>	<u>\$ 1,520,285</u>	<u>\$ 19,536,843</u>	<u>(78,886,093)</u>	<u>(75,726,870)</u>
General revenues:					
District tax-levies				30,187,146	28,845,153
Missoula County				9,132,284	9,141,302
State of Montana				41,586,762	40,844,264
Investment earnings				141,072	29,577
Transfers				(100,000)	-
Other				<u>606,786</u>	<u>1,674</u>
Total general revenues				<u>81,554,050</u>	<u>78,861,970</u>
Change in net position				<u>2,667,957</u>	<u>3,135,100</u>
Net position, beginning of year				(25,183,484)	38,451,486
Prior period adjustment				<u>-</u>	<u>(66,770,070)</u>
Net position, beginning of year restated				<u>(25,183,484)</u>	<u>(28,318,584)</u>
Net position, end of year				<u>\$(22,515,527)</u>	<u>\$(25,183,484)</u>

The Notes to Financial Statements are an integral part of this statement.



**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**June 30, 2016**

	General Fund	Elementary Building	High School Miscellaneous Programs	High School Building	Non-Major Governmental Funds	Total Governmental Funds
<b><u>ASSETS</u></b>						
Cash and investments	\$ 3,962,816	\$ 54,652,981	\$ 1,317,238	\$ 23,521,440	\$ 10,062,646	\$ 93,517,121
Property taxes receivable	537,162	-	-	-	229,906	767,068
Due from other governments	165,253	304,141	799,464	298,082	916,513	2,483,453
Due from other funds	-	-	-	-	553,777	553,777
Prepaid expenses	2,904	-	-	-	2,671	5,575
Inventory	-	-	-	-	28,602	28,602
Other current assets	108,350	-	20,893	-	27,068	156,311
Total assets	<u>\$ 4,776,485</u>	<u>\$ 54,957,122</u>	<u>\$ 2,137,595</u>	<u>\$ 23,819,522</u>	<u>\$ 11,821,183</u>	<u>\$ 97,511,907</u>
<b><u>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</u></b>						
<b>LIABILITIES</b>						
Due to other governments	\$ -	\$ -	\$ 9,011	\$ -	\$ 28,440	\$ 37,451
Due to other funds	-	-	553,777	-	-	553,777
Other current liabilities	553,851	903,632	504,384	712,404	327,373	3,001,644
Total liabilities	<u>553,851</u>	<u>903,632</u>	<u>1,067,172</u>	<u>712,404</u>	<u>355,813</u>	<u>3,592,872</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Uncollected tax revenue	537,162	-	96,320	-	268,105	901,587
Total deferred inflows of resources	<u>537,162</u>	<u>-</u>	<u>96,320</u>	<u>-</u>	<u>268,105</u>	<u>901,587</u>
<b>FUND BALANCES</b>						
Non-spendable	-	-	-	-	28,602	28,602
Restricted	-	25,742,430	-	17,573,803	8,135,717	51,451,950
Committed	-	-	-	-	1,089	1,089
Assigned	158,293	28,311,060	974,103	5,533,315	3,267,827	38,244,598
Unassigned	3,527,179	-	-	-	(235,970)	3,291,209
Total fund balances	<u>3,685,472</u>	<u>54,053,490</u>	<u>974,103</u>	<u>23,107,118</u>	<u>11,197,265</u>	<u>93,017,448</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,776,485</u>	<u>\$ 54,957,122</u>	<u>\$ 2,137,595</u>	<u>\$ 23,819,522</u>	<u>\$ 11,821,183</u>	<u>\$ 97,511,907</u>

The Notes to Financial Statements are an integral part of this statement.

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
June 30, 2016

Total fund balances - governmental funds	\$ 93,017,448
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Amounts reported for governmental activities in the statement  
of net position are different because:

Add internal service funds net position not reported in the governmental funds statements.	10,197,900
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$82,669,593 and the accumulated depreciation is \$41,040,587.	40,629,006
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Property tax revenue is recognized when earned (and the claim to resources is established) rather than when "available." All of the deferred inflows-uncollected tax revenue reported in the governmental funds is not available.	901,587
--	---------

Long-term liabilities, including bonds payable, compensated absences, other post employment benefits and pension liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(167,261,468)</u>
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Total net position - governmental activities	<u><u>\$(22,515,527)</u></u>
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The Notes to Financial Statements are an integral part of this statement.

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES – GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2016**

	General Fund	Elementary Building	High School Miscellaneous Programs	High School Building	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
District levies	\$ 21,430,893	\$ -	\$ -	\$ -	\$ 9,253,004	\$ 30,683,897
Investment interest	16,541	68,168	-	29,786	26,577	141,072
Tuition and fees	99,457	-	25,114	-	599,671	724,242
County sources	-	-	-	-	9,550,165	9,550,165
State sources	43,016,207	-	4,473,707	-	1,490,766	48,980,680
Federal sources	-	-	2,821,381	-	5,594,853	8,416,234
Other	-	304,141	667,382	298,311	1,554,361	2,824,195
Total revenue	<u>64,563,098</u>	<u>372,309</u>	<u>7,987,584</u>	<u>328,097</u>	<u>28,069,397</u>	<u>101,320,485</u>
<b>EXPENDITURES</b>						
Current:						
Instruction	40,256,921	-	3,361,566	-	12,455,808	56,074,295
Support services	7,537,586	-	4,149,645	-	1,386,615	13,073,846
Administration	7,096,677	-	76,817	-	1,230,921	8,404,415
Operations and maintenance	7,033,207	223,752	26,089	(57,982)	1,054,243	8,279,309
Student transportation	450,608	-	82,089	-	5,541,348	6,074,045
Food service	-	-	13,891	-	3,449,009	3,462,900
Extracurricular	1,741,157	-	61,144	-	204,613	2,006,914
Other	-	-	1,831	175,125	288,733	465,689
Capital outlay	-	2,943,781	39,917	1,725,991	164,976	4,874,665
Debt service:						
Principal retirement	-	-	-	-	1,240,000	1,240,000
Bond issuance costs	-	349,900	-	175,125	-	525,025
Interest and fiscal charges	-	-	-	-	1,061,605	1,061,605
Total expenditures	<u>64,116,156</u>	<u>3,517,433</u>	<u>7,812,989</u>	<u>2,018,259</u>	<u>28,077,871</u>	<u>105,542,708</u>
Revenues over (under) expenditures	446,942	(3,145,124)	174,595	(1,690,162)	(8,474)	(4,222,223)
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in (out)	(100,000)	-	-	-	-	(100,000)
Proceeds of bonds	-	56,353,154	-	24,430,313	840,865	81,624,332
Total other financing sources (uses)	<u>(100,000)</u>	<u>56,353,154</u>	<u>-</u>	<u>24,430,313</u>	<u>840,865</u>	<u>81,524,332</u>
Revenues over (under) expenditures and other financing sources	346,942	53,208,030	174,595	22,740,151	832,391	77,302,109
Fund balances, beginning of year	<u>3,338,530</u>	<u>845,460</u>	<u>799,508</u>	<u>366,967</u>	<u>10,364,874</u>	<u>15,715,339</u>
Fund balances, end of year	<u>\$ 3,685,472</u>	<u>\$ 54,053,490</u>	<u>\$ 974,103</u>	<u>\$ 23,107,118</u>	<u>\$ 11,197,265</u>	<u>\$ 93,017,448</u>

The Notes to Financial Statements are an integral part of this statement.

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2016**

Net change in fund balances - total governmental funds \$ 77,302,109

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

Governmental funds report capital outlays as expenditures.  
However, in the statement of activities the cost of those assets is  
allocated over their estimated useful lives and reported as  
depreciation expense. This is the amount by which capital outlay  
exceeded depreciation expense in the current period. 3,342,310

Revenues in the statement of activities that do not provide  
current financial resources are not reported as revenues in the  
funds. (496,751)

The governmental funds report increases in notes payable as  
revenues and repayment of bond principal as an expenditure.  
These have no effect on net position and are therefore not  
shown on the statement of activities. (80,241,963)

The current period net change in compensated absences, other  
post employment benefits payable, and pension liabilities did not  
require the use of current financial resources and, therefore,  
generated no expenditure to be reported in the governmental  
funds. 1,189,205

Change in net position of internal service funds reported within  
governmental activities. 1,573,047

Change in net position of governmental activities \$ 2,667,957

The Notes to Financial Statements are an integral part of this statement.

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**STATEMENT OF NET POSITION – INTERNAL SERVICE FUNDS**  
**June 30, 2016**

<b>ASSETS</b>	
Cash and investments	\$ 12,554,127
Other current assets	15,511
Inventory	<u>416,690</u>
Total current assets	<u>12,986,328</u>
Capital assets	598,670
Less accumulated depreciation	<u>(221,496)</u>
Capital assets, net	<u>377,174</u>
Total assets	<u><u>\$ 13,363,502</u></u>
<b>LIABILITIES</b>	
Payable to other funds	\$ 139,378
Capital lease payable - current portion	6,906
Other current liabilities	1,325,945
Unearned revenue	1,604,322
Compensated absences	<u>89,051</u>
Total current liabilities	<u>3,165,602</u>
<b>NET POSITION</b>	
Net investment in capital assets	377,174
Unrestricted	<u>9,820,726</u>
Total net position	<u>10,197,900</u>
Total liabilities and net position	<u><u>\$ 13,363,502</u></u>

The Notes to Financial Statements are an integral part of this statement.

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN**  
**NET POSITION – INTERNAL SERVICE FUNDS**  
**Year Ended June 30, 2016**

**OPERATING REVENUES**

Charges for services	\$ 1,365,068
Health insurance premiums	8,621,314
Donations by employees	2,481,828
Other local revenue	<u>4,561</u>
Total operating revenue	<u>12,472,771</u>

**OPERATING EXPENSES**

Medical claims	8,797,505
Personnel	802,157
Operations	830,122
Administration	3,758
Stop loss insurance	455,676
Depreciation	<u>44,308</u>
Total operating expenses	<u>10,933,526</u>
Operating income	<u>1,539,245</u>

**NON-OPERATING REVENUES (EXPENSES)**

Investment interest	35,818
Interest expense	<u>(2,016)</u>
Total non-operating revenues (expenses)	<u>33,802</u>

Change in net position	1,573,047
Net position, beginning of year	<u>8,624,853</u>
Net position, end of year	<u>\$ 10,197,900</u>

The Notes to Financial Statements are an integral part of this statement.

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUNDS**  
**Year Ended June 30, 2016**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Health insurance premiums received	\$ 11,294,032
Cash received for internal services	1,509,007
Medical claims paid	(8,638,987)
Cash paid to employees	(807,778)
Cash paid to suppliers for goods and services	<u>(1,305,104)</u>
Net cash flows from operating activities	<u>2,051,170</u>

**CASH FLOWS FROM CAPITAL AND RELATED  
FINANCING ACTIVITIES**

Acquisitions of fixed assets	(30,281)
Interest payments on capital lease	<u>(2,016)</u>
Net cash flows from capital and related financing activities	<u>(32,297)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest earnings	<u>35,818</u>
Net cash flows from investing activities	<u>35,818</u>

Net increase in cash and cash equivalents 2,054,691

Cash and cash equivalents, beginning of year 10,499,436

Cash and cash equivalents, end of year \$ 12,554,127

**RECONCILIATION OF OPERATING INCOME TO NET  
CASH FLOWS FROM OPERATING ACTIVITIES**

Operating income	\$ 1,539,245
Adjustments to reconciled operating income to net cash flows from operating activities:	
Depreciation	44,308
Change in other assets	2,406
Change in receivables	160,177
Change in inventory	(17,954)
Change in payables	297,896
Change in compensated absences	(5,621)
Change in unearned revenue	<u>30,713</u>
Net cash from operating activities	<u><u>\$ 2,051,170</u></u>

The Notes to Financial Statements are an integral part of this statement.

MISSOULA COUNTY PUBLIC SCHOOLS  
 SCHOOL DISTRICT NO. 1  
 STATEMENT OF NET POSITION – FIDUCIARY FUNDS  
 June 30, 2016

	Private-Purpose <u>Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and investments	\$ 1,423,408	\$ 4,591,127
Other current assets	<u>-</u>	<u>151,436</u>
Total assets	<u>\$ 1,423,408</u>	<u>\$ 4,742,563</u>
LIABILITIES		
Accounts payable and other current liabilities	<u>\$ 5,129</u>	<u>\$ 4,742,563</u>
NET POSITION		
Restricted for endowment	274,849	
Restricted for extracurricular	1,123,682	
Restricted for interlocal	<u>19,748</u>	
Total net position	<u>1,418,279</u>	
Total liabilities and net position	<u>\$ 1,423,408</u>	

The Notes to Financial Statements are an integral part of this statement.



MISSOULA COUNTY PUBLIC SCHOOLS  
 SCHOOL DISTRICT NO. 1  
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 Year Ended June 30, 2016

	Private-Purpose Trust Funds
ADDITIONS	
Investment interest	\$ 527
Contributions	84,821
Student receipts	<u>1,976,590</u>
Total additions	<u>2,061,938</u>
DEDUCTIONS	
Community	147,266
Extracurricular	<u>2,078,758</u>
Total deductions	<u>2,226,024</u>
Change in net position	(164,086)
Transfer in	100,000
Net position, beginning of year	<u>1,482,365</u>
Net position, end of year	<u>\$ 1,418,279</u>

The Notes to Financial Statements are an integral part of this statement.

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies and practices of the Missoula County Public Schools, School District No. 1 (the District), as reflected in the accompanying financial statements for the fiscal year ended June 30, 2016, conform to accounting principles generally accepted in the United States of America (GAAP) for local government units as prescribed by the Governmental Accounting Standards Board (GASB).

**New Accounting Pronouncement**

The District implemented the provisions of the following GASB pronouncements for the year ended June 30, 2016:

- Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement is effective for fiscal years beginning after June 15, 2015.
- Statement No. 82, *Pension Issues, an amendment of GASB No. 67, 68, and 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for fiscal years beginning after June 15, 2016 with early application encouraged.

**Reporting Entity**

The District operates under a district-wide elected eleven-member Board of Trustees and provides educational services to approximately 8,600 students in seventeen (K-12) schools throughout Missoula, Montana.

GAAP requires that these financial statements present the District (the primary government) and all component units. Component units, as established by GASB Statement No. 14, are separate organizations that are included in the District's reporting entity because of the significance of their operational or financial relationships with the District. All significant activities and organizations for which the District is financially accountable have been considered for inclusion in the basic financial statements. As a result of applying the component unit definition criteria above, it has been determined that the District does not have any component units.

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2016

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Reporting Entity (Continued)**

The District consists of two separate legal entities: 1) the High School District, and 2) the Elementary District. The High School District includes all of the area covered by the Elementary District plus several other elementary districts in Missoula County. The Elementary District provides education from kindergarten through eighth grade; the High School District provides education from grades nine through twelve. The District also provides programs for preschoolers, adult, and continuing education. Due to differences in funding and the associated tax base, separate accounting records of both entities must be maintained. Both entities are managed by the central Board of Trustees as noted above and by a central administration appointed by and responsible to the Board. Seven of the Board members have voting authority over all District operations; four have voting authority over high school issues only.

**Prior Period Comparative Amounts**

The basic financial statements include certain prior year comparative amounts but the notes to the financial statements do not contain the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2015, from which the comparative information was derived.

**Government-Wide and Fund Financial Statements**

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

Government-Wide Financial Statements – The statement of net position and statement of activities report information on all of the non-fiduciary activities of the primary government and distinguish between the governmental and business-type activities of the District. All internal activity has been eliminated.

The statement of net position presents the financial condition of the governmental and business-type activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's activities. Direct expenses are those that are specifically associated with a service, program, or department and are, therefore, clearly identifiable to a particular function.

Program revenues include: 1) charges paid by the recipient of the goods or services provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not properly included among program revenues are reported instead as general revenues.

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

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2016

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Government-Wide and Fund Financial Statements (Continued)**

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Property taxes, state and county aid, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The general fund accounts for all revenues and expenditures related to instruction, administration, and other activities, except those required to be accounted for in another fund.

The high school miscellaneous programs fund accounts for local, state, or federal grants and reimbursements.

The elementary and high school building fund accounts for revenue and expenditures related to capital improvements.

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2016

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

Additionally, the government also reports the following fund types:

Internal Service Funds – Used to account for health insurance coverage provided to District employees. They also account for the data processing services, purchasing services, and instructional materials services, which provide services on a cost reimbursement basis.

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

**Governmental Fund Balance Classifications**

The District has adopted Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in government funds.

GASB 54 requires, among other things, that all state and local governmental entities adopt a policy regarding spending priorities of fund balance in governmental funds. The fund balance resources of the District's governmental funds have been categorized as follows:

**RESOURCE CATEGORIES**

- Non-spendable: Resources not in spendable form (i.e. inventory) or those legally required to be maintained intact (i.e., principal portion of permanent trust funds)
- Restricted: Constraint is externally imposed by a third party (grantor, contributor, etc.), State Constitution, or by enabling legislation by the State Legislature
- Committed: Constraint is internally imposed by local government through a resolution
- Assigned: Constraint is internally expressed intent by government body or authorized official through a budget approval process or express assignment
- Unassigned: No constraints and negative fund balance in non-general fund funds.

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2016

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Governmental Fund Balance Classifications (Continued)**

**EXPENDITURE ORDER FOR RESOURCE CATEGORIES**

	General and Special Revenue Funds	Debt Service and Capital Project Funds
First	Restricted	Assigned
Second	Committed	Committed
Third	Assigned	Restricted
Fourth	Unassigned	Unassigned

**Budgets**

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

Fund	Budgeted	Non-Budgeted
General	X	
Special Revenue:		
Transportation	X	
School Food		X
Tuition	X	
Retirement	X	
Miscellaneous Programs		X
Comprehensive Insurance		X
Adult Education	X	
Traffic Education		X
Lease Rental Agreement		X
Compensated Absences		X
Technology	X	
Flexibility	X	
Debt Service	X	
Capital Projects:		
Building		X
Building Reserve	X	
Trust and Agency:		
Endowment Trust		X
Interlocal Agreement		X
Extracurricular Activities		X
Claims Clearing		X
Payroll Clearing		X

The General Fund budget is formulated on basic and per student entitlement amounts and enrollment. Budgets for other funds are based primarily on expected revenues and expenditures.

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2016

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Budgets (Continued)**

Budgeted fund expenditures are limited by State law to budgeted amounts. However, budgets may be amended for emergencies as defined by State law.

Budget authority may be transferred between expenditure classifications within the same fund. Budgeted amounts shown are the original budgeted amounts and do not reflect line item budget transfers within the funds during the year.

The budget policy is as follows:

- 1) By August 25 the Board of Trustees must meet to legally adopt the final budget. This budget is adopted consistent with the basis of accounting described in Note 1.
- 2) Upon adoption of the final budget, expenditures are limited to the total fund budget. The District has the right to transfer budgetary authority among the various line items of a fund, but not between funds. Unencumbered appropriations lapse at year-end.

**Property Taxes**

Property taxes are levied in August of each fiscal year, based on assessments as of the prior January 1. Taxes are normally billed in October and payable 50% by November 30 and 50% by May 31. Property taxes are maintained and collected by the County Treasurer; the District records such receipts when reported by the Treasurer. After those dates taxes are considered to be delinquent and a lien is placed upon the property. After three years the County exercises the lien and takes title to the property. Personal property taxes (other than those billed with real estate) are generally due thirty days after billing. Because of the above described collection procedures, estimated uncollectible taxes are minimal and, therefore, not recorded.

Taxes paid under protest are placed in an escrow fund by the County pending settlement of the protest. Under State law (MCA 15-1-402), the School District may demand payment from the protested tax escrow fund of all or part of the protested taxes from the second and subsequent years of the protest. No demand for payment has been made by the District.

**Cash and Investments**

Except for certain student activity funds, petty cash, interim accounts, and endowment funds maintained in separate bank accounts, the District's cash and investments are held in either the investment pool managed by the Missoula County Treasurer or the municipal investment account. The County Treasurer invests the pooled cash pursuant to State law (MCA 20-9-213[4]). Allowable investments include eligible securities as authorized by MCA 7-6-202; savings or time deposits in a state or national bank; building and loan association, savings and loan association, or credit union insured by the Federal Deposit Insurance Corporation (FDIC) or NCUA located in the State; repurchase agreements; and the State Short-Term Investment Pool (STIP) as provided in MCA 17-6-204.

For purposes of the statement of cash flows, the Internal Service Funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2016

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Inventories**

Inventory is valued at cost using an average cost method.

**Capital Assets**

Capital assets, which include land, land improvements, building and improvements, and machinery and equipment is reported in the government-wide financial statements. It is the policy of the District to capitalize all assets with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year.

Capital assets are stated on the basis of historical cost or estimated historical costs when actual costs are not available. Major fixed asset additions are financed primarily through bond proceeds.

Assets acquired through gifts or donations are recorded at their estimated fair market value at the date of acquisition.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	15–25 years
Buildings and improvements	25–60 years
Machinery and equipment	5–20 years

**Warrants Payable**

The District makes expenditures by means of warrants. These warrants are orders to the County Treasurer to pay a specified sum to the person named or to the bearer. State law requires that warrants be paid and registered if presented for a budgeted fund with insufficient cash and refused for payment for a non-budgeted fund with insufficient cash. Registered warrants become a liability of the District. Interest accrues thereon until publication of the call for payment. The District has no registered warrants as of June 30, 2016.

**Due from Other Governments**

Due from Other Government balances are composed primarily of: 1) revenue accruals in the General Fund for the state entitlement payment, and 2) revenue accruals for the various reimbursable type grants for which revenue is recognized when expenditures are made. If receipts exceed expenditures, the excess is generally deferred until expenditure of funds, but may be recognized as revenue depending on the terms of the particular grant agreement.

**Liability for Compensated Absences**

Compensated absences for vacation and sick leave are recorded as expenditures in the government funds when taken. Vacation leave, within certain limitations, may be payable to employees upon termination. Sick leave is accumulated for administrative, certified (teaching) and classified (non-teaching) employees at the rate of 12 working days for each year of service. Part-time employees are entitled to prorated benefits upon fulfillment of the qualifying period of time.



MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2016

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Liability for Compensated Absences (Continued)**

Upon termination, classified employees are eligible for compensation at one-fourth of the accumulated sick leave amount. Certified and administrative employees are eligible for compensation at one-half of the accumulated sick leave amount.

Liabilities incurred because of vacation and sick leave accumulated by employees are reported in the Statement of Net Position, and the internal service fund to the extent they are vested. Expenditures for unused leave are recorded when paid.

**Other Postemployment Benefits**

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

**Pension liability**

The District reports its proportionate share of the collective net pension liability, pension expense, deferred inflows, and deferred outflows of resources associated with pension plans that its employees are eligible to participate in. See Note 6 for a more in-depth discussion of this liability and related elements.

**NOTE 2. CASH AND CASH EQUIVALENTS**

The District participates in the Missoula County Treasurer's investment program. All funds deposited with the County Treasurer are pooled and invested in certificates of deposit, U.S. Treasury bills, and other short-term bank investments and STIP and are reported with cash at market value. Interest earnings are allocated to the individual funds of the District based on average month-end cash balances.

Short-term investments of the pool consist of the State of Montana Unified Investment Program, a daily repurchase agreement with a local bank, United States agencies, and certificates of deposit account for the management of cash temporarily idle during the year. The pool is valued at cost, which approximates fair value. There is no material difference between the value of the pool shares and the fair value. The pool is not SEC registered.

Montana law allows the local governing body to require security for the portion of deposits not guaranteed or insured. Deposit insurance is administered by the FDIC. Since the District invests in a cooperative pool, pledged securities for the various individual deposits and repurchase agreements are managed by the County Treasurer. Montana Code allows the County Treasurer to take collateral up to 50% of deposits, if the institution in which the deposit is made has a net worth to total assets ratio of 6% or more and 100% if the ratio is less than 6%.

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2016

**NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)**

Information as to the types and amounts of fully insured deposits and collateral for deposit with securities including derivative type investments held in STIP can be obtained from the Missoula County Treasurer. Risk in the event of loss is unclear in State law, but appears to be the liability of the County government. Because of the custodial involvement of the County government, and the commingling of cash in County deposits in the name of the County Treasurer, the risk classification according to GASB 40 is impracticable.

	<u>Credit Risk</u>	<u>Interest Rate Risk</u>
Missoula County Treasurer		
External Investment Pool	Not Rated	No Maturity

The District also has a municipal investment account (MIA) with a financial institution. The District directs the County Treasurer as to the amount of money to be invested with the MIA on a periodic basis. All deposits are collateralized 100% with U.S. Government securities pledged to the District but held in the institution's name. The interest rate was 0.02% at June 30, 2016, and the balance was \$3,440,742.

The District has a community benefit account bearing interest at 0.15% and is fully insured or collateralized with a financial institution. The balance in this account at June 30, 2016, was \$1,265,950.

At June 30, 2016, the District's balances were:

	<u>Governmental</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash in county treasury	\$ 99,966,394	\$ 5,035,706	\$ 105,002,100
Cash in municipal investment account	2,495,382	945,649	3,441,031
Cash in certificate of deposit	1,265,950	-	1,265,950
Short term investment pool	4,695	-	4,695
Cash on hand and in banks	2,338,827	33,180	2,372,007
	<u>\$ 106,071,248</u>	<u>\$ 6,014,535</u>	<u>\$ 112,085,783</u>

Certain student activity, petty cash, interim accounts, and endowment funds are deposited in interest-bearing checking and savings accounts covered by FDIC insurance.

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2016**

**NOTE 3. CAPITAL ASSETS**

A summary of capital asset activity for the year ended June 30, 2016, follows:

<u>Governmental activities</u>	<u>June 30, 2015</u>	<u>Additions</u>	<u>Transfers</u>	<u>June 30, 2016</u>
Capital assets not subject to depreciation:				
Land	\$ 1,755,697	\$ -	\$ -	\$ 1,755,697
Construction in process	-	3,673,550	-	3,673,550
Capital assets subject to depreciation:				
Land improvements	1,222,194	-	-	1,222,194
Buildings and improvements	70,304,514	-	-	70,304,514
Equipment and other	<u>4,111,193</u>	<u>1,201,115</u>	-	<u>5,312,308</u>
Total capital assets	<u>77,393,598</u>	<u>4,874,665</u>	-	<u>82,268,263</u>
Less accumulated depreciation for:				
Land improvements	(638,421)	(46,136)	4,710	(679,847)
Buildings and improvements	(36,339,621)	(1,272,090)	(4,710)	(37,616,421)
Equipment and other	<u>(2,707,378)</u>	<u>(258,437)</u>	-	<u>(2,965,815)</u>
Total accumulated depreciation	<u>(39,685,420)</u>	<u>(1,576,663)</u>	-	<u>(41,262,083)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 37,708,178</u>	<u>\$ 3,298,002</u>	<u>\$ -</u>	<u>\$ 41,006,180</u>

Internal Service Fund capital assets included above:

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2016</u>
Capital assets subject to depreciation:				
Equipment and other	\$ 598,670	\$ -	\$ -	\$ 598,670
Less accumulated depreciation	<u>(177,188)</u>	<u>(44,308)</u>	-	<u>(221,496)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 421,482</u>	<u>\$ (44,308)</u>	<u>\$ -</u>	<u>\$ 377,174</u>

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

Instruction	\$ 915,128
Support services	166,094
General administration	159,471
Operations and maintenance	177,491
Student transportation	12,139
Food services	23,195
Extracurricular activities	78,837
Internal service funds	<u>44,308</u>
	<u>\$ 1,576,663</u>

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2016

**NOTE 3. CAPITAL ASSETS (CONTINUED)**

The District also leases the Prescott Elementary school building to the Missoula International School. In August 2011, the lease was renewed for an additional five years until July 31, 2017, at a monthly rate of \$4,583, which increases approximately \$208 per month each year for the first three years. Beginning August 1, 2015, the rate will be adjusted each year up to 3% for inflation. The lessors also reimburse the District for the cost of utilities and insurance.

The District has office equipment costing \$198,488 under a capital lease. Accumulated depreciation totaled \$195,004.

**NOTE 4. LONG-TERM DEBT**

Changes in general long-term debt during 2016 were as follows:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
General obligation bonds:					
2010 Refunding issue - HS	\$ 4,000,000	\$ -	\$ (615,000)	\$ 3,385,000	\$ 635,000
2013 Refunding issue - HS	3,325,000	-	(625,000)	2,700,000	640,000
2016 General obligation issue - Elem	-	51,640,000	-	51,640,000	1,865,000
2016 General obligation issue - HS	-	22,785,000	-	22,785,000	870,000
Unamortized bond premium	-	7,111,053	-	7,111,053	495,714
Total bonds payable	\$ 7,325,000	\$ 81,536,053	\$ (1,240,000)	\$ 87,621,053	\$ 4,505,714
Special improvements	1,000	500	-	1,500	-
Homevale settlement	130,005	-	-	130,005	-
Capital lease	43,434	-	(36,528)	6,906	6,906
Compensated absences, internal service fund	88,421	630	-	89,051	-
Compensated absences	9,867,652	136,598	-	10,004,250	775,000
Total	<u>\$ 17,455,512</u>	<u>\$ 81,673,781</u>	<u>\$ (1,276,528)</u>	<u>\$ 97,852,765</u>	<u>\$ 5,287,620</u>
Deferred inflow:					
Unamortized bond premium on bond refinancing	<u>\$ 327,542</u>	<u>\$ -</u>	<u>\$ (54,590)</u>	<u>\$ 272,952</u>	<u>\$ 54,590</u>

**General Obligation Bonds**

In February 2013, the District issued \$4,785,000 of general obligation refunding bonds, Series 2013, to advance refund the outstanding Series 2005 General Obligation Refunding Bonds and to pay costs associated with the refunding. The Series 2013 Bonds bear interest ranging from 2.0% to 5.0% and mature in the years 2013 through 2020. Proceeds from the sale of the 2013 bonds, including an initial bond premium of \$436,722 together with \$347,000 from the debt service fund, were deposited into an irrevocable escrow to call the outstanding bonds. The advance refunding resulted in a savings of interest and principal repayments approximating \$570,000.

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2016

**NOTE 4. LONG-TERM DEBT (CONTINUED)**

**General Obligation Bonds (Continued)**

*2010 Refunding Bonds*

In July 2010, the District issued \$6,810,000 of general obligation refunding bonds, Series 2010, to advance refund the outstanding Series 2001 General Obligation Bonds and to pay costs associated with the refunding. The Series 2010 Bonds bear interest ranging from 2.5% to 3.0% and mature in years through 2018. Proceeds from the sale of the 2010 bonds of \$7,000,106, including an original issue premium of \$190,106 together with \$100,000 from the 2001 debt service reserve were deposited in an irrevocable escrow to call the outstanding 2001 bonds on July 1, 2011. The result of the advance refunding was a reduction in total debt service payments of \$655,112 and an economic gain of \$565,364. The difference between the amount placed into escrow and the outstanding refunded bonds was charged to interest expense in the statement of activities.

*2016 General Obligation Bonds*

In February 2016, the District issued \$74,425,000 of general obligation school building bonds, \$51,640,000 related to Elementary and \$22,785,000 related to High School. The Series 2016 Bonds bear interest ranging from 2.0% to 5.0% and mature in 2036. Proceeds from the sale of the 2016 bonds, including an initial bond premium of \$7,199,331 were deposited into an irrevocable escrow to call the outstanding bonds.

**Homevale Settlement Payable**

The District agreed to pay \$162,505 to the University of Montana for its portion of the proceeds from the City of Missoula for easements across the Homevale property when the City realigned the South Avenue and Brooks intersection. The District received a credit against this debt by allowing the use of the Sentinel softball field by the University.

**Special Improvements Payable**

Missoula County issued special improvement obligations with interest rates of 7.5% to 8.25% due in varying amounts through June 2024 to fund miscellaneous improvements for the elementary school.

Debt service principal and interest payments required on the bonds and notes payable are as follows:

Year Ended June 30,	General Obligation Bonds		SID Payable and Homevale		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 4,010,000	\$ 2,754,813	\$ -	\$ -	\$ 4,010,000	\$ 2,754,813
2018	4,125,000	2,649,613	1,500	-	4,126,500	2,649,613
2019	4,240,000	2,541,313	-	-	4,240,000	2,541,313
2020	4,380,000	2,411,250	-	-	4,380,000	2,411,250
2021	3,780,000	2,260,650	-	-	3,780,000	2,260,650
Thereafter	59,975,000	19,567,200	130,005	-	60,105,005	19,567,200
Total	<u>\$ 80,510,000</u>	<u>\$ 32,184,839</u>	<u>\$ 131,505</u>	<u>\$ -</u>	<u>\$ 80,641,505</u>	<u>\$ 32,184,839</u>

MISSOULA COUNTY PUBLIC SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 4. LONG-TERM DEBT (CONTINUED)**

Compensated absence payments can be made by the compensated absences fund or by the affected fund, usually the general fund. The District records an estimate of compensated absences due within one year based on prior three year history of payments made to retirees.

The District is authorized by state law to issue general obligation bonds up to an amount equal to the greater of 1) 100% of the taxable value of the property within the District or 2) 100% of the statewide average taxable valuation per student times the number of students in the District (calculated separately for the Elementary and High School Districts).

The District leased office equipment in 2012 at a cost of \$198,488. The capital lease matures in July 2017. Minimum monthly payments are \$3,484. The present value of future minimum lease payments as of June 30, 2016 is \$6,906.

**NOTE 5. RESERVED FUND BALANCES AND RESTRICTED NET ASSETS**

**Reserved Fund Balances**

State law permits a reserve for operations in certain budgeted funds. The maximum reserve for operations permitted for the School, which is a percentage of the subsequent year's budgeted expenditures, are as follows:

General Fund	10%
Transportation Fund	20%
Retirement Fund	20%
Adult Education Fund	35%

**MISSOULA COUNTY PUBLIC SCHOOLS**  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2016

**NOTE 5. RESERVED FUND BALANCES AND RESTRICTED NET ASSETS**  
**(CONTINUED)**

**Restricted Fund Balance**

Restricted fund balances under GASB 54 at June 30, 2016, are as follows:

	Elementary	High School	Total
Transportation	\$ 530,430	\$ 502,013	\$ 1,032,443
Food services	-	137,041	137,041
Tuition	93,006	34,554	127,560
Retirement	1,451,115	1,056,643	2,507,758
Insurance fund	-	8,485	8,485
Adult education	96,837	155,441	252,278
Traffic education	-	179,599	179,599
Compensated absences	4,001	7,222	11,223
Technology acquisition	58,947	66,336	125,283
Flexibility	6,372	767	7,139
Debt service	128,587	226,546	355,133
Building	25,742,430	17,573,803	43,316,233
Building reserve	<u>2,383,855</u>	<u>1,007,920</u>	<u>3,391,775</u>
Total	<u>\$ 30,495,580</u>	<u>\$ 20,956,370</u>	<u>\$ 51,451,950</u>

State law also permits a reserve for operations in the bond debt service funds equal to the payments required within 17 months after year-end. State law also permits the District to reserve collections of prior year's delinquent and protested property taxes.

**Assigned Fund Balance**

Assigned fund balances under GASB 54 at June 30, 2016, are as follows:

Encumbrances	\$ 238,373
Program and instruction	<u>38,006,225</u>
Total	<u>\$ 38,244,598</u>

**Restricted Net Position**

Restricted net position at June 30, 2016, consists of the following:

Capital projects	\$ 3,417,253
Debt service	385,691
Program	<u>4,562,697</u>
Total	<u>\$ 8,365,641</u>

**MISSOULA COUNTY PUBLIC SCHOOLS**  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2016

**NOTE 6. RETIREMENT PLANS**

The District participates in two state-wide, cost-sharing multiple-employer defined benefit retirement plans, which cover all employees, except certain substitute teachers and part-time, non-teaching employees. The Teachers' Retirement System (TRS) covers certified teaching employees, including principals and other administrators. The Public Employee Retirement System (PERS) covers non-teaching employees. The plans are established under state law with the TRS plan being administered by the Teachers' Retirement System and PERS administered by the Montana Public Employees Retirement Administration. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the state legislature. The following table presents the District's (Employer) proportion of TRS and PERS pension amounts.

	The District's proportionate share associated with TRS	The District's proportionate share associated with PERS	The District's Total Pension Amounts
Net pension liability	\$ 56,715,501	\$ 9,671,317	\$ 66,386,818
Deferred outflows of resources	5,945,241	710,170	6,655,411
Deferred inflows of resources	3,189,913	1,062,524	4,252,437
Pension expense	5,008,882	596,613	5,605,495

**Net Pension Liability**

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Montana Teachers' Retirement System (TRS or the System) and the 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, pension expense, deferred inflows, and deferred outflows of resources associated with pensions.

In accordance with Statement 68, TRS and PERS have special funding situations in which the State of Montana is legally responsible for making contributions directly to TRS and PERS on behalf of the District. Due to the existence of a special funding situation, the District is 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 District.



**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2016**

**NOTE 6. RETIREMENT PLANS (CONTINUED)**

**Teachers' Retirement System (TRS)**

	Net Pension Liability as of June 30, 2016	Net Pension Liability as of June 30, 2015	Percent of Collective NPL as of June 30, 2016	Percent of Collective NPL as of June 30, 2015	Change in Percent of Collective NPL
Missoula County Public Schools Proportionate share	\$ 56,715,501	\$ 53,154,264	3.4519%	3.4542%	-0.0023%
State of Montana Proportionate share associated with the District	37,971,426	36,405,765	2.3111%	2.3658%	-0.0547%
Total	<u>\$ 94,686,927</u>	<u>\$ 89,560,029</u>	<u>5.7630%</u>	<u>5.8200%</u>	<u>-0.0570%</u>

At June 30, 2016, the District recorded a liability of \$56,715,501 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The District's proportion of the net pension liability was based on the District's contributions received by TRS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of TRS' participating employers. At June 30, 2015, the District's proportion was 3.4519 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.

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

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2016

**NOTE 6. RETIREMENT PLANS (CONTINUED)**

**Teachers' Retirement System (TRS) (Continued)**

*Changes in actuarial assumptions and methods (Continued)*

- Mortality among disabled members was updated to the following:
  - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

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

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

**Pension Expense**

	Pension Expense as of June 30, 2016
Missoula County Public Schools: Proportionate share	\$ 3,381,778
State of Montana: Proportionate share associated with the District	1,627,104
	<u>\$ 5,008,882</u>

At June 30, 2016, the District recognized a pension expense of \$5,008,882 for its proportionate share of the TRS' pension expense. The employer also recognized grant revenue of \$1,627,104 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the District.

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2016

**NOTE 6. RETIREMENT PLANS (CONTINUED)**

**Deferred Inflows and Outflows**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 598,059	\$ -
Changes in actuarial assumptions	802,617	119,779
Differences between projected and actual investment earnings	-	3,045,572
Difference between actual and expected contributions	104,960	24,562
*Contributions paid to TRS subsequent to the measurement date - FY 2016 Contributions [to be entered by the entity]	4,439,605	-
Total	<u>\$ 5,945,241</u>	<u>\$ 3,189,913</u>

\*Amounts reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

Year ended June 30:	Deferred Outflows of Resources (a)	Deferred Inflows of Resources (b)	Amount recognized in Pension Expenses as an increase or (decrease) to Pension Expense (a) - (b)
2017	\$ 714,570	\$ 1,325,561	\$ (610,991)
2018	714,773	1,325,561	(610,788)
2019	76,293	1,320,067	(1,243,774)
2020	781,274	-	781,274
2021	-	-	-
Thereafter	-	-	-

**Plan Description**

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

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2016

**NOTE 6. RETIREMENT PLANS (CONTINUED)**

**Plan Description (Continued)**

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

**Summary of Benefits**

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

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

A guaranteed annual benefit adjustment (GABA) is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABA calculated prior to July 1, 2013, was 1.5% of the benefit payable as of January 1st. 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.

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2016**

**NOTE 6. RETIREMENT PLANS (CONTINUED)**

### Summary of Benefits (Continued)

## Overview of Contributions

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

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

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

## TRS Stand-Alone Statements

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

## Actuarial Assumptions

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

- Total Wage Increases\* 4%-8.51% for Non-University Members  
And 5% for University Members

**MISSOULA COUNTY PUBLIC SCHOOLS**  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2016

**NOTE 6. RETIREMENT PLANS (CONTINUED)**

**Actuarial Assumptions (Continued)**

- 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
  - 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 assumption.

**Discount Rate**

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 TRS Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. In addition to the contributions the State general fund will contribute \$25 million annually to the System payable July 1st of each year. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2119. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2016

**NOTE 6. RETIREMENT PLANS (CONTINUED)**

**Target Allocations**

<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 U.S. Equity	36.00%	4.80%	1.72800%
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>	<u>7.50%</u>	<u>0.30%</u>
	<u>100.00%</u>		4.75%

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

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

**Sensitivity Analysis**

	<u>1.0% Decrease (6.75%)</u>	<u>Current Discount Rate</u>	<u>1.0% Increase (8.75%)</u>
The employer's proportion of Net Pension Liability	\$ 77,922,532	\$ 56,715,501	\$ 38,871,000

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2016

**NOTE 6. RETIREMENT PLANS (CONTINUED)**

**Sensitivity Analysis (Continued)**

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

**Summary of Significant Accounting Policies**

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

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

**PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)**

**Net Pension Liability**

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers and the non-employer contributing entity are required to recognize and report certain amounts associated with their participation in PERS. Statement 68, which became effective June 30, 2015, includes requirements for employers to record and report their proportionate share of the collective Net Pension Liability (NPL), Pension Expense, and Deferred Inflows and Deferred Outflows of resources associated with pensions.

PERS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS on behalf of the employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government or school district's collective NPL that is associated with the non-state 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. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer.



**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2016

**NOTE 6. RETIREMENT PLANS (CONTINUED)**

**Public Employees' Retirement System (PERS) (Continued)**

**Net Pension Liability (Continued)**

The Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to the measurement date of June 30, 2015. For most employers, their June 30, 2016 reporting will use the 2016 reporting value presented in these notes.

	Net Pension Liability as of June 30, 2016	Net Pension Liability as of June 30, 2015	Percent of Collective NPL as of June 30, 2016	Percent of Collective NPL as of June 30, 2015	Change in Percent of Collective NPL
Missoula County Public Schools Proportionate share	\$ 9,671,317	\$ 8,783,314	0.691860%	0.704915%	-0.013055%
State of Montana Proportionate share associated with the District	<u>454,453</u>	<u>410,590</u>	<u>0.032510%</u>	<u>0.032952%</u>	<u>-0.000442%</u>
Total	<u>\$ 10,125,770</u>	<u>\$ 9,193,904</u>	<u>0.724370%</u>	<u>0.737867%</u>	<u>-0.013497%</u>

The Table above displays the employer proportionate share of the NPL and the employer's proportion of NPL for June 30, 2015 and 2016. The employer's proportion of the NPL was based on the employer's contributions received by the PERS during the measurement period July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of the PERS' participating employers. As of the employer's reporting date the employer recorded a liability of \$9,671,317 and the employer's proportionate share was .691860%.

*Changes in actuarial assumptions and methods:* There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

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

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

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2016

**NOTE 6. RETIREMENT PLANS (CONTINUED)**

**Public Employees' Retirement System (PERS) (Continued)**

**Pension Expense**

	Pension Expense as of <u>June 30, 2016</u>
Missoula County Public Schools:	
Proportionate share	\$ 568,374
State of Montana:	
Proportionate share associated with the District	<u>28,239</u>
	<u>\$ 596,613</u>

At June 30, 2016, the employer recognized its proportionate share of PERS' pension expense of \$596,613. The employer also recognized grant revenue of \$28,239 for the support provided by the State of Montana for the proportionate share of the pension expense that is associated with the employer, and grant revenue of \$232,101 from the Coal Tax Fund.

**Recognition of Deferred Inflows and Outflows**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. expected experience	\$ -	\$ 58,512
Changes in assumptions	-	-
Actual vs. expected investment earnings	-	818,780
Changes in proportion share and differences between employer contributions and proportionate share of contributions	-	185,232
Employer contributions subsequent to the measurement - *FY 2016 Contributions	<u>710,170</u>	<u>-</u>
Total	<u>\$ 710,170</u>	<u>\$ 1,062,524</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.

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2016

**NOTE 6. RETIREMENT PLANS (CONTINUED)**

**Recognition of Deferred Inflows and Outflows (Continued)**

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

Year ended June 30:	Amount of deferred outflows and deferred inflows recognized in future years as an increase or (decrease) to Pension Expense
2017	\$ (427,102)
2018	(427,102)
2019	(421,270)
2020	212,949
2021	-
Thereafter	-

**Plan Description**

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

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

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.

**Summary of Benefits**

**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.

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2016

**NOTE 6. RETIREMENT PLANS (CONTINUED)**

**Summary of Benefits (Continued)**

**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 services;  
Age 70, regardless of membership service.

**Early Retirement**

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;

**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.

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2016

**NOTE 6. RETIREMENT PLANS (CONTINUED)**

**Guaranteed Annual Benefit Adjustment (GABA)**

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

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

**Overview of Contributions**

Rates are specified by state law for periodic employer and employee contributions and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The State legislature has authority to establish and amend contribution rates to the plan. Members and employer contribution rates are shown in the table below.

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
2. Employer contributions to the system:
  - a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS-DBRP has dropped below 25 year and remains below the 25 years following the reduction of both the additional employer and member contribution rates.
  - b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
  - c. The portion of employer contributions allocated to the PCR are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2016

**NOTE 6. RETIREMENT PLANS (CONTINUED)**

**Overview of Contributions (Continued)**

3. Non Employer Contributions

a. Special Funding

- i. The State contributes 0.1% of members' compensation on behalf of local government entities.
- ii. The State contributes 0.37% of members' compensation on behalf of school district entities.

b. Not Special Funding

- i. The State contributes a portion of Coal Severance Tax income and earnings from the Coal Trust Permanent Trust fund.

Fiscal Year			State & Universities	Local Government		School Districts	
	Member		Employer	Employer	State	Employer	State
	Hired	Hired					
	<7/01/11	>7/01/11					
2016	7.9%	7.9%	8.370%	8.270%	0.10%	8.00%	0.370%
2015	7.9%	7.9%	8.270%	8.170%	0.10%	7.90%	0.370%
2014	7.9%	7.9%	8.170%	8.070%	0.10%	7.80%	0.370%
2012-2013	6.9%	7.9%	7.170%	7.070%	0.10%	6.80%	0.370%
2010-2011	6.9%		7.170%	7.070%	0.10%	6.80%	0.370%
2008-2009	6.9%		7.035%	6.935%	0.10%	6.80%	0.235%
2000-2007	6.9%		6.900%	6.800%	0.10%	6.80%	0.100%

**Stand-Alone Statements**

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

CAFR information including the stand alone financial statements can be found on the website at <http://mpera.mt.gov/annualreports.shtml>.

The latest actuarial valuation and experience study can be found at the website at <http://mpera.mt.gov/actuarialvaluations.shtml>.

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2016

**NOTE 6. RETIREMENT PLANS (CONTINUED)**

**Actuarial Assumptions**

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

- Investment Return (net of admin expense) 7.75%
- Admin expense as a percentage of payroll 0.27%
- General Wage Growth\* 4.00%
- \*includes Inflation at 3.00%
- Merit Increases 0% to 6%
- Postretirement Benefit Increases

**Guaranteed Annual Benefit Adjustment (GABS)**

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

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 PERS 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.

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2016

**NOTE 6. RETIREMENT PLANS (CONTINUED)**

**Discount Rate (Continued)**

The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was incorporated in the discount rate.

**Target Allocations**

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of a building block method in which best-estimated ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Summarized in the table below are best estimates of the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015.

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



**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2016

**NOTE 6. RETIREMENT PLANS (CONTINUED)**

**Sensitivity Analysis**

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
The District's proportion of net pension liability	\$ 14,911,079	\$ 9,671,317	\$ 5,246,460

The above table presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

**Summary of Significant Accounting Policies**

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

**NOTE 7. RISK MANAGEMENT**

The District faces a number of risks of loss including a) loss or damage to property, b) general liability, c) workers' compensation, and d) employee medical insurance. There were no significant changes in how the District covered its risks in fiscal year 2016.

The District has established two internal service funds (one for elementary and one for high school employees) to account for and finance its employee medical claims risks. Medical claims are self-insured up to \$100,000 per employee and approximately \$1,000,000 in the aggregate. Claims in excess of these amounts are insured by commercial carriers. Dental claims are also self-insured. The internal service funds charge premiums to the other District funds based on employees in those funds and their respective coverage.

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2016

**NOTE 7. RISK MANAGEMENT (CONTINUED)**

Change in medical claims liabilities were as follows:

	Elementary School	High School	Total
Claims liability, June 30, 2015	\$ 609,266	\$ 471,854	\$ 1,081,120
Claims incurred in 2016	5,851,324	4,085,396	9,936,720

Commercial insurance policies are purchased for loss or damage to property and for general liability. The District participates in one statewide public risk pool, the Montana Schools Group Workers' Compensation Risk Retention Program (WCRRP) for workers' compensation coverage.

GASB Statement No. 45 sets the accounting and financial reporting requirements for local governments that provide health care benefits to their retirees. Montana law (MCA 2-18-704) requires local governments to permit retired employees with at least five years of service and at least age 50 to remain in the government's medical insurance plan until they become eligible for Medicare. The law requires retirees to pay 100% of the employee premium amount.

The District's medical benefit plans have standard insurance premium amounts that are charged to all members, including retirees. The District pays the premium for the employee and the employee pays the premium for his or her family. Retirees pay their own premium.

**NOTE 8. VOLUNTARY TERMINATION BENEFITS**

The District has established an early notification of retirement benefit. If an employee submits a letter of retirement between January 1 and February 27 that results in a retirement from the District and the State retirement system effective on or before June 30, they will receive a one-time payment of \$500, less appropriate deductions, to be paid upon retirement. During the year ended June 30, 2016, 34 employees qualified for this benefit resulting in an expense of \$17,000.

**NOTE 9. OTHER POSTEMPLOYMENT BENEFITS**

The District has adopted the provisions of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pension Plans*. GASB 45 requires employers to calculate the actuarial liability for future retiree benefits and the annual required contribution (ARC) for retirees. Information on the District's health benefit plan is included below.

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2016

**NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Plan Description**

The District has a single-employer medical plan that provides medical and dental benefits to eligible employees, retirees, spouses, and dependents. Participation is elected by the retiree at the time of retirement. Benefit provisions are set annually by the Board of Trustees and may be revoked or altered at any time. Missoula County Public Schools is not required to issue a separate financial report for the plan.

**Funding Policy**

The District provides no direct subsidy to the health insurance premiums for retirees. Retirees pay for the entire cost of the health insurance premium. Eligible retired employees include former full-time and certain other employees. As of July 2014, there are 155 retirees and/or survivors enrolled for the employer's sponsored health insurance plan.

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

The District's other postemployment benefit (OPEB) cost (expense) is calculated based on the projected unit credit cost method as of June 30, 2016. The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, the total benefit to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service. Typically, when this method is introduced, there will be an initial liability for benefits credited for service prior to that date, and to the extent that the liability is not covered by assets of the plan, there is an unfunded liability to be funded over a stipulated period in accordance with an amortization schedule.

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

**Annual Required Contribution - June 30, 2016**

Annual required contribution (ARC)	\$ 405,000
Interest on net OPEB obligation	231,118
Adjustment to annual required contribution	<u>(179,000)</u>
Annual OPEB cost	457,118
Contributions made	<u>(345,000)</u>
Change in net OPEB obligation	112,118
Net OPEB obligation - beginning of year	<u>5,135,946</u>
Net OPEB obligation - end of year	<u><u>\$ 5,248,064</u></u>

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2016

**NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Annual OPEB Cost Obligation and Net OPEB Obligation (Continued)**

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal years ended June 30, 2016, 2015, and 2014, are as follows:

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	686,657	0.00%	4,342,000
June 30, 2015	452,290	76.30%	5,135,946
June 30, 2016	457,118	75.00%	5,248,064

**Funded Status and Funding Progress**

Because the plan has more than 200 members, the District is required to obtain an actuarial valuation at least every two years. The most recent actuarial valuation was performed on July 1, 2014. As of July 1, 2014, the actuarial accrued liability (AAL) for benefits was \$3,903,000, all of which was unfunded. There are no assets set aside to fund these benefits as the District funds post-retirement health insurance benefits on a pay-as-you-go basis.

**Annual Valuation - June 30, 2016**

Actuarial Accrued Liability (AAL)	\$ 3,903,000
Actuarial Value of Assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 3,903,000</u>
 Funded Ratio (actuarial value of assets / UAAL)	 0.00%

Actuarial valuations for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continuous revision as actual results are compared to past expectations and new estimates about the future are formulated. Although the valuation results are based on values, which the District's actuarial consultant believes are reasonable assumptions, the valuation results reflect a long-term perspective and, as such, are merely an estimate of what future costs may actually be. Deviations in any of several factors, such as future interest rates, medical cost inflation, Medicare coverage, and changes in marital status, could result in actual costs being less or greater than estimated.

The schedule of funding progress presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2016

**NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Actuarial Methods and Assumptions**

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

- Retirement rates for the Public Employees' Retirement System (PERS) and the Teacher's Retirement System (TRS) are assumed to follow the RP2000 Healthy Combined Mortality Table projected to 2015 using Scale AA applied on a gender-specific basis.
- The UUAL is being amortized using a level of percentage pay on an open basis of 30 years. The discount used is 4.5% along with a level percentage payroll growth assumption.
- The healthcare cost trend rate (HCCTR) was based on projections from historical rates of the District. The valuation used a HCCTR assumption of 9% (8% post Medicare) in the year July 1, 2012 to June 30, 2013, grading down by 0.50% each year until an ultimate HCCTR rate of 5.0% is reached.
- The Health CPI is assumed to increase at a rate of 3% each year.
- The participation assumption used in this valuation is 45% for pre-65 retirees and 15% for Medicare retirees.
- The results in this valuation incorporate certain provisions of the Patient Protection and Affordable Care Act.

**NOTE 10. COMMITMENTS AND CONTINGENCIES**

The District is subject to various legal disputes and claims arising in the normal course of operations. Based on information currently available, it is the opinion of management that the ultimate resolution of pending matters will not have a material adverse effect on the District's financial condition. Accordingly, no provision has been made in the financial statements for these contingencies.

At June 30, 2016, the District had encumbered approximately \$1.3 million against its 2016 budget, representing the estimated amount of unperformed purchase orders or contracts in process at year-end.

REQUIRED  
SUPPLEMENTAL INFORMATION

DRAFT

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**EMPLOYEE GROUP BENEFITS PLAN –**  
**OTHER POSTEMPLOYMENT BENEFITS (OPEB)**  
**June 30, 2016**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio (%)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (%)
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a/c)
July 1, 2016	-	\$ 3,903,000	\$ 3,903,000	0.00%	\$ 54,086,085	7.22%
July 1, 2015	-	3,903,000	3,903,000	0.00%	55,265,894	7.06%
July 1, 2014	-	5,811,000	5,811,000	0.00%	51,905,397	11.20%
July 1, 2013	-	5,811,000	5,811,000	0.00%	49,436,798	11.75%
July 1, 2012	-	5,621,548	5,621,548	0.00%	48,635,501	11.56%
July 1, 2011	-	5,621,548	5,621,548	0.00%	44,282,636	12.69%
July 1, 2010	-	20,521,351	20,521,351	0.00%	45,857,026	44.75%
July 1, 2009	-	19,736,638	19,736,638	0.00%	45,857,026	43.04%

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**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**SCHEDULE OF BUDGETARY COMPARISON –**  
**GENERAL FUNDS-BUDGET BASIS**  
**Year Ended June 30, 2016**

	<u>Elementary General Fund</u>	
	<u>Original</u>	
	<u>and Final</u>	
	<u>Budget</u>	<u>Actual</u>
REVENUES		
District levies	\$ 11,647,765	\$ 11,798,816
Investment interest	7,922	11,197
Tuition and fees	41,500	52,475
Federal sources	1,445,639	-
State sources	23,029,900	24,478,628
Other	<u>1,606</u>	<u>-</u>
Total revenue	<u>36,174,332</u>	<u>36,341,116</u>
EXPENDITURES		
Current:		
Instruction	23,497,991	23,600,407
Support services	4,904,768	4,788,811
Administration	4,091,103	4,137,025
Operations and maintenance	3,594,704	3,468,157
Student transportation	15,354	16,403
Extracurricular	<u>70,412</u>	<u>64,236</u>
Total expenditures	<u>36,174,332</u>	<u>36,075,039</u>
Revenues over expenditures	<u>\$ -</u>	<u>\$ 266,077</u>
OTHER FINANCING SOURCES		
Transfers out		<u>(100,000)</u>
Revenues and other financing sources over expenditures		166,077
Budget basis fund balances, June 30, 2015		<u>2,030,924</u>
Budget basis fund balances, June 30, 2016		<u>\$ 2,197,001</u>
GAAP basis fund balances, June 30, 2016		<u>\$ 2,197,001</u>



**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**SCHEDULE OF BUDGETARY COMPARISON –**  
**GENERAL FUNDS-BUDGET BASIS (CONTINUED)**  
**Year Ended June 30, 2016**

	High School General Fund		
	Original Budget	Final Budget	Actual
<b>REVENUES</b>			
District levies	\$ 9,460,108	\$ 9,460,108	\$ 9,632,077
Investment interest	5,221	5,221	5,344
Tuition and fees	35,000	35,000	46,982
Federal sources	1,076,828	1,076,828	-
State sources	17,281,732	17,455,273	18,537,579
Other	-	-	-
Total revenue	<u>27,858,889</u>	<u>28,032,430</u>	<u>28,221,982</u>
<b>EXPENDITURES</b>			
Current:			
Instruction	13,266,757	16,651,354	16,656,514
Support services	2,245,981	2,747,923	2,748,775
Administration	2,574,664	2,958,735	2,959,652
Operations and maintenance	2,763,279	3,563,946	3,565,050
Student transportation	326,281	434,070	434,205
Extracurricular	<u>1,328,325</u>	<u>1,676,401</u>	<u>1,676,921</u>
Total expenditures	<u>27,858,889</u>	<u>28,032,430</u>	<u>28,041,117</u>
Revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 180,865</u>
<b>OTHER FINANCING SOURCES</b>			
Transfers out			-
Revenues and other financing sources over expenditures			<u>180,865</u>
Budget basis fund balances, June 30, 2015			<u>1,307,606</u>
Budget basis fund balances, June 30, 2016			<u>\$ 1,488,471</u>
GAAP basis fund balances, June 30, 2016			<u>\$ 1,488,471</u>

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**SCHEDULE OF BUDGETARY COMPARISON –**  
**GENERAL FUNDS-BUDGET BASIS (CONTINUED)**  
**Year Ended June 30, 2016**

	General Fund Combined Totals		
	Original Budget	Final Budget	Actual
<b>REVENUES</b>			
District levies	\$ 9,460,108	\$ 21,107,873	\$ 21,430,893
Investment interest	5,221	13,143	16,541
Tuition and fees	35,000	76,500	99,457
Federal sources	1,076,828	2,522,467	-
State sources	17,455,273	40,485,173	43,016,207
Other	-	1,606	-
Total revenue	<u>28,032,430</u>	<u>64,206,762</u>	<u>64,563,098</u>
<b>EXPENDITURES</b>			
Current:			
Instruction	39,934,838	40,149,345	40,256,921
Support services	7,865,821	7,652,691	7,537,586
Administration	6,983,903	7,049,838	7,096,677
Operations and maintenance	7,314,600	7,158,650	7,033,207
Student transportation	448,168	449,424	450,608
Extracurricular	<u>1,759,695</u>	<u>1,746,814</u>	<u>1,741,157</u>
Total expenditures	<u>28,032,430</u>	<u>64,206,762</u>	<u>64,116,156</u>
Revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	446,942
<b>OTHER FINANCING SOURCES</b>			
Transfers out			<u>(100,000)</u>
Revenues and other financing sources over expenditures			<u>346,942</u>
Budget basis fund balances, June 30, 2015			<u>3,338,530</u>
Budget basis fund balances, June 30, 2016			<u>\$ 3,685,472</u>
GAAP basis fund balances, June 30, 2016			<u>\$ 3,685,472</u>

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**SCHEDULE OF PROPORTIONATE SHARE OF**  
**THE NET PENSION LIABILITY \***  
**Year Ended June 30, 2016**

	<u>2016</u>	<u>2015</u>
<b>Schedule of Proportionate Share of the Net TRS Pension Liability:</b>		
Employer's proportionate share of the net pension liability associated with the Employer	3.45190%	3.45420%
Employer's proportion of the net pension liability	\$ 56,715,501	\$ 53,154,264
State of MT proportionate share of the net pension liability associated with the Employer	<u>37,971,426</u>	<u>36,405,765</u>
<b>Total</b>	<b><u>\$ 94,686,927</u></b>	<b><u>\$ 89,560,029</u></b>
Employer's covered-employee payroll	\$ 44,058,840	\$ 43,559,708
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	128.727%	122.026%
Plan fiduciary net position as a percentage of the total pension liability	69.30%	70.36%
 <b>Schedule of Proportionate Share of the Net PERS Pension Liability:</b>		
Employer's proportionate share of the net pension liability associated with the Employer	0.69186%	0.70492%
Employer's proportion of the net pension liability	\$ 9,671,317	\$ 8,783,314
State of MT proportionate share of the net pension liability associated with the Employer	<u>454,453</u>	<u>410,590</u>
<b>Total</b>	<b><u>\$ 10,125,770</u></b>	<b><u>\$ 9,193,904</u></b>
Employer's covered-employee payroll	\$ 8,348,017	\$ 8,255,840
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	115.852%	106.389%
Plan fiduciary net position as a percentage of the total pension liability	78.40%	79.90%

*\*The amounts presented above for each fiscal year were determined as of June 30th, the employer's most recent fiscal year end. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**SCHEDULE OF CONTRIBUTIONS \***  
**Year Ended June 30, 2016**

	<b>2016</b>	<b>2015</b>
<b>Schedule of TRS Contributions:</b>		
Contractually required contributions	\$ 4,444,690	\$ 4,481,260
Contributions in relation to the contractually required contributions	\$ 4,444,690	\$ 4,481,260
Contribution deficiency (excess)	\$ -	\$ -
Employer's covered-employee payroll	\$ 45,711,129	\$ 44,063,040
Contributions as a percentage of covered-employee payroll	9.7234%	10.1701%

<b>Schedule of PERS Contributions:</b>		
Contractually required contributions	\$ 710,170	\$ 672,704
Contributions in relation to the contractually required contributions	\$ 710,170	\$ 672,704
Contribution deficiency (excess)	\$ -	\$ -
Employer's covered-employee payroll	\$ 8,689,595	\$ 8,348,017
Contributions as a percentage of covered-employee payroll	8.1730%	8.0580%

*\*The amounts presented above for each fiscal year were determined as of June 30th, the employer's most recent fiscal year end. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO PENSION SCHEDULES  
June 30, 2016

**Changes of Benefit Terms - TRS**

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

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

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

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

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

- (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.

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO PENSION SCHEDULES (CONTINUED)  
June 30, 2016

**Changes of Benefit Terms – TRS (Continued)**

(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 – TRS**

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.

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO PENSION SCHEDULES (CONTINUED)  
June 30, 2016

**Changes in actuarial assumptions and other inputs – TRS (Continued)**

- 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 – TRS**

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

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO PENSION SCHEDULES (CONTINUED)  
June 30, 2016

**Changes of Benefit Terms - PERS**

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

**2013 Legislative Changes – PERS**

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

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

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

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

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

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

**Guaranteed Annual Benefit Adjustment (GABA) – PERS**

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

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



**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**NOTES TO PENSION SCHEDULES (CONTINUED)**  
June 30, 2016

**Changes of Benefit Terms - PERS (Continued)**

**2015 Legislative Changes:**

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

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

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**NOTES TO PENSION SCHEDULES (CONTINUED)**  
June 30, 2016

**Changes of Benefit Terms - PERS (Continued)**

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%, 0.47%, 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 - PERS**

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

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

Admin Expense as a % of Payroll	0.27%
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The following changes were adopted in 2013 based on the 2013 Economic Experience study:

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

The following Actuarial Assumptions are from the June 201 Experience Study:

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

SUPPLEMENTAL INFORMATION  
REQUIRED BY THE  
MONTANA OFFICE OF PUBLIC INSTRUCTION

DRAFT

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**SCHEDULE OF ENROLLMENT**  
Year Ended June 30, 2016

<b>PER ENROLLMENT</b>	<b>Audit Per District Reports</b>	<b>Records</b>	<b>Difference</b>
<b><u>ENROLLMENT</u></b>			
<b>Fall - October 1, 2015</b>			
<b>Elementary School District</b>			
<b>Pre-K-6:</b>			
Pre-Kindergarten	-	-	-
Kindergarten - Half (enrolled 180+ hours per year)	-	-	-
Kindergarten - Half (enrolled <180 hours per year)	-	-	-
Grades K(Full) - 6 (enrolled 360+ hours per year)	4,194	4,194	-
Grades K(Full) - 6 (enrolled 180-359 hours per year)	-	-	-
Grades K(Full) - 6 (enrolled <180 hours per year)	-	-	-
<b>7-8:</b>			
Grades 7 - 8 (enrolled 360+ hours per year)	1,027	1,027	-
Grades 7 - 8 (enrolled 180-359 hours per year)	1	1	-
Grades 7 - 8 (enrolled <180 hours per year)	-	-	-
Total Elementary	5,222	5,222	-
<b>High School District</b>			
<b>9-12:</b>			
Grades 9 - 12 (enrolled 360+ hours per year)	3,618	3,618	-
Grades 9 - 12 (enrolled 180-359 hours per year)	5	5	-
Grades 9 - 12 (enrolled <180 hours per year)	10	10	-
Total High School	3,633	3,633	-
19 Year-olds included in Grades 9-12 above	3	3	-
Job Corps/MT Youth Academy Students included in Grades 9 - 12 above	5	5	-

**MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
SCHEDULE OF ENROLLMENT (CONTINUED)  
Year Ended June 30, 2016**

**Spring - February 1, 2016**

**Elementary School District**

**K-6:**

Pre-Kindergarten  
Kindergarten - Half (enrolled 180+ hours per year)  
Kindergarten - Half (enrolled <180 hours per year)  
Grades K(Full) - 6 (enrolled 360+ hours per year)  
Grades K(Full) - 6 (enrolled 180-359 hours per year)  
Grades K(Full) - 6 (enrolled <180 hours per year)

<b>Audit Per District Reports</b>	<b>Records</b>	<b>Difference</b>
-	-	-
-	-	-
-	-	-
4,204	4,204	-
-	-	-
-	-	-

**7-8:**

Grades 7 - 8 (enrolled 360+ hours per year)  
Grades 7 - 8 (enrolled 180-359 hours per year)  
Grades 7 - 8 (enrolled <180 hours per year)

1,023	1,023	-
1	1	-
-	-	-

Total Elementary

5,228	5,228	-
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**High School District**

**9-12:**

Grades 9 - 12 (enrolled 360+ hours per year)  
Grades 9 - 12 (enrolled 180-359 hours per year)  
Grades 9 - 12 (enrolled <180 hours per year)

3,554	3,554	-
3	3	-
9	9	-

Total High School

3,566	3,566	-
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19 Year-olds included in Grades 9-12 above  
Early Graduates  
Job Corps/MT Youth Academy Students

3	3	-
32	32	-

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**SCHEDULE OF CHANGES IN NET POSITION - EXTRACURRICULAR**  
**Year Ended June 30, 2016**

	Balance			Balance
	June 30, 2015	Revenue	Expenditures	June 30, 2016
Hellgate High School	\$ 471,373	\$ 607,560	\$ 711,803	\$ 367,130
Seeley-Swan High School	157,385	112,082	72,617	196,850
Sentinel High School	251,249	611,846	652,060	211,035
Big Sky High School	230,832	566,783	590,023	207,592
District Wide	2,221	19,655	19,922	1,954
Cold Springs Elementary	-	512	512	-
Franklin Elementary	-	220	102	118
Hawthorne Elementary	7,756	8,776	7,712	8,820
Jefferson Center	52,957	122,153	121,996	53,114
Lowell Elementary	108	-	-	108
Paxson Elementary	170	702	316	556
C.S. Porter Middle School	9,956	38,314	32,695	15,575
Russell Elementary	566	730	-	1,296
Washington Middle School	28,362	72,273	60,333	40,302
Meadow Hill Middle School	12,438	33,900	27,358	18,980
Willard Alternative High School	(780)	2,677	2,626	(729)
	<u>\$ 1,224,593</u>	<u>\$ 2,198,183</u>	<u>\$ 2,300,075</u>	<u>\$ 1,122,701</u>

This schedule has been summarized by school. A detailed schedule is available upon request.

OTHER INFORMATION

DRAFT

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**OTHER INFORMATION**  
**June 30, 2016**

**DESCRIPTION OF THE DISTRICT**

School District No. 1 is comprised of two districts, an elementary district and a high school district. The Districts provide public education for students in grades preschool through grade twelve and adults. The public education provided includes services for handicapped, basic education, special needs, gifted, vocational, and traffic education. There are nine elementary schools, three middle schools, four high schools, and an adult education school. The estimated population of the Elementary District is 68,000 and 100,000 for the High School District. The county-wide population is estimated at 109,000. The fall enrollment of students attending the District's schools is as follows:

	Average Fall Enrollment Year Ended June 30,							
	2009	2010	2011	2012	2013	2014	2015	2016
Grades 9-12	3,659	3,616	3,643	3,665	3,561	3,596	3,519	3,633
Grades 6-8	1,526	1,525	1,504	1,506	1,547	1,508	1,548	1,593
Grades K-5	<u>3,233</u>	<u>3,281</u>	<u>3,339</u>	<u>3,395</u>	<u>3,478</u>	<u>3,496</u>	<u>3,644</u>	<u>3,629</u>
Total	<u>8,418</u>	<u>8,422</u>	<u>8,486</u>	<u>8,566</u>	<u>8,586</u>	<u>8,600</u>	<u>8,711</u>	<u>8,855</u>
Increase (decrease)	(215)	4	64	80	20	14	111	144
Percentage change from prior year	-2.49%	0.05%	0.76%	0.94%	0.23%	0.16%	1.29%	1.65%

**SCHOOL DISTRICT VALUATIONS**

	As of January 1,						
	2010	2011	2012	2013	2014	2015	2016
<b>ELEMENTARY</b>							
Assessed Valuation	\$ 3,643,197,241	\$ 3,824,539,620	\$ 3,805,884,721	\$ 3,964,517,962	\$ 4,075,397,432	\$ 6,798,935,815	\$ 6,845,815,813
Taxable Valuation	102,153,308	104,678,227	104,678,227	106,045,274	106,626,049	106,720,341	109,462,027
Taxable Valuation as a Percent of Assessed Valuations	<u>2.80%</u>	<u>2.74%</u>	<u>2.75%</u>	<u>2.67%</u>	<u>2.62%</u>	<u>1.57%</u>	<u>1.60%</u>
<b>HIGH SCHOOL</b>							
Assessed Valuation	\$ 6,615,004,127	\$ 6,915,125,062	\$ 6,806,202,585	\$ 7,107,410,347	\$ 7,338,761,046	\$ 11,935,647,630	\$ 12,108,475,706
Taxable Valuation	176,553,912	179,486,017	179,950,510	181,892,508	183,502,389	183,149,451	190,465,906
Taxable Valuation as a Percent of Assessed Valuations	<u>2.67%</u>	<u>2.60%</u>	<u>2.64%</u>	<u>2.56%</u>	<u>2.50%</u>	<u>1.53%</u>	<u>1.57%</u>



**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**OTHER INFORMATION (CONTINUED)**  
**June 30, 2016**

**SCHOOL DISTRICT TAX LEVIES (in mills)**

	Year Ended June 30,							
	2009	2010	2011	2012	2013	2014	2015	2016
<b>ELEMENTARY</b>								
General	102.13	103.73	103.48	104.07	102.26	104.92	105.07	107.80
Transportation	24.01	24.12	24.53	28.58	27.22	26.60	27.87	28.54
Debt Service	1.21	1.92	-	-	-	-	-	-
Adult Education	1.08	1.19	0.92	1.27	1.29	1.23	1.23	0.87
Technology	3.03	3.02	2.96	2.89	2.85	7.97	7.96	7.87
Flex	-	-	1.03	-	-	-	-	-
Building Reserve	<u>8.78</u>	<u>8.77</u>	<u>8.58</u>	<u>8.37</u>	<u>8.26</u>	<u>8.22</u>	<u>8.21</u>	<u>4.63</u>
Total Elementary Levies	<u>140.24</u>	<u>142.75</u>	<u>141.50</u>	<u>145.18</u>	<u>141.88</u>	<u>148.94</u>	<u>150.34</u>	<u>149.71</u>
<b>HIGH SCHOOL</b>								
General	55.94	56.03	54.48	56.34	52.16	51.35	50.73	50.56
Transportation	8.32	6.71	6.70	7.27	7.31	7.45	7.54	7.84
Debt Service	6.87	6.17	0.27	5.75	5.28	4.54	4.73	5.80
Adult Education	2.61	2.07	2.01	1.97	2.00	2.00	2.05	2.25
Tuition	0.17	0.30	2.54	0.11	0.23	0.31	1.16	2.24
Technology	2.61	2.59	6.09	2.50	2.47	4.09	4.10	4.01
Building Reserve	<u>2.61</u>	<u>2.59</u>	<u>2.54</u>	<u>2.50</u>	<u>2.47</u>	<u>2.45</u>	<u>2.46</u>	<u>2.41</u>
Total High School Levies	<u>79.13</u>	<u>76.46</u>	<u>74.63</u>	<u>76.44</u>	<u>71.92</u>	<u>72.19</u>	<u>72.77</u>	<u>75.11</u>

**OTHER TAX LEVIES (in mills)**

The following table shows the mill rates per \$1,000 of taxable value for property located in the City of Missoula Elementary District No. 1 and the Missoula County High School District for the year ended:

	Year ended June 30,							
	2009	2010	2011	2012	2013	2014	2015	2016
Missoula County	140.35	140.60	139.80	142.47	145.01	150.32	160.09	172.32
Open Space Bond Levy	-	1.66	2.33	3.04	3.33	3.45	2.74	3.22
University Levy	6.00	6.00	6.00	6.00	6.00	6.00	6	6
State School Equalization	40.00	40.00	40.00	40.00	40.00	40.00	40	40
County-wide School Levy	105.61	104.62	103.45	100.94	104.60	104.60	105.64	103.5
Urban Transportation	14.86	16.30	16.45	17.69	19.51	21.05	34.26	40.47
Missoula School District No. 1	140.24	142.75	141.50	145.18	141.88	148.94	150.34	149.71
MCHS	79.13	76.46	74.63	76.44	71.92	72.19	72.77	75.11
Missoula Rural Fire	88.59	94.13	97.98	97.97	100.33	102.39	112.59	114.33
East Missoula Fire	23.36	23.77	24.65	25.01	27.42	42.62	42.89	45.49
City of Missoula	222.45	222.45	225.56	233.24	240.90	243.52	245.62	260.08
Road/Health	32.72	32.36	32.36	32.39	32.58	32.58	32.58	34.58
Animal Control	1.62	1.60	1.60	1.60	1.61	1.61	1.61	1.61
Medical Levy	1.88	1.84	1.82	2.19	2.18	2.18	2.18	3.38
Emergency	-	-	-	-	-	-	-	-
Total Levies	<u>896.81</u>	<u>904.54</u>	<u>908.13</u>	<u>924.16</u>	<u>937.27</u>	<u>971.45</u>	<u>1,009.31</u>	<u>1,049.80</u>

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**OTHER INFORMATION (CONTINUED)**  
June 30, 2016

**TAX COLLECTIONS**

The following tables demonstrate the tax collection history for tax levies by the High School District's general fund only for the period of July 1, 2003 through June 30, 2016, and all funds with tax levies for the period July 1, 2003 through June 30, 2016, and by all budgeted funds for the Elementary District.

Year Ended June 30,	Total Tax Levy	Current Tax Collections	Current Collections as a Percent of Levy	Total Tax Collections	Total Collections as a Percent of Levy
<b>HIGH SCHOOL</b>					
2016	\$ 14,050,388	\$ 14,282,570	101.65%	\$ 14,282,570	101.65%
2015	13,324,295	13,843,920	103.90%	13,843,920	103.90%
2014	13,246,710	13,114,111	99.00%	13,114,111	99.00%
2013	13,081,624	13,196,785	100.88%	13,196,785	100.88%
2012	13,753,713	13,780,310	100.19%	13,780,310	100.19%
2011	13,206,990	13,273,846	100.51%	13,273,846	100.51%
2010	13,298,245	13,231,109	99.50%	13,231,109	99.50%
2009	13,622,509	13,675,788	100.39%	13,675,788	100.39%
2008	12,941,490	12,302,123	95.06%	12,302,123	95.06%
2007	13,242,712	12,110,597	91.45%	12,110,597	91.45%
2006	12,983,689	12,434,729	95.77%	12,434,729	95.77%
2005	12,131,996	11,746,574	96.82%	11,746,574	96.82%
2004	11,801,126	11,397,890	96.58%	11,697,730	99.12%
2003	11,482,393	10,887,086	94.82%	11,434,007	99.58%
<b>ELEMENTARY</b>					
2016	\$ 16,175,807	\$ 16,401,325	101.39%	16,401,325	101.39%
2015	16,044,238	16,800,003	104.71%	16,800,003	104.71%
2014	15,879,897	15,613,032	98.32%	15,613,032	98.32%
2013	15,044,770	15,021,928	99.85%	15,021,928	99.85%
2012	15,196,651	15,044,436	99.00%	15,044,436	99.00%
2011	14,453,531	14,619,640	101.15%	14,619,640	101.15%
2010	14,262,263	14,120,564	99.01%	14,120,564	99.01%
2009	13,989,910	14,316,672	102.34%	14,316,672	102.34%
2008	14,436,513	13,646,623	94.53%	13,646,623	94.53%
2007	14,506,205	13,246,171	91.31%	13,246,171	91.31%
2006	14,206,876	13,676,060	96.26%	13,676,060	96.26%
2005	13,886,741	13,596,914	97.91%	13,596,914	97.91%

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**OTHER INFORMATION (CONTINUED)**  
June 30, 2016

**MAJOR TAXPAYERS**

The following table lists the major taxpayers within the Elementary School District for the year ended June 30, 2016, listed in declining order of taxable value.

<u>Taxpayer</u>	<u>Business</u>	<u>Taxable Value</u>	<u>Percent of Total Taxable Value</u>
Northwestern Corporation	Utility	\$ 13,472,442	12.47%
Mountain Water	Water Utility	1,577,437	1.46%
Charter Communications	Communications	1,491,557	1.38%
CenturyLink Inc.	Communications	1,300,943	1.20%
Southgate Mall	Retail Shopping Mall	969,663	0.90%
Celoco Ptnrship DBA Verizon Wireless	Communications	599,664	0.56%
MT Rail Link	Railroad	583,913	0.54%
St. Patrick Hospital	Hospital	412,003	0.38%
UT Missoula LLC	Retail Shopping Center	407,689	0.38%
Walmart Corporation	Discount Retail Shopping	257,690	0.24%
Total		<u>\$ 21,073,001</u>	<u>19.51%</u>

The following table lists the major taxpayers within the High School District for the year ended June 30, 2016, listed in declining order of taxable value.

<u>Taxpayer</u>	<u>Business</u>	<u>Taxable Value</u>	<u>Percent of Total Taxable Value</u>
Northwestern Corporation	Utility	\$ 17,008,846	9.09%
Mountain Water	Water Utility	1,940,745	1.04%
Charter Communications	Communications	1,912,557	1.02%
MT Rail Link	Railroad	1,489,336	0.80%
CenturyLink Inc.	Communications	1,444,564	0.77%
Celoco Ptnrship DBA Verizon Wireless	Communications	1,311,909	0.70%
RCHP Billings Missoula LLC	Medical Facility/Offices	1,028,709	0.55%
Southgate Mall	Retail Shopping Mall	1,008,464	0.54%
Roseburg Forest Products Co.	Wood Products	894,697	0.48%
Missoula Electric Coop	Electric Power Utility	827,120	0.44%
Total		<u>\$ 28,866,947</u>	<u>15.43%</u>

MISSOULA COUNTY PUBLIC SCHOOLS  
 SCHOOL DISTRICT NO. 1  
 OTHER INFORMATION (CONTINUED)  
 June 30, 2016

**MAXIMUM BONDED INDEBTEDNESS**

State statutes limit the maximum bonded indebtedness to 50% of the District's taxable valuation. For the Elementary District, that is \$88,363,200 and for the High School District that is \$144,135,295. For school districts that qualify for guaranteed tax base aid, the law permits maximum bonded indebtedness equal to 50% of the statewide taxable valuation per student (average number belonging). Maximum bonded indebtedness under this exception is as follows:

SCHOOL DISTRICT	Statewide Taxable Value Per Student	Average Number Belonging June 30, 2016	Percent Allowed	Maximum Bonded Indebtedness	Less: Debt Outstanding	Remaining Bonding Capacity June 30, 2016
High School	\$ 79,130	3,643	50%	\$ 144,135,295	\$ 29,000,005	\$ 115,135,290
Elementary	32,800	5,388	50%	<u>88,363,200</u>	<u>51,640,000</u>	<u>36,723,200</u>
Total				<u>\$ 232,498,495</u>	<u>\$ 80,640,005</u>	<u>\$ 151,858,490</u>

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**OTHER INFORMATION (CONTINUED)**  
**COMBINING BALANCE SHEETS – GENERAL FUNDS**  
**June 30, 2016**

	<u>Elementary</u> <u>General Fund</u>	<u>High School</u> <u>General Fund</u>	<u>Total</u> <u>General Fund</u>
<b><u>ASSETS</u></b>			
Cash and investments	\$ 2,260,903	\$ 1,701,913	\$ 3,962,816
Property taxes receivable	265,261	271,901	537,162
Due from other governments	84,952	80,301	165,253
Prepaid expenses	-	2,904	2,904
Other current assets	<u>90,612</u>	<u>17,738</u>	<u>108,350</u>
Total assets	<u>\$ 2,701,728</u>	<u>\$ 2,074,757</u>	<u>\$ 4,776,485</u>
<b><u>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</u></b>			
<b>LIABILITIES</b>			
Other current liabilities	<u>\$ 239,466</u>	<u>\$ 314,385</u>	<u>\$ 553,851</u>
Total liabilities	<u>239,466</u>	<u>314,385</u>	<u>553,851</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Uncollected tax revenue	<u>265,261</u>	<u>271,901</u>	<u>537,162</u>
Total deferred inflows of resources	<u>265,261</u>	<u>271,901</u>	<u>537,162</u>
<b>FUND BALANCES</b>			
Spendable:			
Assigned	76,464	81,829	158,293
Unassigned	<u>2,120,537</u>	<u>1,406,642</u>	<u>3,527,179</u>
Total fund balances	<u>2,197,001</u>	<u>1,488,471</u>	<u>3,685,472</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 2,701,728</u>	<u>\$ 2,074,757</u>	<u>\$ 4,776,485</u>

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**OTHER INFORMATION (CONTINUED)**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE – GENERAL FUNDS**  
**Year Ended June 30, 2016**

	<u>Elementary</u> <u>General Fund</u>	<u>High School</u> <u>General Fund</u>	<u>Total</u> <u>General Fund</u>
<b>REVENUES</b>			
District levies	\$ 11,798,816	\$ 9,632,077	\$ 21,430,893
Investment interest	11,197	5,344	16,541
Tuition and fees	52,475	46,982	99,457
State sources	<u>24,478,628</u>	<u>18,537,579</u>	<u>43,016,207</u>
Total revenue	<u>36,341,116</u>	<u>28,221,982</u>	<u>64,563,098</u>
<b>EXPENDITURES</b>			
Current:			
Instruction	23,600,407	16,656,514	40,256,921
Support services	4,788,811	2,748,775	7,537,586
Administration	4,137,025	2,959,652	7,096,677
Operations and maintenance	3,468,157	3,565,050	7,033,207
Student transportation	16,403	434,205	450,608
Extracurricular	<u>64,236</u>	<u>1,676,921</u>	<u>1,741,157</u>
Total expenditures	<u>36,075,039</u>	<u>28,041,117</u>	<u>64,116,156</u>
Revenues over expenditures	266,077	180,865	446,942
<b>OTHER FINANCING USES</b>			
Resources transferred out	<u>(100,000)</u>	-	<u>(100,000)</u>
Total other financing uses	<u>(100,000)</u>	-	<u>(100,000)</u>
Revenues and other financing sources over expenditures	166,077	180,865	346,942
Fund balances, beginning of year	<u>2,030,924</u>	<u>1,307,606</u>	<u>3,338,530</u>
Fund balances, end of year	<u>\$ 2,197,001</u>	<u>\$ 1,488,471</u>	<u>\$ 3,685,472</u>

SINGLE AUDIT SECTION

DRAFT

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2016**

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Project Number	Federal Awards Expenditures
<b>DEPARTMENT OF AGRICULTURE</b>			
<i>Passed through the Office of Public Instruction</i>			
<i>Child Nutrition Cluster</i>			
Non-Cash Assistance (Commodities):			
School Lunch Program	10.555	N/A	\$ <u>187,952</u>
<i>Non-Cash Assistance Subtotal</i>			<u>187,952</u>
Cash Assistance:			
School Lunch Program	10.555	N/A	1,951,537
School Lunch Summer Program	10.559	N/A	<u>103,982</u>
<i>Cash Assistance Subtotal</i>			<u>2,055,519</u>
<i>Total Department of Agriculture Child Nutrition</i>			<u>2,243,471</u>
<b>DEPARTMENT OF EDUCATION</b>			
<i>Passed through the Office of Public Instruction:</i>			
Adult Ed. St. Admin	84.002	32-0584-5414	134,343
Adult Ed. EL Civics	84.002	32-0584-5415	<u>4,535</u>
<i>Total CFDA 84.002</i>			<u>138,878</u>
 Title I Improving Basic Program	 84.010A	 32-0584-3114	 290,963
Title I Improving Basic Program	84.010A	32-0584-3115	520,701
Title I Schoolwide	84.010A	32-0583-3214	364,220
Title I Schoolwide	84.010A	32-0584-3215	36,627
Title I Schoolwide	84.010A	32-0584-3214	801
Title I Schoolwide	84.010A	32-0583-3215	1,265,432
Title I - Part A	84.010A	32-0583-3114	759
Title I - Part A	84.010A	32-0583-3115	<u>7,279</u>
<i>Total CFDA 84.010A</i>			<u>2,486,782</u>
 Title I - Migrant Part C	 84.011A	 32-0583-3614	 39,867
Title I - Migrant Part C	84.011A	32-0583-3615	<u>26,595</u>
<i>Total CFDA 84.011</i>			<u>66,462</u>
 Title I - Part D N & D	 84.013A	 32-0584-4214	 27,183
Title I - Part D N & D	84.013A	32-0584-4215	<u>61,800</u>
<i>Total CFDA 84.013A</i>			<u>88,983</u>

See Note to Schedule of Expenditures of Federal Awards.



**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**  
**June 30, 2016**

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Project Number	Federal Awards Expenditures
<i>Special Education Cluster (IDEA)</i>			
CSPD	84.027A	32-0584-7714	1,746
IDEA Part B-High School	84.027	32-0584-7715	1,351,135
IDEA Part B-Elementary	84.027	32-0584-7715	553,777
RTI/MBI	84.027A	32-0583-7715(INST)	<u>20,000</u>
Total CFDA 84.027 & 84.027A			<u>1,926,658</u>
IDEA Federal Handicapped-Preschool	84.173	32-0584-7915	<u>46,038</u>
Total Special Education Cluster (IDEA)			<u>1,972,696</u>
Vo Ed Carl Perkins Basic Grant	84.048A	32-0584-8114	7,269
Vo Ed Carl Perkins Basic Grant	84.048A	32-0584-8115	<u>205,357</u>
Total CFDA 84.048A			<u>212,626</u>
21st Century Community Learning	84.287	32-0583-1714	5,208
21st Century Community Learning	84.287	32-0583-1715	<u>122,555</u>
Total CFDA 84.287			<u>127,763</u>
Title III Part A, English Language Acquisition	84.365A	32-0583-4114	956
Title III Part A, English Language Acquisition	84.365A	32-0583-4114	40,146
Title III Part A, English Language Acquisition	84.365A	32-0584-4114	9,892
Emergency Immigrant	84.365A	32-0584-4114I	34
Emergency Immigrant	84.365A	32-0584-4115I	<u>9,901</u>
Total CFDA 84.365A			<u>60,929</u>
Title IIA High School	84.367A	32-0584-1414	17,160
Title IIA High School	84.367A	32-0584-1415	148,620
Title IIA Elementary	84.367A	32-0583-1414	28,622
Title IIA Elementary	84.367A	32-0583-1415	506,451
Title II - CSPD/WMPER	84.367A	32-0584-1414	<u>6,160</u>
Total CFDA 84.367A			<u>707,013</u>

See Notes to Schedule of Expenditures of Federal Awards.

**MISSOULA COUNTY PUBLIC SCHOOLS**  
**SCHOOL DISTRICT NO. 1**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**  
**June 30, 2016**

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Project Number	Federal Awards Expenditures
2012-2013 McKinney Vento	84.396A	32-0583-5715	<u>4,829</u>
RTI	84.323A	32-0584-7814	<u>2,050</u>
ACT Plus Writing Test	84.334	32-0584-8415	<u>5,687</u>
Total State Administered - Office of Public Instruction			<u>5,874,698</u>
<b>DEPARTMENT OF EDUCATION</b>			
<i>Federally Administered:</i>			
Title VII Indian Education	84.060A	S060A120873	3,151
Title VII Indian Education	84.060A	S060A140873	98,621
SBMH	84.215E	Q215E110133-12	<u>147,962</u>
Total Federally Administered - Department of Education			<u>249,734</u>
Total Department of Education			<u>6,124,432</u>
<b>DEPARTMENT OF PUBLIC HEALTH &amp; HUMAN SERVICES</b>			
<i>Federally Administered:</i>			
TANF	93.558		<u>55,976</u>
Total Department of Health & Human Services			<u>55,976</u>
Total Federal Awards			<u>\$ 8,423,879</u>

See Notes to Schedule of Expenditures of Federal Awards.

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2016

**NOTE 1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Missoula County Public Schools, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Guidance Administrative Requirements, Subpart E Cost Principles*. Accordingly, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

**NOTE 2. INDIRECT COSTS**

The District did not elect to use the 10% de minimis indirect cost rate from Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Guidance Administrative Requirements, Subpart E Cost Principles*.

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

To the Board of Trustees  
Missoula County Public Schools  
School District No. 1  
Missoula, 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, the major funds, and the aggregate remaining fund information of Missoula County Public Schools, School District No. 1 (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated **March 31, 2017**.

**Internal Control over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

Missoula, Montana

March 31, 2017

March 31, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Trustees  
Missoula County Public Schools  
School District No. 1  
Missoula, Montana

**Report on Compliance for Each Major Federal Program**

We have audited Missoula County Public Schools, School District No. 1's (the District) compliance with the types of compliance requirements described in the *OMB Circular Compliance Supplement* that could have direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings as item 2016-01. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance finding identified in our audit are described in the accompanying schedule of findings. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### **Report on Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-1 that we consider to be a significant deficiency.

The District's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

Missoula, Montana  
March 31, 2017

DRAFT



MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2016

**Section I – Summary of Auditors' Results**

**Financial Statements**

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal Control over major programs:	
Material weakness identified?	No
Significant deficiencies identified not considered material weaknesses?	Yes
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes

**Identification of Major Programs**

Child Nutrition Cluster	
10.555	National School Lunch Program
10.559	Summer food Service Program for Children
84.367	Improving Teacher Quality State Grants

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

**Financial Statement Findings: None reported**

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2016

**Federal Award Finding:**

Finding 2016-01

Significant Deficiency and Noncompliance

*Condition:*

Inaccurate meal counts were reported for reimbursement to Montana Office of Public Instruction (OPI).

*Criteria:*

7 CFR section 225.9(d) states reimbursement payments for meals must be supported by accurate meal counts and records indicating the number of meals served by category and type.

*Cause:*

The point-of-sale software system is responsible for tracking meals served to each individual student. Options in the software allow cash sales to be made without tracing the sale to a specific student. Point-of-sale software is not properly set up to track all sales to each individual student. Additionally, the District's Food Service Director is responsible for manually imputing the number of reimbursable meals served each month to the Montana OPI for reimbursement. No review is performed to ensure the number of meals entered agrees to the point-of-sale system.

*Perspective:*

We sampled 25% of the monthly reimbursements, or three months. From this sample, the District reported 5,573 too few meals served. During the three months, 321,441 meals were served, meaning 1.7% of the meals served during that time period were not reported to OPI for reimbursement.

*Recommendation:*

We recommend the District remove the option in the point-of-sale system to process cash meals without a student ID number. Additionally, we recommend the District institute a review process whereby one individual manually inputs the meals served for the month from the point-of-sale software and another employees reviews the amounts entered to ensure amounts submitted to Montana OPI are accurate.

*Client response and  
Corrective actions:*

The District acknowledges the auditor's comments and has eliminated the option in the point-of-sale system to process cash meals without a student ID number. Additionally, the District plans to implement a review process for monthly reporting to the Montana OPI.

MISSOULA COUNTY PUBLIC SCHOOLS  
SCHOOL DISTRICT NO. 1  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2016

No findings reported in prior year audit report.

DRAFT