

The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.



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

FINANCIAL REPORT

June 30, 2018



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MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1

2017 – 2018

ORGANIZATION

BOARD OF TRUSTEES

Board Chair	Marcia Holland
Vice Chair/Elementary	Diane Lorenzen
Vice Chair/Secondary	Ann Wake
Trustee	Michael Beers
Trustee	Grace Decker
Trustee	Elliott Dugger
Trustee	Heidi Kendall
Trustee	Vicki McDonald
Trustee	Jennifer Newbold
Trustee	Michael Smith
Trustee	Sharon Sterbis

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, 2018, 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 Missoula County Public Schools, School District No. 1, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 and Note 12 to the financial statements, the District has adopted the provisions of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which has resulted in a restatement of the net position as of July 1, 2017. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in other postemployment benefits liability and related ratios, schedule of budgetary comparison—general funds, schedule of proportionate share of the net pension liabilities, 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 supplemental information required by the Montana Office of Public Instruction and the other supplementary information is presented for purpose of 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, 2017 financial statements, and we expressed unmodified opinions in our report dated March 24, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived except as disclosed in the footnotes to the financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2019, 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.

Anderson Zurmuehlen + Co, P.C.

Missoula, Montana
March 27, 2019

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2018

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, 2018. 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. In August 2017, the District issued the remaining authorized bonds - \$36,360,000 in the Elementary District and \$47,215,000 in the High School District. Including bond premium, the total bond proceeds from this issue was more than \$93,000,000. A related highlight includes the District's continued spending of bond proceeds to design, construct, improve, renovate, equip and furnish schools in accordance with the District's Smart Schools 2020 Strategic Facilities Plan. By the end of FY18, approximately \$86,200,000 of bond proceeds had been expended, which includes approximately \$41,700,000 in FY18. The District added nearly \$40,000,000 in fixed assets during the fiscal year.

Another highlight for the 2018 fiscal year was the increase of the Elementary District's general fund budget by \$1,064,666 or 2.88%. This increase was partially due to an inflationary increase of 2% in the basic and per ANB (student) entitlements and an increase in the ANB (student enrollment) of 45 in grades K-8. However, the largest increase in the Elementary District general fund budget was due to the voter approved general fund levy of \$804,000. In the 2018 year, the highest general fund budget without a vote only increased the budget by .71%. This increase was not enough to cover inflationary increases and staff salary expenses for the year. Therefore, the District's Board of Trustees authorized the general fund levy election.

The High School District experienced a smaller increase in the general fund budget of only \$389,099 or 1.34%. This increase was also due to inflationary increases as well an increase of 29 in ANB.

With the budgetary increases discussed above, the Board of Trustees adopted budgets of \$36,967,318 in the Elementary District, and \$29,084,770 in the High School District for the 2018 fiscal year.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2018

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 16 and 17) presents the "assets" (what is owned), "liabilities" (what is owed), deferred outflows and 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 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 18) 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.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2018

USING THIS FINANCIAL REPORT (CONTINUED)

Reporting the District's Most Significant Funds (Continued)

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 26 and 27). 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.

GENERAL FUND BUDGET

As mentioned earlier, the Elementary District ANB (enrollment) for the 2018 fiscal year increased by 45. ANB 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 budget. 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. Based upon the October 2017 enrollment count, the Elementary District applied for and received a general fund budget amendment totaling \$134,764 for 2018.

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 materials and supplies for new curriculum adoptions. The amount of excess funds in the 2018 fiscal year allowed for a few significant expenditures, including the following: the purchase of curriculum adoption materials of nearly \$500,000 above budget; contribution of \$280,000 to the food service fund, which allows the District to keep meal prices to a minimum; and an \$80,000 contribution to the compensated absences fund. Montana law allows transfers from the general fund to the compensated absences fund to reserve funds to help cover accumulated leave for classified and administrative staff upon termination from employment.

The availability of funds near the end of the year is the main reason for budget transfers, though the transfers are relatively insignificant in relation to the total general fund budget.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2018

THE DISTRICT AS A WHOLE

Net position may serve as a useful indicator of a school district's financial position. It is the amount by which assets exceed or (are less than) liabilities. Even though the District's net position improved by approximately \$8,303,000 the District assets were still less than liabilities by approximately \$17.9 million at the close of the most recent fiscal year. Liabilities exceeded assets because the District's share of the net pension liability totaled approximately \$73,985,000 as of June 30, 2018. GASB Statement No. 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. Please see the Notes to the Financial Statements for further discussion.

Table 1 summarizes the District's financial position.

Table 1

	<u>2018</u>	<u>2017</u>	<u>Variance</u>
Current assets	\$135,591,559	\$ 76,631,348	\$ 58,960,211
Capital assets	<u>115,180,529</u>	<u>77,653,311</u>	<u>37,527,218</u>
Total assets	250,772,088	154,284,659	96,487,429
Deferred outflows of resources	<u>9,162,711</u>	<u>12,669,072</u>	<u>(3,506,361)</u>
Total assets and deferred outflows	<u>259,934,799</u>	<u>166,953,731</u>	<u>92,981,068</u>
Current liabilities	20,672,038	14,084,586	6,587,452
Noncurrent debt payable	161,274,939	78,792,702	82,482,237
Other noncurrent liabilities	12,787,311	14,623,761	(1,836,450)
Pension liability	<u>73,984,787</u>	<u>76,647,001</u>	<u>(2,662,214)</u>
Total liabilities	268,719,075	184,148,050	84,571,025
Deferred inflows of resources	<u>946,294</u>	<u>839,215</u>	<u>107,079</u>
Total liabilities and deferred inflows	<u>269,665,369</u>	<u>184,987,265</u>	<u>84,678,104</u>
NET POSITION			
Net investment in capital assets	37,175,700	32,164,181	5,011,519
Restricted	8,809,428	7,381,449	1,427,979
Unrestricted	<u>(55,740,395)</u>	<u>(57,579,164)</u>	<u>1,838,769</u>
Total net position	<u>\$ (9,755,267)</u>	<u>\$ (18,033,534)</u>	<u>\$ 8,278,267</u>

Current assets are comprised mostly of cash and property taxes receivable. Current assets increased by approximately \$58,960,000 or 77%. This change was primarily the result of the \$93.6 million of proceeds received from the Series 2017 bond issue. This increase was offset by payments to vendors for bond related work totaling approximately \$39,100,000. The remaining changes in current assets were increases in various governmental funds, though there were no significant or notable changes in any one fund.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2018

THE DISTRICT AS A WHOLE (CONTINUED)

Capital assets include all land owned by the District and buildings and equipment costing \$5,000 or more. Capital assets increased by approximately \$37,500,000. This change was the result of \$40,491,000 of capital asset additions offset by depreciation expense of \$2,960,000. The largest capital asset additions resulted from construction discussed in a later section.

Current liabilities consist of items owed as of the financial statement date and are expected to be paid within the next twelve months. Current liabilities increased by \$6,587,000 as the result of a significant increase in bond construction projects. As of June 30, 2018, many of the District's construction vendors were owed for work completed through that date. Because more projects were in process, there were more liabilities than in the prior year. Accounts payable increase by approximately \$2.9 million as of June 30, 2018 compared to the prior June 30. The other significant factor effecting current liabilities was the bond issuance in the 2018 fiscal year. Current liabilities associated with this new bond issue amounted to \$3,677,000 as of June 30, 2018.

Noncurrent debt consists of all bond liabilities, capital leases, and notes payable due in more than one year. Noncurrent debt payable increased by approximately \$82,500,000 in FY18. This increase was primarily the result of the bonds issued in August. The bond issuance totaled more than \$93 million, however, approximately \$3.667 million was classified as current liabilities. Additionally, approximately \$4,800,000 of the noncurrent debt at June 30, 2017, was reclassified as current debt since that is the amount due within one year, as of June 30, 2018.

The District's pension liability decreased by \$2,600,000 as a result of the latest actuarial study of the two State retirement systems that the District participates in. The change in liability is affected by the assumptions used by the actuary, as well as differences between estimates and actual experience. This topic is explained in greater detail in the Notes to the Financial Statements.

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 increased by more than \$5,000,000. This increase is the result of a number of factors, including the following: the issuance of bonds, the addition of more than \$40 million in capital assets, depreciation expense of \$3,000,000, payments on debt outstanding at June 30, 2017 totaling \$4.6 million, and the fact that the outstanding bond liability for unspent bond proceeds are not considered a factor until they are actually expended. Capital Assets purchased during the fiscal year are described in reasonable detail in a later section entitled "Capital Asset and Debt Administration."

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2018

THE DISTRICT AS A WHOLE (CONTINUED)

Unrestricted net position remained virtually the same as the balance from the prior year, while restricted net assets increased by \$1,427,000. The largest change contributing to this increase was due to under expending the District's technology fund budget in the 2018 fiscal year. This amounted to an increase in restricted fund balance of approximately \$400,000. The under expenditure in the technology fund budget was a matter of timing. The District's technology plan maps out a specific replacement period for virtually all computer and tech equipment in the District. Some years have very heavy replacement schedules and others, like in 2018 are less significant.

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. Montana school districts are limited by state law in the amount they can levy for operating expenses in the general fund. Overall, local property tax collections made up 40% of revenues for governmental activities for Missoula County Public Schools for fiscal year 2018, which is up from 33% in the prior year. This large change was because fiscal year 2018 was the first year where the full debt service for all of the District's newly issued bonds would be on the tax rolls. This generated an additional \$5.7 million in property tax collections compared to the prior year.

The major categories of expenses are presented in Table 4 on page 12. The largest expense is for instruction, which comprises 54% of total District expenses. This is slightly lower than the prior fiscal year, which was 55%.

Spending Levels Compared to Resource Levels

As shown on page 21, total expenditures for governmental funds exceeded total revenues by approximately \$38,352,000. This is almost entirely attributable to the inclusion of capital expenditures in total expenditures, while the bond proceeds are reflected as "other financing sources" in that statement.

As shown in Table 2 and 3, total general revenues increased in fiscal year 2018 by approximately \$8,700,000 (10%). The largest factor was the additional tax collections in the debt service funds, which were approximately \$5.7 million more than in the prior fiscal year.

The increase in general revenue (and District tax levies) also resulted from 2017 legislative changes to the school funding formula. The most significant change was the elimination of the state school block grant. The state block grant amounted to \$2.8 million in state funding which was made up by local property tax levies. The District received Guaranteed Tax Base Aid (GTB) that partially offset the loss of the state block grant. The net impact to the District levy due to the lost block grant revenue was closer to \$1.4 million.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2018

THE DISTRICT AS A WHOLE (CONTINUED)

Spending Levels Compared to Resource Levels (Continued)

The significant increase in property tax revenues was also linked to the large voted levy in the elementary general fund as well as the increase in the permissive levy in the tuition fund. The general fund voted levy increased by more than \$800,000 and the tuition fund levy increased by an additional \$600,000.

A final noteworthy change in general revenue was in investment earnings, which increased by nearly \$1,000,000. The primary cause for this increase was the large amount of bond proceeds on hand during the 2017-18 fiscal year. The second issue was completed in August 2017. In addition to those proceeds, amounts from the initial issue were still on hand during at least part of the fiscal year. By fiscal year end, the balance of cash on hand was around \$90 million.

Program revenue was relatively static, changing only 5.79% or \$1.2 million. The change was the combination of numerous relatively small changes, including an increase in federal revenue for meal reimbursements of approximately \$175,000. Part of the increase resulted from the certification of certain schools in the District as CEP schools, which allows all meals served to be federally reimbursed. Schools qualify based upon the poverty level at a school. Another increase in program revenue resulted from an increase in State Medicaid payments for the CSCT programs of approximately \$300,000. This increase was primarily caused by an increase in qualifying students and a small increase in the reimbursement rates.

Table 2

	<u>2018</u>	<u>2017</u>	<u>Variance</u>
REVENUES			
General revenues	\$ 98,755,194	\$ 90,083,340	\$ 8,671,854
Program revenues	<u>21,963,986</u>	<u>20,762,223</u>	<u>1,201,763</u>
Total revenues	120,719,180	110,845,563	9,873,617
EXPENSES			
Governmental activities	<u>115,121,943</u>	<u>106,363,570</u>	<u>8,758,373</u>
Change in net position	5,597,237	4,481,993	1,115,244
Net position, beginning of year, restated	<u>(15,352,504)</u>	<u>(22,515,527)</u>	<u>7,163,023</u>
Net position, end of year	<u>\$ (9,755,267)</u>	<u>\$ (18,033,534)</u>	<u>\$ 8,278,267</u>

Table 2 reflects the total revenue increase of approximately \$9,900,000 as the result of the changes in program revenues and general revenues. This table also reflects total expenditures for the 2018 fiscal year as well as the prior year. Changes in expenditures are covered in another section of this Management's Discussion and Analysis.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 Year Ended June 30, 2018

THE DISTRICT AS A WHOLE (CONTINUED)

Spending Levels Compared to Resource Levels (Continued)

Table 3

	<u>2018</u>	<u>2017</u>	<u>Variance</u>
General Revenues			
District tax-levies	\$ 45,958,795	\$ 35,702,851	\$ 10,255,944
Missoula County	9,144,376	8,980,356	164,020
State of Montana	41,895,395	44,049,432	(2,154,037)
Investment earnings	1,631,907	617,199	1,014,708
Transfer	15,531	-	15,531
Other revenues	<u>109,190</u>	<u>733,502</u>	<u>(624,312)</u>
Total general revenues	<u>\$ 98,755,194</u>	<u>\$ 90,083,340</u>	<u>\$ 8,671,854</u>
 Program Revenues			
Charges for services	\$ 1,431,765	\$ 2,079,510	\$ (647,745)
Operating grants and contributions	<u>20,532,221</u>	<u>18,682,713</u>	<u>1,849,508</u>
Total program revenues	<u>\$ 21,963,986</u>	<u>\$ 20,762,223</u>	<u>\$ 1,201,763</u>

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 12th 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.

The combined general fund increase of \$1,450,000 primarily supported the cost of a 2.25% base salary increase for staff, as well as an increase of three teachers. Instructional expenditures increased by approximately \$3,968,000 or 6.76% across all funds in fiscal year 2018.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2018

ANALYSIS OF FINANCIAL INFORMATION (CONTINUED)

Another expense category with a significant change was operations and maintenance, which increased by \$1,377,000 or 14 percent. This increase related to the 2.25% salary increase coupled with bond related expenditures categorized as maintenance. While most expenditures for bond funded projects are capitalized, some expenditures are categorized as maintenance.

Support services increased by \$1,195,000 or 8 percent in FY18. This increase is the result of many factors, including the aforementioned increase in CSCT services of \$300,000 as well as increases attributable to the adjustments required by GASB statement no. 68. Another factor includes the allocation of depreciation expense to functional areas of expense. Depreciation nearly doubled in the 2018 fiscal year compared to the prior year. The increase also results from the 2.25% increase in staff compensation.

The final function with an expense variation considered to be noteworthy is the increase in interest costs of approximately \$2,077,000. This interest increase relates to the second issue of bonds in August of 2017. There was significant bond proceeds on hand throughout the fiscal year, including nearly \$90,000,000 at the end of the year.

Table 4

	<u>2018</u>	<u>2017</u>	<u>Variance</u>
EXPENSES			
Instruction	\$ 62,452,477	\$ 58,682,367	\$ 3,770,110
Support services	15,680,798	14,642,936	1,037,862
General administration	8,522,492	8,774,021	(251,529)
Operations and maintenance	10,981,428	9,648,105	1,333,323
Student transportation	6,804,742	6,370,785	433,957
Food services	3,566,549	3,338,525	228,024
Extracurricular activities	2,256,694	2,158,349	98,345
Other	486,011	455,695	30,316
Interest and fiscal charges	<u>4,370,753</u>	<u>2,292,787</u>	<u>2,077,966</u>
	<u>\$115,121,943</u>	<u>\$106,363,570</u>	<u>\$ 8,758,373</u>

Overall, expenditures increased by approximately \$8,758,000 or 8.2 %. There were many reasons for this large change including increased staffing, salary increases, expenditure of bond proceeds for items of a maintenance nature as well as a significant increase in bond interest expense. Increased staffing consisted of adding three new teachers in the elementary district and additional custodial staff for the square footage added in certain buildings through bond financed projects. Additionally, the District added \$600,000 to the permissive levy in the districts tuition fund in the 2018 fiscal year. One purpose of this fund is to help cover the excess costs of students with special needs. Funding for these excess costs is often not adequate through the general fund and federal funds. Therefore, the Legislature added the ability for schools to permissively levy for these excess costs through the tuition fund.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2018

ANALYSIS OF FINANCIAL INFORMATION (CONTINUED)

Another cause for the increase in expense categories shown in Table 4 was the fact that depreciation expense in FY18 increased by \$1.2 million over the prior year. For the government wide financial statements, depreciation is allocated to the functional expense categories based upon relative expenditures in each category. Depreciation was higher in FY18 because nearly \$40 million in fixed assets were added in the prior fiscal year.

Similar to the depreciation allocation, GASB 68 calls for a pension expense adjustment. This adjustment is the result of retirement system calculations by an actuary hired by the State of Montana. The adjustment for the 2018 fiscal year increased by approximately \$600,000 over the prior year.

Another significant increase from the prior year was interest expense. Interest expense increased by approximately \$2.1 million following the bond issuance in August of 2017. This amount is nearly double the interest expense from the prior year.

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>2018</u>	<u>2017</u>
Land	\$ 2,506,208	\$ 2,506,208
Construction in progress	34,684,522	32,451,447
Land improvements	4,184,833	3,604,519
Buildings and improvements	106,741,547	73,151,449
Equipment and other	<u>12,875,572</u>	<u>8,787,270</u>
Total capital assets	160,992,682	120,500,893
Less - accumulated depreciation	<u>(45,812,153)</u>	<u>(42,847,582)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 115,180,529</u>	<u>\$ 77,653,311</u>

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Continued)

In looking at Table 5, total capital assets increased by \$37,527,000 after depreciation. During fiscal year 2018, the District had construction, wiring and renovation projects going on in all nine of its elementary buildings, all three of its middle schools and all five of its' high schools. Most notably construction of Franklin Elementary School and Lowell Elementary School was completed during FY18. The total expended in fiscal year 2018 for these projects totaled \$1.45 million for Franklin and \$2.5 million for Lowell. Additionally, significant progress was made on the construction of the new Jeannette Rankin Elementary School. This school replaced Cold Springs Elementary and construction costs totaled \$4.3 million for the fiscal year. Renovations and/or additions at Washington Middle School and Russell Elementary School totaled more than \$4 million and \$2.9 million, respectively. Renovation costs for the high schools, totaled more than \$13.6 million at Hellgate High School, \$2.3 million at Sentinel High School and \$2.4 million at the new Willard Alternative High School. Additionally, two new trades' vehicles were purchased, and meat processing equipment was purchased for the District's vocational agriculture education program. Some buildings received new phone systems, new wireless door access systems, wiring upgrades and new roofs as part of the bond projects. Please refer to Note 3 for further information on the District's capital assets.

Debt Administration

In August 2017, 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 5%, and had an average coupon rate of 4.11%. The High School District rates also ranged from 2% to 5%, and have an average coupon rate of 4.022%. Please refer to Note 4 for further information on the District's debt. DADCO was the underwriter of the 2017 bond issue, and reported true interest cost of 2.86% associated with the Elementary District bond issue and 2.86% associated with the High School District bond issue.

THE FUTURE OF THE DISTRICT

The District continues to foster the development of an inspired 21st century educational culture that improves student achievement, develops remarkable educational leaders and engages the Missoula community in the educational future of its children. *See 2018 Annual Report.* In recent years, the District has added the International Baccalaureate Programme at several schools, a Health Sciences Program at Big Sky High School, 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 developed a comprehensive long range facility plan based upon the 21st Century Model of Education. The bond election provided the necessary funds to pay the cost of improving the District's schools in accordance with the District's Smart Schools 2020 Strategic Facilities Plan.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2018

THE FUTURE OF THE DISTRICT (CONTINUED)

Significant progress has been made with many construction projects under the Smart Schools 2020 Strategic Facilities Plan. At the start of the 2017-18 school year, the District re-opened a new Franklin Elementary School and a newly remodeled Lowell Elementary School. During the 2018-19 school year, the District opened a newly constructed Jeannette Rankin Elementary as well as a newly constructed Willard Alternative High School.

As of March of 2019, the District continues to make significant construction progress on a number of schools that were designed at the beginning of the school year. The District has experienced a very active construction market in Missoula. The District expects to utilize all bond proceeds to complete the bond projects by September of 2020.

In the 2019 fiscal year, the District's general fund budgets increased by slightly more than \$1,800,000. With this increase, the District provided a 2.5% base salary increase for staff, added additional classroom and support staff, and increased other budget areas like insurance, and transportation for student activities and athletics. Of the total increase, \$1.3 million was in the Elementary School District.

In calculating the 2019-20 general fund budget, it appears the combined increase will be approximately \$1,200,000, with approximately \$780,000 being in the Elementary District. However, the 2019 legislative session is presently underway as of March 2019. The session does not convene until near the end of April, 2019.

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

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
STATEMENT OF NET POSITION
June 30, 2018
 (With Comparative Totals as of June 30, 2017)

	<u>2018</u>	<u>2017</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	\$ 130,329,642	\$ 72,426,614
Property taxes receivable	2,019,934	924,489
Protested taxes receivable	-	645,146
Due from other governments	2,053,603	1,535,170
Inventory	443,463	477,115
Prepaid expenses	231,107	-
Other current assets	<u>513,810</u>	<u>622,814</u>
Total current assets	<u>135,591,559</u>	<u>76,631,348</u>
CAPITAL ASSETS		
Land	2,506,208	2,506,208
Construction in progress	34,684,522	32,451,447
Land improvements	4,184,833	3,604,519
Buildings and improvements	106,741,547	73,151,449
Machinery and equipment	12,875,572	8,787,270
Less - accumulated depreciation	<u>(45,812,153)</u>	<u>(42,847,582)</u>
Total capital assets	<u>115,180,529</u>	<u>77,653,311</u>
Total assets	<u>250,772,088</u>	<u>154,284,659</u>
DEFERRED OUTFLOW OF RESOURCES		
Other postemployment health benefits deferred contributions	204,801	-
Contributions to pension plans in current fiscal year	<u>8,957,910</u>	<u>12,669,072</u>
Total deferred outflows of resources	<u>9,162,711</u>	<u>12,669,072</u>
Total assets and deferred outflows of resources	<u>\$ 259,934,799</u>	<u>\$ 166,953,731</u>

The Notes to Financial Statements are an integral part of these statements.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2018
(With Comparative Totals as of June 30, 2017)

	<u>2018</u>	<u>2017</u>
LIABILITIES, DEFERED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and other current liabilities	\$ 9,820,640	\$ 6,922,067
Unearned revenue	1,648,529	1,820,099
Bonds payable - due within one year	8,052,369	4,542,420
Current portion special improvement district and other debt	500	-
Compensated absences - due within one year	<u>1,150,000</u>	<u>800,000</u>
Total current liabilities	<u>20,672,038</u>	<u>14,084,586</u>
NONCURRENT LIABILITIES		
Bonds payable	161,143,934	78,661,197
Special improvement district and other debt	131,005	131,505
Compensated absences	9,481,872	9,182,084
OPEB liability	3,305,439	5,441,677
Pension liabilities	<u>73,984,787</u>	<u>76,647,001</u>
Total noncurrent liabilities	<u>248,047,037</u>	<u>170,063,464</u>
Total liabilities	<u>268,719,075</u>	<u>184,148,050</u>
DEFERRED INFLOWS OF RESOURCES		
Other postemployment health benefits assumption changes	82,487	-
Pension deferrals	700,035	620,853
Unamortized bond premium on refinanced bonds	<u>163,772</u>	<u>218,362</u>
Total deferred inflows of resources	<u>946,294</u>	<u>839,215</u>
NET POSITION		
Net investment in capital assets	37,175,700	32,164,181
Restricted	8,809,428	7,381,449
Unrestricted	<u>(55,740,395)</u>	<u>(57,579,164)</u>
Total net position	<u>(9,755,267)</u>	<u>(18,033,534)</u>
Total liabilities, deferred inflows and net position	<u>\$ 259,910,102</u>	<u>\$ 166,953,731</u>

The Notes to Financial Statements are an integral part of these statements.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
STATEMENT OF ACTIVITIES
 Year Ended June 30, 2018
 (With Comparative Totals as of June 30, 2017)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>	
		<u>Charges for</u>	<u>Operating</u>	<u>Revenue and</u>	
		<u>Services</u>	<u>Grants and</u>	<u>Changes in Net Position</u>	
			<u>Contributions</u>	<u>2018</u>	<u>2017</u>
Governmental Activities:					
Instruction	\$ 62,452,477	\$ 654,488	\$ 10,122,755	\$(51,675,234)	\$(47,796,839)
Support services	15,680,798	172,466	5,298,250	(10,210,082)	(9,606,088)
General administration	8,522,492	-	118,609	(8,403,883)	(8,659,290)
Operations and maintenance	10,981,428	154,400	-	(10,827,028)	(8,919,699)
Student transportation	6,804,742	-	792,666	(6,012,076)	(5,347,409)
Food services	3,566,549	450,411	2,583,607	(532,531)	(429,940)
Extracurricular activities	2,256,694	-	-	(2,256,694)	(2,158,349)
Other	486,011	-	1,616,334	1,130,323	(390,945)
Interest and bond issuance costs	<u>4,370,753</u>	-	-	<u>(4,370,753)</u>	<u>(2,292,787)</u>
Total governmental activities	<u>\$ 115,121,943</u>	<u>\$ 1,431,765</u>	<u>\$ 20,532,221</u>	<u>(93,157,957)</u>	<u>(85,601,347)</u>
General revenues:					
District tax-levies				45,958,795	35,702,851
Missoula County				9,144,376	8,980,356
State of Montana				41,895,395	44,049,432
Investment earnings				1,631,907	617,199
Transfers				15,531	-
Other				<u>109,190</u>	<u>733,502</u>
Total general revenues				<u>98,755,194</u>	<u>90,083,340</u>
Change in net position				5,597,237	4,481,993
Net position, beginning of year				(18,033,534)	(22,515,527)
Restatement of net position due to OPEB				<u>2,681,030</u>	<u>-</u>
Net position, end of year				<u>\$ (9,755,267)</u>	<u>\$(18,033,534)</u>

The Notes to Financial Statements are an integral part of these statements.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2018

	<u>General Fund</u>	<u>Elementary Building</u>	<u>High School Building</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and investments	\$ 3,951,164	\$ 50,005,402	\$ 48,291,076	\$ 12,984,415	\$ 115,232,057
Property taxes receivable	1,127,572	-	-	892,362	2,019,934
Due from other governments	-	-	-	2,053,603	2,053,603
Prepaid expenses	128,445	-	-	102,662	231,107
Inventory	-	-	-	44,136	44,136
Other current assets	<u>125,262</u>	<u>-</u>	<u>-</u>	<u>80,084</u>	<u>205,346</u>
Total assets	<u>\$ 5,332,443</u>	<u>\$ 50,005,402</u>	<u>\$ 48,291,076</u>	<u>\$ 16,157,262</u>	<u>\$ 119,786,183</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES					
LIABILITIES					
Other current liabilities	\$ 405,299	\$ 4,701,073	\$ 2,244,952	\$ 1,147,779	\$ 8,499,103
Total liabilities	<u>405,299</u>	<u>4,701,073</u>	<u>2,244,952</u>	<u>1,147,779</u>	<u>8,499,103</u>
DEFERRED INFLOWS OF RESOURCES					
Uncollected tax revenue	<u>1,127,572</u>	<u>-</u>	<u>-</u>	<u>933,899</u>	<u>2,061,471</u>
Total deferred inflows of resources	<u>1,127,572</u>	<u>-</u>	<u>-</u>	<u>933,899</u>	<u>2,061,471</u>
FUND BALANCES					
Non-spendable	-	-	-	44,136	44,136
Restricted	-	45,304,329	46,046,124	7,654,612	99,005,065
Assigned	884,650	-	-	6,480,294	7,364,944
Unassigned	<u>2,914,922</u>	<u>-</u>	<u>-</u>	<u>(103,458)</u>	<u>2,811,464</u>
Total fund balances	<u>3,799,572</u>	<u>45,304,329</u>	<u>46,046,124</u>	<u>14,075,584</u>	<u>109,225,609</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 5,332,443</u>	<u>\$ 50,005,402</u>	<u>\$ 48,291,076</u>	<u>\$ 16,157,262</u>	<u>\$ 119,786,183</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, 2018

Total fund balances - governmental funds		\$ 109,225,609
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
Internal service funds net position not reported in the governmental funds statements.		13,020,241
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets	\$ 160,992,682	
Accumulated depreciation	(45,812,153)	
Less - capital assets recorded in internal service funds	(263,747)	114,916,782
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.		2,061,471
Deferred outflows and inflows of resources related to pensions, OPEB and refinanced bonds are applicable to future periods and, therefore, are not reported in governmental funds.		
Deferred outflows of resources	9,162,711	
Deferred inflows of resources	(782,522)	
Unamortized bond premium on refinanced bonds	(163,772)	8,216,417
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Bonds payable	(169,196,303)	
Special improvement district and other debt	(131,505)	
Compensated absences	(10,553,056)	
OPEB liability	(3,305,439)	
Pension liabilities	(73,984,787)	(257,171,090)
Total net position - governmental activities		\$ (9,730,570)

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, 2018

	General Fund	Elementary Building	High School Building	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
District levies	\$ 23,770,870	\$ -	\$ -	\$ 21,696,106	\$ 45,466,976
Investment interest	81,034	716,925	675,008	158,940	1,631,907
Tuition and fees	55,573	-	-	598,562	654,135
County sources	-	-	-	9,568,177	9,568,177
State sources	43,464,410	-	-	6,073,397	49,537,807
Federal sources	-	-	-	8,970,714	8,970,714
Other	-	-	-	<u>2,160,413</u>	<u>2,160,413</u>
Total revenue	<u>67,371,887</u>	<u>716,925</u>	<u>675,008</u>	<u>49,226,309</u>	<u>117,990,129</u>
EXPENDITURES					
Current:					
Instruction	41,323,209	1,606	618	16,624,552	57,949,985
Support services	8,073,582	-	-	6,476,400	14,549,982
Administration	7,099,913	-	-	1,011,560	8,111,473
Operations and maintenance	7,527,511	1,402,741	645,852	849,724	10,425,828
Student transportation	810,461	-	-	5,962,936	6,773,397
Food service	280,000	-	-	3,163,741	3,443,741
Extracurricular	1,835,283	-	-	266,767	2,102,050
Other	-	-	-	486,837	486,837
Capital outlay	-	20,180,623	19,461,827	849,338	40,491,788
Debt service:					
Principal retirement	-	-	-	6,675,001	6,675,001
Interest and fiscal charges	-	-	-	<u>5,332,014</u>	<u>5,332,014</u>
Total expenditures	<u>66,949,959</u>	<u>21,584,970</u>	<u>20,108,297</u>	<u>47,698,870</u>	<u>156,342,096</u>
Revenues over (under) expenditures	421,928	(20,868,045)	(19,433,289)	1,527,439	(38,351,967)
OTHER FINANCING SOURCES (USES)					
Transfers in (out)	(80,000)	-	-	95,531	15,531
Proceeds from sale of assets	-	-	13,076	96,114	109,190
Bond proceeds	-	<u>40,904,089</u>	<u>52,670,268</u>	-	<u>93,574,357</u>
Total other financing sources (uses)	<u>(80,000)</u>	<u>40,904,089</u>	<u>52,683,344</u>	<u>191,645</u>	<u>93,699,078</u>
Revenues over expenditures and other financing sources	341,928	20,036,044	33,250,055	1,719,084	55,347,111
Fund balances, beginning of year	<u>3,457,644</u>	<u>25,268,285</u>	<u>12,796,069</u>	<u>12,356,500</u>	<u>53,878,498</u>
Fund balances, end of year	<u>\$ 3,799,572</u>	<u>\$ 45,304,329</u>	<u>\$ 46,046,124</u>	<u>\$ 14,075,584</u>	<u>\$ 109,225,609</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, 2018

Net change in fund balances - total governmental funds \$ 55,347,111

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.

Capital outlay	\$ 40,491,788	
Depreciation expense	<u>(2,945,074)</u>	37,546,714

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 491,819

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.

Issuance of new bonds	(93,574,357)	
Long-term debt principal payments	6,675,001	
Amortization of bond premiums and discounts	<u>961,261</u>	(85,938,095)

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.

Compensated absences	(660,023)	
OPEB liability	(422,478)	
Pension liability	<u>(1,152,827)</u>	(2,235,328)

Change in net position of internal service funds reported within governmental activities. 385,016

Change in net position of governmental activities \$ 5,597,237

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
STATEMENT OF NET POSITION – INTERNAL SERVICE FUNDS
June 30, 2018

ASSETS	
Cash and investments	\$ 15,097,585
Other current assets	308,464
Inventory	<u>399,327</u>
Total current assets	<u>15,805,376</u>
Capital assets	379,379
Less - accumulated depreciation	<u>(115,632)</u>
Capital assets, net	<u>263,747</u>
Total assets	<u>\$ 16,069,123</u>
LIABILITIES	
Payable to retirees	\$ 42,450
Other current liabilities	1,279,087
Unearned revenue	1,648,529
Compensated absences	<u>78,816</u>
Total current liabilities	<u>3,048,882</u>
NET POSITION	
Non-spendable	400,045
Restricted	220,918
Assigned	6,592
Unrestricted	<u>12,392,686</u>
Total net position	<u>13,020,241</u>
Total liabilities and net position	<u>\$ 16,069,123</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, 2018

OPERATING REVENUES	
Charges for services	\$ 1,316,740
Health insurance premiums	8,764,598
Donations by employees	<u>3,075,745</u>
Total operating revenue	<u>13,157,083</u>
OPERATING EXPENSES	
Medical claims	10,801,357
Personnel	756,899
Operations	880,383
Stop loss insurance	483,497
Depreciation	<u>19,497</u>
Total operating expenses	<u>12,941,633</u>
Operating income	<u>215,450</u>
NON-OPERATING REVENUES (EXPENSES)	
Investment interest	<u>169,566</u>
Total non-operating revenues (expenses)	<u>169,566</u>
Change in net position	385,016
Net position, beginning of year	<u>12,635,225</u>
Net position, end of year	<u>\$ 13,020,241</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, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Health insurance premiums received	\$ 12,057,950
Cash received for internal services	1,293,908
Medical claims paid	(10,528,330)
Cash paid to employees	(769,142)
Cash paid to suppliers for goods and services	<u>(1,420,845)</u>
Net cash flows from operating activities	<u>633,541</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earnings	<u>169,566</u>
Net cash flows from investing activities	<u>169,566</u>
Net increase in cash and cash equivalents	803,107
Cash and cash equivalents, beginning of year	<u>14,294,478</u>
Cash and cash equivalents, end of year	<u>\$ 15,097,585</u>
 RECONCILIATION OF OPERATING INCOME TO NET	
CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income	\$ 215,450
Adjustments to reconciled operating income to net cash flows from operating activities:	
Depreciation	19,497
Change in other assets	207,904
Change in receivables	148,304
Change in inventory	(16,681)
Change in payables	(10,234)
Change in unearned revenue	<u>69,301</u>
Net cash flows from operating activities	<u>\$ 633,541</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, 2018

	Private-Purpose Trust Funds	Agency Funds
ASSETS		
Cash and investments	\$ 1,694,194	\$ 6,223,465
Other current assets	10,233	-
Total assets	\$ 1,704,427	\$ 6,223,465
LIABILITIES		
Accounts payable and other current liabilities	\$ 21,303	\$ 6,223,465
NET POSITION		
Restricted for endowment	281,738	
Restricted for extracurricular	1,379,581	
Restricted for interlocal	21,805	
Total net position	1,683,124	
Total liabilities and net position	\$ 1,704,427	

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, 2018

	Private-Purpose Trust Funds
ADDITIONS	
Investment interest	\$ 353
Contributions	41,327
Internal service	9,135
Student receipts	<u>2,191,549</u>
Total additions	<u>2,242,364</u>
DEDUCTIONS	
Other	50,249
Extracurricular	<u>2,012,609</u>
Total deductions	<u>2,062,858</u>
Change in net position	179,506
Net position, beginning of year	<u>1,503,618</u>
Net position, end of year	<u>\$ 1,683,124</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, 2018

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, 2018, 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 pronouncement for the year ended June 30, 2018:

- *Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.
- *Statement No. 85, Omnibus.* The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

Reporting Entity

The District operates under a district-wide elected eleven-member Board of Trustees and provides educational services to approximately 8,940 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, 2018

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, 2017, from which the comparative information was derived, except for as outlined in Note 12.

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, 2018

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. 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 elementary and high school building funds account for revenue and expenditures related to capital improvements.

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.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fiduciary Funds – The *Private-Purpose Trust Funds* are 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, and
- Unassigned: No constraints and negative fund balance in non-general fund funds.

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

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2018

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

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

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.

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.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets (Continued)

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.

Inventories

Inventory is valued at cost using an average cost method.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets, which include construction in progress, 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, 2018.

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, 2018

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 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*.

Pension Liabilities

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, 2018

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.

	Credit Risk	Interest Rate Risk
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 0.05% at June 30, 2018, and the balance was \$3,442,504.

At June 30, 2018, the District's balances were:

	Governmental Activities	Fiduciary Funds	Total
Cash in county treasury	\$ 127,581,436	\$ 7,013,657	\$ 134,595,093
Cash in municipal investment account	2,567,112	875,392	3,442,504
Short term investment pool	4,695	-	4,695
Cash on hand and in banks	176,399	28,610	205,009
	<u>\$ 130,329,642</u>	<u>\$ 7,917,659</u>	<u>\$ 138,247,301</u>

Certain student activity, petty cash, interim accounts, and endowment funds are deposited in non-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, 2018

NOTE 3. CAPITAL ASSETS

A summary of capital asset activity for the year ended June 30, 2018, follows:

<u>Governmental activities</u>	<u>June 30, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2018</u>
Capital assets not subject to depreciation:				
Land	\$ 2,506,208	\$ -	\$ -	\$ 2,506,208
Construction in process	32,451,447	31,654,787	(29,421,712)	34,684,522
Capital assets subject to depreciation:				
Land improvements	3,604,519	580,314	-	4,184,833
Buildings and improvements	73,151,449	4,168,386	29,421,712	106,741,547
Equipment and other	8,787,270	4,088,302	-	12,875,572
Total capital assets	<u>120,500,893</u>	<u>40,491,789</u>	<u>-</u>	<u>160,992,682</u>
Less - accumulated depreciation for:				
Land improvements	(725,980)	(314,666)	-	(1,040,646)
Buildings and improvements	(38,869,283)	(2,052,949)	-	(40,922,232)
Equipment and other	<u>(3,252,319)</u>	<u>(596,956)</u>	<u>-</u>	<u>(3,849,275)</u>
Total accumulated depreciation	<u>(42,847,582)</u>	<u>(2,964,571)</u>	<u>-</u>	<u>(45,812,153)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 77,653,311</u>	<u>\$ 37,527,218</u>	<u>\$ -</u>	<u>\$ 115,180,529</u>

Internal Service Fund capital assets included above:

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2018</u>
Capital assets subject to depreciation:				
Equipment and other	\$ 379,379	\$ -	\$ -	\$ 379,379
Less - accumulated depreciation	<u>(96,135)</u>	<u>(19,497)</u>	<u>-</u>	<u>(115,632)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 283,244</u>	<u>\$ (19,497)</u>	<u>\$ -</u>	<u>\$ 263,747</u>

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

Instruction	\$ 1,795,160
Support services	355,964
General administration	306,268
Operations and maintenance	336,861
Student transportation	35,702
Food services	32,456
Extracurricular activities	82,663
Internal service funds	<u>19,497</u>
	<u>\$ 2,964,571</u>

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 3. CAPITAL ASSETS (CONTINUED)

The District also leases the Prescott Elementary school building to the Missoula International School. In August 2017, the lease was renewed for an additional five years until July 31, 2022, 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.

NOTE 4. LONG-TERM DEBT

Changes in general long-term debt during 2018 were as follows:

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year
General obligation bonds:					
2010 Refunding issue - HS	\$ 2,750,000	\$ -	\$ (655,000)	\$ 2,095,000	\$ 675,000
2013 Refunding issue - HS	2,060,000	-	(660,000)	1,400,000	680,000
2016 General obligation issue - Elem	49,775,000	-	(1,925,000)	47,850,000	1,980,000
2016 General obligation issue - HS	21,915,000	-	(885,000)	21,030,000	905,000
2017 General obligation issue-HS	-	47,215,000	(1,465,000)	45,750,000	1,660,000
2017 General obligation issue-Elem	-	36,360,000	(1,085,000)	35,275,000	1,245,000
Unamortized bond premium	<u>6,703,617</u>	<u>9,999,357</u>	<u>(906,671)</u>	<u>15,796,303</u>	<u>907,369</u>
Total bonds payable	83,203,617	93,574,357	(7,581,671)	169,196,303	8,052,369
Special improvements	1,500	-	-	1,500	500
Homevale settlement	130,005	-	-	130,005	-
Compensated absences, internal service fund	89,051	5,564	(15,799)	78,816	-
Compensated absences	<u>9,893,033</u>	<u>1,745,059</u>	<u>(1,085,036)</u>	<u>10,553,056</u>	<u>1,150,000</u>
Total	<u>\$ 93,317,206</u>	<u>\$ 95,324,980</u>	<u>\$ (8,682,506)</u>	<u>\$ 179,959,680</u>	<u>\$ 9,202,869</u>
Deferred inflow:					
Unamortized bond premium on bond refinancing	<u>\$ 218,362</u>	<u>\$ -</u>	<u>\$ (54,590)</u>	<u>\$ 163,772</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, 2018

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.

2017 General Obligation Bonds

In September 2017, the District issued \$83,575,000 of general obligation school building bonds, \$36,360,000 related to Elementary and \$47,215,000 related to High School. The Series 2017 Bonds bear interest ranging from 2.0% to 5.0% and mature in 2037. Proceeds from the sale of the 2017 bonds, including an initial bond premium of \$9,998,659 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.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2018

NOTE 4. LONG-TERM DEBT (CONTINUED)

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
2019	\$ 7,145,000	\$ 5,841,263	\$ 1,500	\$ -	\$ 7,146,500	\$ 5,841,263
2020	7,400,000	5,595,000	-	-	7,400,000	5,595,000
2021	6,870,000	5,377,800	-	-	6,870,000	5,377,800
2022	6,395,000	5,110,200	-	-	6,395,000	5,110,200
2023	6,635,000	4,878,300	-	-	6,635,000	4,878,300
Thereafter	<u>118,955,000</u>	<u>36,859,325</u>	<u>130,005</u>	<u>-</u>	<u>119,085,005</u>	<u>36,859,325</u>
Total	<u>\$ 153,400,000</u>	<u>\$ 63,661,888</u>	<u>\$ 131,505</u>	<u>\$ -</u>	<u>\$ 153,531,505</u>	<u>\$ 63,661,888</u>

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).

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
SCHOOL DISTRICT NO. 1
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2018

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

Restricted Fund Balance

Restricted fund balances under GASB 54 at June 30, 2018, are as follows:

	<u>Elementary</u>	<u>High School</u>	<u>Total</u>
Transportation	\$ 147,929	\$ 386,923	\$ 534,852
Food services	-	83,802	83,802
Tuition	12,469	28,709	41,178
Retirement	1,254,946	993,022	2,247,968
Insurance fund	-	8,727	8,727
Adult education	59,296	207,541	266,837
Traffic education	-	116,559	116,559
Compensated absences	50,000	30,000	80,000
Technology acquisition	307,626	480,075	787,701
Lease rental agreement	9,615	9,637	19,252
Flexibility	6,798	1,312	8,110
Building	45,304,329	46,046,124	91,350,453
Building reserve	<u>1,861,531</u>	<u>1,598,095</u>	<u>3,459,626</u>
Total	<u>\$ 49,014,539</u>	<u>\$ 49,990,526</u>	<u>\$ 99,005,065</u>

State law 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, 2018, are for program and instruction.

Restricted Net Position

Restricted net position at June 30, 2018, consists of the following:

Debt service	\$ 447,102
Program	<u>8,362,326</u>
Total	<u>\$ 8,809,428</u>

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2018

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	\$ 60,215,694	\$ 13,769,093	\$ 73,984,787
Deferred outflows of resources	5,933,685	3,024,225	8,957,910
Deferred inflows of resources	587,631	112,404	700,035
Pension expense	6,992,695	1,731,667	8,724,362

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, 2018

NOTE 6. RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System (TRS)

	Net Pension Liability as of June 30, 2018	Net Pension Liability as of June 30, 2017	Percent of Collective NPL as of June 30, 2018	Percent of Collective NPL as of June 30, 2017	Change in Percent of Collective NPL
Missoula County Public Schools Proportionate share	\$ 60,215,694	\$ 64,693,543	3.5713%	3.5413%	0.0300%
State of Montana Proportionate share associated with the District	<u>38,222,304</u>	<u>42,146,894</u>	<u>2.2669%</u>	<u>2.3071%</u>	<u>-0.0402%</u>
Total	<u>\$ 98,437,998</u>	<u>\$ 106,840,437</u>	<u>5.8382%</u>	<u>5.8484%</u>	<u>-0.0102%</u>

At June 30, 2018, the District recorded a liability of \$60,215,694 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. Therefore, no update procedures were used to roll forward the total pension liability to the measurement date. 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of TRS' participating employers. At June 30, 2018, the District's proportion was 3.5713% percent.

Changes in actuarial assumptions and other inputs:

There have been no changes in actuarial assumptions and other inputs since the previous measurement date.

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 reporting date. However, each employer may have unique circumstances that will impact the employer's proportionate share of the collective net pension liability. If there were changes that are expected to have an impact on the net pension liability, the employer should disclose the amount of the expected resultant change in the employer's proportional share of the collective net pension liability, if known.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 6. RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System (TRS) (Continued)

Pension Expense

	Pension Expense as of June 30, 2018
Missoula County Public Schools:	
Proportionate share	\$ 5,111,730
State of Montana:	
Proportionate share associated with the District	1,880,965
	\$ 6,992,695

At June 30, 2018, the District recognized a pension expense of \$6,992,695 for its proportionate share of the TRS' pension expense. The employer also recognized grant revenue of \$1,880,965 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the District.

Deferred Inflows and Outflows

At June 30, 2018, 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	\$ 221,450	\$ 90,027
Changes in actuarial assumptions	-	251,743
Differences between projected and actual investment earnings	-	238,297
Difference between actual and expected contributions	962,306	7,564
*Contributions paid to TRS subsequent to the measurement date - FY 2018 Contributions	4,749,929	-
Total	\$ 5,933,685	\$ 587,631

* 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, 2019.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 6. RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System (TRS) (Continued)

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:	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)
2019	\$ 586,691	\$ 1,084,261	\$ (497,570)
2020	1,711,617	139,495	1,572,122
2021	584,384	-	584,384
2022	-	1,062,811	(1,062,811)
2023	-	-	-
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.

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.

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:

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 6. RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System (TRS) (Continued)

Summary of Benefits (Continued)

- 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.

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 1st of each year.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 6. RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System (TRS) (Continued)

Overview of Contributions (Continued)

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

	<u>School District and Other Employers</u>			Total Employee
	Members	Employers	General Fund	& Employer
Prior to July 1, 2007	7.15%	7.47%	0.11%	14.73%
July 1, 2007 to June 30, 2009	7.15%	7.47%	2.11%	16.73%
July 1, 2009 to June 30, 2013	7.15%	7.47%	2.49%	17.11%
July 1, 2013 to June 30, 2014	8.15%	8.47%	2.49%	19.11%
July 1, 2014 to June 30, 2015	8.15%	8.57%	2.49%	19.21%
July 1, 2015 to June 30, 2016	8.15%	8.67%	2.49%	19.31%
July 1, 2016 to June 30, 2017	8.15%	8.77%	2.49%	19.41%
July 1, 2017 to June 30, 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, 2018, is based on the results of an actuarial valuation date of July 1, 2018. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2017, 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* 4.00%-8.51% for Non-University Members
And 5.00% for University Members
- Investment Return 7.75%
- Price Inflation 3.25%

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 6. RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System (TRS) (Continued)

Actuarial Assumptions (Continued)

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

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2018

NOTE 6. RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System (TRS) (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%	1.73%
Broad International Equity	18.00%	6.05%	1.09%
Private Equity	12.00%	8.50%	1.02%
Intermediate Bonds	23.40%	1.50%	0.35%
Core Real Estate	4.00%	4.50%	0.18%
High Yield Bonds	2.60%	3.25%	0.08%
Non-Core Real Estate	<u>4.00%</u>	7.50%	<u>0.30%</u>
	<u>100.00%</u>		4.75%
		Inflation	<u>3.25%</u>
	Expected arithmetic nominal return		8.00%

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

The assumed long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2009 through 2013, is outlined in a report dated May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2017, is summarized in the above table.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 6. RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System (TRS) (Continued)

Sensitivity Analysis

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
The employer's proportion of Net Pension Liability	\$ 82,979,102	\$ 60,215,694	\$ 41,044,127

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 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 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

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). As GASB Statement 68 allows, a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2017, was determined by taking the results of the June 30, 2016, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

Special Funding

The State of Montana, as the non-employer contributing entity, paid to the Plan additional contributions that qualify as *special funding*. Those employers who received *special funding* are counties; cities & towns; school districts & high schools; and other governmental agencies.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 6. RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement System (PERS) (Continued)

Net Pension Liability (Continued)

Not Special Funding

Per Montana law, state agencies and universities paid their own additional contributions. These employer paid contributions are *not* accounted for as special funding for state agencies and universities but are reported as employer contributions. The State of Montana, as the non-employer contributing entity, also paid to the Plan coal tax contributions that are *not* accounted for as special funding for all participating employers.

	<u>Net Pension Liability as of June 30, 2018</u>	<u>Net Pension Liability as of June 30, 2017</u>	<u>Percent of Collective NPL as of June 30, 2018</u>	<u>Percent of Collective NPL as of June 30, 2017</u>	<u>Change in Percent of Collective NPL</u>
Missoula County Public Schools Proportionate share	\$ 13,769,093	\$ 11,953,458	0.7070%	0.7018%	0.0052%
State of Montana Proportionate share associated with the District	<u>648,571</u>	<u>558,652</u>	<u>3.3054%</u>	<u>3.4301%</u>	<u>-0.1247%</u>
Total	<u>\$ 14,417,664</u>	<u>\$ 12,512,110</u>	<u>4.0124%</u>	<u>4.1319%</u>	<u>-0.1195%</u>

The table above displays the proportionate shares of the District's and the State of Montana's NPL for June 30, 2018, and 2017. The District's proportionate share equals the ratio of the District's contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of the contributions for a particular employer to the total state contributions paid. The District recorded a liability of \$13,769,093 and the District's proportionate share was 0.7070 percent.

Changes in actuarial assumptions and methods:

Effective July 1, 2017, the following assumption changes were used:

- Lowered the interest rate from 7.75% to 7.65%.
- Lowered the inflation rate from 3.00% to 2.75%.
- Updated non-disabled mortality to the RP-2000 Combined Employee and Annuitant Mortality Table projected to 2020 using scale BB, males set back 1 year.
- Interest rates of withdrawal.
- Lowered the merit component of the total salary increase.
- Lowered the wage base component of the total salary increase from 4.00% to 3.50%.
- Decreased the administrative expense load from 0.27% to 0.26%.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 6. RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement System (PERS) (Continued)

Net Pension Liability (Continued)

Changes in actuarial assumptions and methods (Continued):

Effective July 1, 2017, the following method changes were used:

- Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount will vary from year to year based on the prior year's actual administrative expenses.
- To be consistent with the wage base growth changes, the payroll growth assumption for amortization as a level percent of pay was reduced from 4.00% to 3.50%.

Changes in benefit terms:

Effective July 1, 2017, the following benefit changes were:

- The interest rate credited to member accounts increased from 0.25% to 0.77%.
- Lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

Changes in proportionate share:

Between the measurement date of the collective NPL and the employer's reporting date there were no changes in proportion that would have an effect on the employer's proportionate share of the collective NPL since the previous measurement date.

Pension Expense

	Pension Expense as of <u>June 30, 2018</u>
Missoula County Public Schools:	
Proportionate share	\$ 1,500,121
State of Montana:	
Proportionate share	34,577
State of Montana Coal Tax:	
Proportionate share	<u>196,969</u>
	<u><u>\$ 1,731,667</u></u>

At June 30, 2018, the employer recognized its proportionate share of Plan's pension expense of \$798,957. The employer also recognized grant revenue of \$46,815 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 \$209,428 from the Coal Tax Fund.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 6. RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement System (PERS) (Continued)

Changes in proportionate share (Continued):

Recognition of Deferred Inflows and Outflows

At June 30, 2018, 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	\$ 339,089	\$ 19,930
Changes in assumptions	1,882,091	-
Actual vs. expected investment earnings	-	92,474
Changes in proportion share and differences between employer contributions and proportionate share of contributions	69,226	-
Employer contributions subsequent to the measurement - *FY 2018 Contributions	733,819	-
Total	<u>\$ 3,024,225</u>	<u>\$ 112,404</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, 2019.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 6. RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement System (PERS) (Continued)

Changes in proportionate share (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 (a) - (b)
2019	\$ 1,217,221
2020	1,130,207
2021	857,462
2022	(293,069)
2023	-
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 participants 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

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.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 6. RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement System (PERS) (Continued)

Summary of Benefits (Continued)

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. |

Second Retirement (requires returning to PERS-covered employer or PERS service):

Retired before January 1, 2016 and accumulate less than 2 years additional service credit or retire on or after January 1, 2016 and accumulate less than 5 years additional service credit.

- A refund of member's contributions plus return interest (currently .77% effective July 1, 2017).
- No service credit for second employment;
- Start the same benefit amount the month following termination; and
- Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.

Retire before January 1, 2016 and accumulate at least 2 years of additional service credit:

- A recalculated retirement benefit based on provisions in effect after the initial retirement; and
- GABA starts on the recalculated benefit in January after receiving the new benefit for 12 months.

Retire on or after January 1, 2016 and accumulate 5 or more years of service credit:

- The same retirement as prior to the return to service;
- A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
- GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

Vesting

5 years of membership service.

Member's Highest Average Compensation (HAC)

Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months; and

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 6. RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement System (PERS) (Continued)

Member's Highest Average Compensation (HAC) (Continued)

Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months.

Compensation Cap

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

Monthly Benefit Formula

Members hired prior to July 1, 2011:

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

Guaranteed Annual Benefit Adjustment (GABA)

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

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
 - 1.5% for each year PERS is funded at or above 90%;
 - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - 0% whenever the amortization period for PERS is 40 years or more.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 6. RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement System (PERS) (Continued)

Overview of Contributions

Member and employer contribution rates are specified by state law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The Montana Legislature has the authority to establish and amend contribution rates. Member and employer contribution rates are shown in the table below.

Fiscal Year	Member		State &			School Districts	
	Hired <7/01/11	Hired >7/01/11	Universities Employer	Local Government Employer	State	Employer	State
2018	7.9%	7.9%	8.570%	8.470%	0.10%	8.20%	0.370%
2017	7.9%	7.9%	8.470%	8.370%	0.10%	8.10%	0.370%
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%

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 years and remains below 25 years following the reduction of both the additional employer and additional member contributions rates.
 - b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
3. Non Employer Contributions
 - a. Special Funding
 - i. The State 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.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 6. RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement System (PERS) (Continued)

Overview of Contributions (Continued)

3. Non Employer Contributions (Continued)

b. Not Special Funding

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

Stand-Alone Statements

The financial statements of the Montana Public Employees' Retirement Board's (PERB) *Comprehensive Annual Financial Report* (CAFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, 406-444-3154 or the MPERA website at <http://mpera.mt.gov/index.shtml>.

Actuarial Assumptions

The TPL used to calculate the NPL was determined by taking the results of the June 30, 2016 actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2017. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the last actuarial experience study, dated June 2010, for the six-year period July 1, 2010 to June 30, 2016.

Among those assumptions were the following:

- | | |
|--|------------|
| • Investment Return (net of admin expense) | 7.65% |
| • Admin Expense as a % of Payroll | 0.26% |
| • General Wage Growth* | 3.50% |
| *includes Inflation at | 2.75% |
| • Merit Increases | 0% to 4.8% |

Guaranteed Annual Benefit Adjustment (GABA)

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

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
 - 1.5% for each year PERS is funded at or above 90%;
 - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - 0% whenever the amortization period for PERS is 40 years or more.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 6. RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement System (PERS) (Continued)

Guaranteed Annual Benefit Adjustment (GABA) (Continued)

Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back 1 year.

Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections.

Discount Rate

The discount rate used to measure the TPL was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. Of salaries paid, the State contributes 0.10% for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. No 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 Plan. The most recent analysis, performed for the period of July 1, 2010 to June 30, 2016, was outlined in a report dated May 2017, and is located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017, are summarized on the following page.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 6. RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement System (PERS) (Continued)

Target Allocations (Continued)

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Real Rate of Return Arithmetic Basis</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash Equivalents	2.60%	4.00%	0.10%
Domestic Equity	36.00%	4.55%	1.64%
Foreign Equity	18.00%	6.35%	1.14%
Fixed Income	23.40%	1.00%	0.23%
Private Equity	12.00%	7.75%	0.93%
Real Estate	<u>8.00%</u>	4.00%	<u>0.32%</u>
Total	<u>100.00%</u>		4.37%
Inflation			2.75%
Portfolio return expectation			7.12%

The long-term expected normal rate of return above of 7.12% is an expected portfolio rate of return provided by Board of Investments (BOI), which differs from the total long-term assumed rate of return of 7.65% in the experience study. The assumed investment rate is comprised of a 2.75% inflation rate and a real rate of return of 4.90%

Sensitivity Analysis

The sensitivity of the NPL to the discount rate is shown in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.65%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

	<u>1.0% Decrease (6.65%)</u>	<u>Current Discount Rate</u>	<u>1.0% Increase (8.65%)</u>
The District's proportion of net pension liability	\$ 20,053,507	\$ 13,769,093	\$ 8,493,803

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 6. RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement System (PERS) (Continued)

Summary of Significant Accounting Policies

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

PERS Disclosure for the Defined Contribution Plan

The District contributed to the state of Montana Public Employee Retirement System Defined Contribution Retirement Plan (PERS-DCRP) for employees that have elected the DCRP. The PERS-DCRP is administered by the PERB and is reported as a multiple-employer plan established July 1, 2002, and governed by Title 19, chapters 2 & 3, MCA.

All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the *defined benefit* and *defined contribution* retirement plans.

Member and employer contribution rates are specified by state law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The Montana Legislature has the authority to establish and amend contribution rates.

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.

At the plan level for the measurement period ended June 30, 2017, the PERS-DCRP employer did not recognize any net pension liability or pension expense for the *defined contribution* plan. Plan level non-vested forfeitures for the 300 employers that have participants in the PERS-DCRP totaled \$396,650.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2018

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 2018.

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.

Change in medical claims liabilities were as follows:

	Elementary School	High School	Total
Claims liability, June 30, 2016	\$ 772,729	\$ 515,152	\$ 1,287,881
Claims incurred in 2017	5,290,567	4,109,091	9,399,658
Claims paid in 2017	<u>(5,484,922)</u>	<u>(4,238,660)</u>	<u>(9,723,582)</u>
Claims liability, June 30, 2017	578,374	385,583	963,957
Claims incurred in 2018	7,296,100	4,626,680	11,922,780
Claims paid in 2018	<u>(7,131,501)</u>	<u>(4,516,947)</u>	<u>(11,648,448)</u>
Claims liability, June 30, 2018	<u>\$ 742,973</u>	<u>\$ 495,316</u>	<u>\$ 1,238,289</u>

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. 75 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.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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, 2018, 25 employees qualified for this benefit resulting in an expense of \$12,500.

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY

For purposes of measuring the total OPEB liability (TOL), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the District's Retiree Benefits Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Plan Description

The District's Health Plan (the Health Plan) is a single-employer defined benefit healthcare plan administered by the District. The Health Plan provides medical and prescription drug expenses for retirees and their spouses. The Health Plan's actuary is Healthcare Actuaries. The Health Plan does not issue a separate stand-alone financial report.

Benefits Provided

Participants are eligible for benefits upon retirement. Benefits are in the form of access to the District's medical plans. Retirement eligibility is the earlier of age 50 and five years of service or any age with 25 years of service. Benefits continue for the retirees and their spouses' lifetime.

Other benefit provisions apply.

Employees Covered by Benefit Terms

At the census date of June 30, 2017 (as an actuarial report is required every 2 years), the benefit terms covered the following employees:

<u>Category</u>	<u>Count</u>
Inactive employees or beneficiaries currently receiving benefit payments	138
Inactive employees entitled to but not yet receiving benefit payment	-
Active employees	1,082

Contributions

Benefit contributions are paid by the District as they come due.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2018

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY
(CONTINUED)

Total OPEB Liability (TOL)

The District's TOL was measured as of June 30, 2017, and the TOL was determined by an actuarial valuation as of June 30, 2017, with adjustments in arriving at the June 30, 2018 TOL.

Actuarial Assumptions

The TOL in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary increases:	Individual and aggregate salary increases 4.00%
Investment rate of return:	3.13%
Healthcare cost trend rates:	6.00% in the first year, trending down to 3.90% over 58 years

Mortality rates were based on RPH 2014 Mortality tables, with mortality improvement scales applied.

Discount Rate

The discount rate used to measure the TOL was 3.13%. The District's OPEB Plan is an unfunded plan, therefore the discount rate was set to the rate of tax-exempt, high-quality 20-year municipal bonds, as of the valuation date.

Changes in the TOL for the year ended June 30, 2018 are as follows:

	Total OPEB Liability
Balance as of June 30, 2017	\$ 3,137,436
Changes for the year:	
Service cost	366,973
Interest	84,670
Differences between expected and actual experience	-
Contributions	-
Change of assumptions	(91,652)
Benefit payments, including refunds of employee contributions	(191,988)
Implicit rate subsidy fulfilled	-
Net change	168,003
Balance as of June 30, 2018	\$ 3,305,439

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2018

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY
(CONTINUED)

Total OPEB Liability (TOL) (Continued)

Discount Rate (Continued)

There is sensitivity of the TOL to changes in the discount rate. The TOL of the District, as well as what the District's TOL would be if it were calculated using a discount rate that is one percentage point lower (2.13%) or one percentage point higher (4.13%) follows:

	1% Decrease	Discount Rate	1% Increase
	2.13%	3.13%	4.13%
Total OPEB liability	\$ 3,486,817	\$ 3,305,439	\$ 3,128,930

There is also sensitivity of the TOL to changes in the healthcare cost trend rates. The TOL of the District as well as what the District's TOL would be if it were recalculated using healthcare cost trend rates that are one percentage point lower (7.50%) or one percentage point higher (9.50%) than the current healthcare cost trend rate follows:

	1% Decrease	Trend Rate	1% Increase
	7.50%	8.50%	9.50%
Total OPEB liability	\$ 2,934,944	\$ 3,305,439	\$ 3,741,468

For the year ended June 30, 2018, the District recognized an OPEB expense of \$442,478. At June 30, 2018, the District reported \$204,801 in deferred outflows of resources and \$82,487 in deferred inflows of resources related to OPEB, based on the actuarial report received.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ -	\$ -
Change of assumptions	-	82,487
Benefit payments subsequent to the measurement date (7/1/2017)	204,801	-
Total	\$ 204,801	\$ 82,487

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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

Future Deferred Outflows and (Inflows) to be Recognized as OPEB Expense (Income)

Year Ended <u>June 30:</u>	
2019	\$ (9,165)
2020	(9,165)
2021	(9,165)
2022	(9,165)
2023	(9,165)
Thereafter	(36,662)

The implicit subsidy arises when an employer allows a retiree (and their dependents) to continue on the active plan and pay the active premiums. Retirees are not paying the true cost of their benefits because they have higher utilization rates than actives and therefore are partially subsidized by the active employees. Once a retiree reaches Medicare eligibility, the rates are sufficient to cover the true costs and there is no implicit subsidy.

Funded Status as of:	<u>June 30, 2018</u>
Total OPEB liability	\$3,305,439
Covered payroll	\$56,923,831
Total OPEB liability as a percentage of covered payroll	5.81%
Expense	\$422,478

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, 2018, the District had encumbered approximately \$51,394,229 against its 2018 budget, representing the estimated amount of unperformed purchase orders or contracts in process at year-end.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2018

NOTE 11. TAX ABATEMENTS

As indicated in Note 1, GASB Statement No. 77, *Tax Abatement Disclosures*, was effective for the District for the year ended June 30, 2017. The District's property tax revenue is subject to tax abatement agreements it enters into directly, as well as indirectly by those entered into by the County and the City. Tax abatement agreements are entered into on an individual basis with businesses under the Montana Code Annotated 2015, Title 15 Taxation (the Code). Under the Code, local governments may grant property tax abatements to business with qualifying improvements or modernized processes that represent new industry or expansion of an existing industry (15-24-1402).

In the first five years after a construction permit is issued, a business' property is taxed at 50 percent of taxable value with equal percentage increases taxed until the full taxable value is attained in the tenth year. In subsequent years, the property is taxed at its full taxable value (15-10-420). For the year ended June 30, 2017, the District has not entered into any tax abatement agreements, nor has the District received any information from the City or the County regarding any indirect effects to the District, if any, regarding tax abatement agreements entered into by those entities during the fiscal year.

NOTE 12. PRIOR PERIOD RESTATEMENT

For the year ended June 30, 2018, the District has implemented GASB 75 regarding the accounting and financial reporting for postemployment benefits other than pensions (OPEB). Accordingly, beginning net position for the governmental activities as been restated to reflect the decrease in the OPEB liability as follows:

Beginning net position, as originally reported	\$ (18,033,534)
GASB 75 implementation adjustment	<u>2,681,030</u>
Beginning net position as restated	<u>\$ (15,352,504)</u>

In 2018, the District noted Medicaid revenue and related expense that was previously unreported related to the year ending June 30, 2017. The table below details accounts which have been restated to reflect the Medicaid revenue and expense. Net position is unchanged as a result of the restatement.

	As Previously Reported	As Restated
<i>2017 Statement of Activities</i>		
Governmental activities - changes in net position:		
Support services	\$ (9,188,009)	\$ (9,606,088)
General revenues:		
State of Montana	43,631,353	44,049,432

REQUIRED
SUPPLEMENTAL INFORMATION

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
SCHEDULE OF BUDGETARY COMPARISON –
GENERAL FUNDS-BUDGET BASIS
Year Ended June 30, 2018

	Elementary General Fund	
	Original and Final Budget	Actual
REVENUES		
District levies	\$ 13,115,678	\$ 13,053,264
Investment interest	30,494	52,168
Tuition and fees	41,500	30,698
State sources	<u>24,844,312</u>	<u>24,852,997</u>
Total revenue	<u>38,031,984</u>	<u>37,989,127</u>
EXPENDITURES		
Current:		
Instruction	24,731,612	24,652,323
Support services	5,077,851	5,089,303
Administration	4,166,786	4,176,184
Operations and maintenance	3,740,462	3,748,898
Student transportation	155,579	155,930
Extracurricular	64,975	65,122
Food services	229,482	230,000
Capital outlay	<u>-</u>	<u>-</u>
Total expenditures	<u>38,166,748</u>	<u>38,117,760</u>
Revenues over expenditures	<u>\$ (134,764)</u>	(128,633)
OTHER FINANCING SOURCES		
Transfers out		<u>(50,000)</u>
Revenues and other financing sources over expenditures		(178,633)
Budget basis fund balances, June 30, 2017		<u>2,041,777</u>
Budget basis fund balances, June 30, 2018		1,863,144
Change in encumbrances		<u>653,431</u>
GAAP basis fund balances, June 30, 2018		<u>\$ 2,516,575</u>

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
SCHEDULE OF BUDGETARY COMPARISON –
GENERAL FUNDS-BUDGET BASIS (CONTINUED)
 Year Ended June 30, 2018

	High School General Fund	
	Original and Final Budget	Actual
REVENUES		
District levies	\$ 10,729,524	\$ 10,717,606
Investment interest	14,947	28,866
Tuition and fees	35,000	24,875
State sources	18,694,397	18,611,413
Total revenue	29,473,868	29,382,760
EXPENDITURES		
Current:		
Instruction	17,321,891	17,255,589
Support services	2,970,058	2,958,690
Administration	2,919,636	2,908,461
Operations and maintenance	3,781,055	3,766,583
Student transportation	657,046	654,531
Extracurricular	1,773,875	1,767,085
Food services	50,307	50,114
Capital outlay	-	-
Total expenditures	29,473,868	29,361,053
Revenues over expenditures	\$ -	21,707
OTHER FINANCING SOURCES		
Transfers out		(30,000)
Revenues and other financing sources over expenditures		(8,293)
Budget basis fund balances, June 30, 2017		1,415,867
Budget basis fund balances, June 30, 2018		1,407,574
Change in encumbrances		(124,577)
GAAP basis fund balances, June 30, 2018		\$ 1,282,997

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
SCHEDULE OF BUDGETARY COMPARISON –
GENERAL FUNDS-BUDGET BASIS (CONTINUED)
 Year Ended June 30, 2018

	General Fund Combined Totals	
	Original and Final Budget	Actual
	REVENUES	
District levies	\$ 23,845,202	\$ 23,770,870
Investment interest	45,441	81,034
Tuition and fees	76,500	55,573
State sources	43,538,709	43,464,410
Total revenue	67,505,852	67,371,887
EXPENDITURES		
Current:		
Instruction	42,053,503	41,907,912
Support services	8,047,909	8,047,993
Administration	7,086,423	7,084,645
Operations and maintenance	7,521,517	7,515,481
Student transportation	812,625	810,461
Extracurricular	1,838,850	1,832,207
Community services	279,789	280,114
Capital outlay	-	-
Total expenditures	67,640,616	67,478,813
Revenues over expenditures	\$ (134,764)	(106,926)
OTHER FINANCING SOURCES		
Transfers out		(80,000)
Revenues and other financing sources over expenditures		(186,926)
Budget basis fund balances, June 30, 2017		3,457,644
Budget basis fund balances, June 30, 2018		3,270,718
Change in encumbrances		528,854
GAAP basis fund balances, June 30, 2018		\$ 3,799,572

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
SCHEDULE OF CHANGES IN OTHER POSTEMPLOYMENT BENEFITS (OPEB)
LIABILITY AND RELATED RATIOS FOR THE LAST TEN YEARS*
 June 30, 2018

	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 366,973
Interest	84,670
Changes of benefit terms	-
Differences between expected and actual experience	-
Change of assumptions	(91,652)
Benefit payments	<u>(191,988)</u>
Net changes in total OPEB liability	168,003
 Total OPEB liability, beginning of year	 <u>3,137,436</u>
Total OPEB liability, end of year	<u>\$ 3,305,439</u>
 Covered employee payroll	 <u>\$56,923,831</u>
 District's total OPEB liability as a percentage of covered-employee payroll	 5.81%

* The amount presented above for the fiscal year was determined as of June 30. The 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 PROPORTIONATE SHARE OF
THE NET PENSION LIABILITIES *
 Year Ended June 30, 2018

	2018	2017	2016	2015
Schedule of Proportionate Share of the Net TRS Pension Liability:				
Employer's proportion of the net pension liability (percentage)	3.57130%	3.54130%	3.45190%	3.45420%
Employer's proportion of the net pension liability (amount)	\$ 60,215,694	\$ 64,693,543	\$ 56,715,501	\$ 53,154,264
State of MT proportionate share of the net pension liability associated with the Employer	<u>38,222,304</u>	<u>42,146,894</u>	<u>37,971,426</u>	<u>36,405,765</u>
Total	<u><u>\$ 98,437,998</u></u>	<u><u>\$ 106,840,437</u></u>	<u><u>\$ 94,686,927</u></u>	<u><u>\$ 89,560,029</u></u>
Employer's covered payroll	\$ 47,104,919	\$ 45,711,129	\$ 44,058,840	\$ 43,559,708
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	127.833%	141.527%	128.727%	122.026%
Plan fiduciary net position as a percentage of the total pension liability	70.09%	66.69%	69.30%	70.36%
Schedule of Proportionate Share of the Net PERS Pension Liability:				
Employer's proportion of the net pension liability (percentage)	0.7070%	0.7018%	0.6919%	0.7049%
Employer's net pension liability (amount)	\$ 13,769,093	\$ 11,953,458	\$ 9,671,317	\$ 8,783,314
State of Montana's net pension liability (amount)	<u>648,571</u>	<u>558,652</u>	<u>454,453</u>	<u>410,590</u>
Total	<u><u>\$ 14,417,664</u></u>	<u><u>\$ 12,512,110</u></u>	<u><u>\$ 10,125,770</u></u>	<u><u>\$ 9,193,904</u></u>
Employer's covered payroll	\$ 9,063,252	\$ 8,689,595	\$ 8,348,017	\$ 8,255,840
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	151.922%	137.561%	115.852%	106.389%
Plan fiduciary net position as a percentage of the total pension liability	73.75%	74.71%	78.40%	79.87%

* The amounts presented above for each fiscal year were determined as of June 30, 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, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Schedule of TRS Contributions:				
Contractually required contributions	\$ 4,749,929	\$ 4,824,345	\$ 4,444,690	\$ 4,481,260
Contributions in relation to the contractually required contributions	\$ 4,749,929	\$ 4,824,345	\$ 4,444,690	\$ 4,481,260
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Employer's covered payroll	\$ 47,885,443	\$ 47,104,919	\$ 45,711,129	\$ 44,063,040
Contributions as a percentage of covered payroll	9.92%	10.24%	9.72%	10.17%
 Schedule of PERS Contributions:				
Contractually required defined benefit contributions	\$ 733,819	\$ 734,060	\$ 702,611	\$ 665,342
Plan Choice rate required contributions	\$ -	\$ -	\$ 5,158	\$ 7,362
Contributions in relation to the contractually required contributions	\$ 733,819	\$ 734,060	\$ 707,769	\$ 672,704
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Employer's covered payroll	\$ 8,948,568	\$ 9,063,252	\$ 8,689,595	\$ 8,348,017

* The amounts presented above for each fiscal year were determined as of June 30, 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 REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2018

Teachers Retirement System

Changes of Benefit Terms:

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

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

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

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

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION (CONTINUED)
June 30, 2018

Teachers Retirement System (Continued)

Changes of Benefit Terms (Continued):

(8) Guaranteed Annual Benefit Adjustment (GABA):

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

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

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

Changes in Actuarial Assumptions and Other Inputs:

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

- The normal cost method has been updated to align the calculation of the projected compensation and the total present value of plan benefits so that the normal cost rate reflects the most appropriate allocation of plan costs over future compensation.

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

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three year COLA deferral period for Tier 2 Members.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION (CONTINUED)
June 30, 2018

Teachers Retirement System (Continued)

Changes in Actuarial Assumptions and Other Inputs (Continued):

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

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

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

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

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

- Mortality among disabled members was updated to the following:

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

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

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION (CONTINUED)
June 30, 2018

Teachers Retirement System (Continued)

Method and Assumptions Used in Calculations of Actuarially Determined Contributions:

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

Public Employees Retirement System

Changes of Benefit Terms

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

2015 Legislative Changes:

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

Second Retirement Benefit - for PERS

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

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION (CONTINUED)
June 30, 2018

Public Employees Retirement System (Continued)

2015 Legislative Changes (Continued):

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

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

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

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

2017 Legislative Changes:

General Revisions - House Bill 101, effective July 1, 2017

Working Retiree Limitations – for PERS

If a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.

Terminating Employers – Recovery of actuary costs – for PERS

Employers who terminate participation in PERS must pay the actuarial liability associated with that termination. Starting July 1, 2017, the terminating employer must also pay for the cost of the actuarial study used to determine that liability.

Refunds

- 1) Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION (CONTINUED)
June 30, 2018

Public Employees Retirement System (Continued)

2017 Legislative Changes (Continued):

- 2) Terminating members with accumulated contributions between \$200 and \$1,000 who wish to rollover their refund must do so within 90 days of termination of service.
- 3) Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

Family Law Order

If a Family Law Order (FLO) is silent regarding the apportionment of post-retirement benefit adjustments such as the Guaranteed Annual Benefit Adjustment (GABA), the FLO is presumed to require apportionment of the post-retirement benefit adjustment in the same percentage as the monthly retirement benefit is apportioned.

Disabled PERS Defined Contributions (DC) Members

PERS members hired after July 1, 2011 have a normal retirement age of 65. PERS DC members hired after July 1, 2011 who became disabled were previously only eligible for a disability benefit until age 65. Effective July 1, 2017, these individuals will be eligible for a disability benefit until they reach 70, thus ensuring the same 5-year time period available to PERS DC disabled members hired prior to July 1, 2011 who have a normal retirement age of 60 and are eligible for a disability benefit until age 65.

PERS Statutory Appropriation – House Bill 648, effective July 1, 2017

Revenue from coal severance taxes and interest income from the coal severance tax permanent fund previously statutorily-appropriated to the PERS defined benefit trust fund will be replaced with the following statutory appropriations:

- 1) FY2018 - \$32.277 million
- 2) FY2019 - 32.6 million
- 3) Beginning July 1, 2019 through at least June 30, 2025, 101% of the contributions from the previous year from the general fund to the PERS defined benefit trust fund, as follows:
 - a. FY2020 - \$32.277 million
 - b. FY2021 - \$32.6 million
 - c. FY2022 - \$32.926 million
 - d. FY2023 - \$33.255 million
 - e. FY2024 - \$33.588 million
 - f. FY2025 - \$33.924 million

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
 NOTES TO REQUIRED SUPPLEMENTAL INFORMATION (CONTINUED)
 June 30, 2018

Public Employees Retirement System (Continued)

Changes in Actuarial Assumptions and Methods

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

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

General Wage Growth*	3.50%
Investment Rate of Return*	7.65%
*Includes Inflation	
Merit salary increases	0% to 4.80%
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Mortality (Healthy members)	For Males and Females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year
Mortality (Disabled members)	For Males and Females: RP 2000 Combined Mortality Table
Admin Expenses as % of Payroll	0.26%

Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount varies from year to year based on the prior year's actual administrative expenses.

SUPPLEMENTAL INFORMATION
REQUIRED BY THE
MONTANA OFFICE OF PUBLIC INSTRUCTION

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
SCHEDULE OF ENROLLMENT
 Year Ended June 30, 2018

<u>ENROLLMENT</u>	PER ENROLLMENT	Audit Per District Reports	Records	Difference
Fall - October 2, 2017				
Elementary School District				
Pre-K-6:				
Pre-Kindergarten		-	-	-
Kindergarten - Half (enrolled 180+ hours per year)		-	-	-
Kindergarten - Half (enrolled <180 hours per year)		-	-	-
Grades K(Full) - 6 (enrolled 720+ hours per year)		4,299	4,299	-
Grades K(Full) - 6 (enrolled 540-719 hours per year)		1	1	-
Grades K(Full) - 6 (enrolled 360-539 hours per year)		-	-	-
Grades K(Full) - 6 (enrolled 180-359 hours per year)		-	-	-
Grades K(Full) - 6 (enrolled <180 hours per year)		-	-	-
7-8:				
Grades 7 - 8 (enrolled 720+ hours per year)		1,064	1,064	-
Grades 7 - 8 (enrolled 540-719 hours per year)		-	-	-
Grades 7 - 8 (enrolled 360-539 hours per year)		-	-	-
Grades 7 - 8 (enrolled 180-359 hours per year)		-	-	-
Grades 7 - 8 (enrolled <180 hours per year)		-	-	-
Total Elementary		5,364	5,364	-
High School District				
9-12:				
Grades 9 - 12 (enrolled 720+ hours per year)		3,645	3,645	-
Grades 9 - 12 (enrolled 540-719 hours per year)		6	6	-
Grades 9 - 12 (enrolled 360-539 hours per year)		5	5	-
Grades 9 - 12 (enrolled 180-359 hours per year)		2	2	-
Grades 9 - 12 (enrolled <180 hours per year)		6	6	-
Total High School		3,664	3,664	-
19 Year-olds included in Grades 9-12 above		6	6	-
Job Corps/MT Youth Academy Students included in Grades 9 - 12 above		10	10	-

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
SCHEDULE OF ENROLLMENT (CONTINUED)
Year Ended June 30, 2018

Spring - February 5, 2018

Elementary School District	Audit Per District Reports	Records	Difference
K-6:			
Pre-Kindergarten	-	-	-
Kindergarten - Half (enrolled 180+ hours per year)	-	-	-
Kindergarten - Half (enrolled <180 hours per year)	-	-	-
Grades K(Full) - 6 (enrolled 720+ hours per year)	4,309	4,309	-
Grades K(Full) - 6 (enrolled 540-719 hours per year)	1	1	-
Grades K(Full) - 6 (enrolled 360-539 hours per year)	1	1	-
Grades K(Full) - 6 (enrolled 180-359 hours per year)	-	-	-
Grades K(Full) - 6 (enrolled <180 hours per year)	-	-	-
7-8:			
Grades 7 - 8 (enrolled 720+ hours per year)	1,051	1,051	-
Grades 7 - 8 (enrolled 540-719 hours per year)	3	3	-
Grades 7 - 8 (enrolled 360-539 hours per year)	2	2	-
Grades 7 - 8 (enrolled 180-359 hours per year)	-	-	-
Grades 7 - 8 (enrolled <180 hours per year)	-	-	-
Total Elementary	5,367	5,367	-
High School District			
9-12:			
Grades 9 - 12 (enrolled 720+ hours per year)	3,541	3,541	-
Grades 9 - 12 (enrolled 540-719 hours per year)	11	11	-
Grades 9 - 12 (enrolled 360-539 hours per year)	8	8	-
Grades 9 - 12 (enrolled 180-359 hours per year)	7	7	-
Grades 9 - 12 (enrolled <180 hours per year)	4	4	-
Total High School	3,571	3,571	-
19 Year-olds included in Grades 9-12 above	7	7	-
Job Corps/MT Youth Academy Students included in Grades 9 - 12 above	11	11	-

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
SCHEDULE OF CHANGES IN NET POSITION – EXTRACURRICULAR
Year Ended June 30, 2018

	Balance			Balance
	<u>June 30, 2017</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>June 30, 2018</u>
Hellgate High School	\$ 374,522	\$ 583,023	\$ 619,019	\$ 338,526
Seeley-Swan High School	214,997	102,316	75,979	241,334
Sentinel High School	220,265	761,550	677,518	304,297
Big Sky High School	227,585	692,207	583,758	336,034
District Wide	2,405	19,070	17,348	4,127
Franklin Elementary	234	4	200	38
Hawthorne Elementary	10,778	4,634	11,009	4,403
Jefferson Center	56,759	141,189	131,478	66,470
Lowell Elementary	109	2	-	111
Paxson Elementary	482	823	968	337
C.S. Porter Middle School	12,213	38,728	35,340	15,601
Russell Elementary	1,307	25	-	1,332
Washington Middle School	39,771	78,173	64,739	53,205
Meadow Hill Middle School	9,897	23,558	22,296	11,159
Willard Alternative High School	59	187	-	246
	<u>\$ 1,171,383</u>	<u>\$ 2,445,489</u>	<u>\$ 2,239,652</u>	<u>\$ 1,377,220</u>

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

OTHER SUPPLEMENTAL INFORMATION

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
OTHER INFORMATION
June 30, 2018

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, five high schools, and an adult education school. The estimated population of the Elementary District is 71,712 and 105,121 for the High School District. The county-wide population is estimated at 109,299. The fall enrollment of students attending the District's schools is as follows:

	Average Fall Enrollment							
	Year Ended June 30,							
	2010	2011	2012	2013	2014	2015	2016	2017
Grades 9-12	3,616	3,643	3,665	3,561	3,596	3,519	3,633	3,675
Grades 6-8	1,525	1,504	1,506	1,547	1,508	1,548	1,593	1,602
Grades K-5	3,281	3,339	3,395	3,478	3,496	3,644	3,629	3,652
Total	<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>	<u>8,929</u>
Increase (decrease)	4	64	80	20	14	111	144	74
Percentage change from prior year	0.05%	0.76%	0.94%	0.23%	0.16%	1.29%	1.65%	0.84%

SCHOOL DISTRICT VALUATIONS

	As of January 1,						
	2012	2013	2014	2015	2016	2017	2018
ELEMENTARY							
Assessed valuation	\$ 3,805,884,721	\$ 3,964,517,962	\$ 4,075,397,432	\$ 6,798,935,815	\$ 6,845,815,813	\$ 7,463,353,990	\$ 7,488,389,388
Taxable valuation	104,678,227	106,045,274	106,626,049	106,720,341	109,462,027	116,439,687	116,439,687
Taxable valuation as a percent of assessed valuations	<u>2.75%</u>	<u>2.67%</u>	<u>2.62%</u>	<u>1.57%</u>	<u>1.60%</u>	<u>1.56%</u>	
HIGH SCHOOL							
Assessed valuation	\$ 6,806,202,585	\$ 7,107,410,347	\$ 7,338,761,046	\$ 11,935,647,630	\$ 12,108,475,706	\$ 13,149,534,101	\$ 13,252,923,400
Taxable valuation	179,950,510	181,892,508	183,502,389	183,149,451	190,465,906	203,816,466	203,816,466
Taxable valuation as a percent of assessed valuations	<u>2.64%</u>	<u>2.56%</u>	<u>2.50%</u>	<u>1.53%</u>	<u>1.57%</u>	<u>1.55%</u>	<u>1.54%</u>

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
OTHER INFORMATION (CONTINUED)
 June 30, 2018

SCHOOL DISTRICT TAX LEVIES (In Mills)

	Year Ended June 30,							
	2010	2011	2012	2013	2014	2015	2016	2017
ELEMENTARY								
General	103.73	103.48	104.07	102.26	104.92	105.07	107.80	105.09
Transportation	24.12	24.53	28.58	27.22	26.60	27.87	28.54	25.22
Debt service	1.92	-	-	-	-	-	-	34.01
Adult education	1.19	0.92	1.27	1.29	1.23	1.23	0.87	0.78
Tuition	-	-	-	-	-	-	-	4.17
Technology	3.02	2.96	2.89	2.85	7.97	7.96	7.87	7.77
Flex	-	1.03	-	-	-	-	-	-
Building reserve	<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>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>	<u>177.04</u>
HIGH SCHOOL								
General	56.03	54.48	56.34	52.16	51.35	50.73	50.56	51.58
Transportation	6.71	6.70	7.27	7.31	7.45	7.54	7.84	7.23
Debt service	6.17	0.27	5.75	5.28	4.54	4.73	5.80	14.93
Adult education	2.07	2.01	1.97	2.00	2.00	2.05	2.25	2.16
Tuition	0.30	2.54	0.11	0.23	0.31	1.16	2.24	2.81
Technology	2.59	6.09	2.50	2.47	4.09	4.10	4.01	3.94
Building reserve	<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>	<u>2.36</u>
Total High School Levies	<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>	<u>85.01</u>

**MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
OTHER INFORMATION (CONTINUED)
June 30, 2018**

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,							
	2010	2011	2012	2013	2014	2015	2016	2017
Missoula County	140.60	139.80	142.47	145.01	150.32	160.09	172.32	174.44
Open Space Bond Levy	1.66	2.33	3.04	3.33	3.45	2.74	3.22	3.1
University Levy	6.00	6.00	6.00	6.00	6.00	6	6	6
State School Equalization	40.00	40.00	40.00	40.00	40.00	40	40	40
County-wide School Levy	104.62	103.45	100.94	104.60	104.60	105.64	103.5	101.91
Urban Transportation	16.30	16.45	17.69	19.51	21.05	34.26	40.47	36.78
Missoula School District No. 1	142.75	141.50	145.18	141.88	148.94	150.34	149.71	177.04
MCHS	76.46	74.63	76.44	71.92	72.19	72.77	75.11	85.01
Missoula Rural Fire	94.13	97.98	97.97	100.33	102.39	112.59	114.33	110.38
East Missoula Fire	23.77	24.65	25.01	27.42	42.62	42.89	45.49	43.41
City of Missoula	222.45	225.56	233.24	240.90	243.52	245.62	260.08	252.27
Road/Health	32.36	32.36	32.39	32.58	32.58	32.58	34.58	33.11
Animal Control	1.60	1.60	1.60	1.61	1.61	1.61	1.61	1.54
Medical Levy	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>3</u>	<u>3</u>
Total Levies	<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>	<u>1,068.22</u>

**MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
OTHER INFORMATION (CONTINUED)
June 30, 2018**

TAX COLLECTIONS

The following tables demonstrate the tax collection history for the period of July 1, 2008 through June 30, 2018.

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
HIGH SCHOOL					
2018	\$ 21,001,830	\$ 20,883,479	99.44%	\$ 20,883,479	99.44%
2017	16,188,078	15,816,742	97.71%	15,816,742	97.71%
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%
ELEMENTARY					
2018	\$ 24,748,266	\$ 24,583,499	99.33%	\$ 24,583,499	99.33%
2017	19,708,214	19,218,043	97.51%	19,218,043	97.51%
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%

**MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
OTHER INFORMATION (CONTINUED)
June 30, 2018**

MAJOR TAXPAYERS

The following table lists the major taxpayers within the Elementary School District for the year ended June 30, 2018, listed in declining order of taxable value.

Taxpayer	Business	Taxable Value	Percent of Total Taxable Value
Northwestern Corporation	Utility	\$ 14,986,735	12.87%
Southgate Mall	Retail Shopping Mall	1,204,365	1.03%
Charter Communications	Communications	1,001,720	0.86%
CenturyLink, Inc. (Qwest Corp)	Communications	846,085	0.73%
MT Rail Link	Railroad	767,319	0.66%
Celoco Ptnrship DBA Verizon Wireless	Communications	528,955	0.45%
UT Missoula LLC	Retail Shopping Center	464,151	0.40%
St. Patrick Hospital	Hospital	422,095	0.36%
Stockman Bank of Montana	Real Estate Development	365,604	0.31%
Gingerelli Louis M	Real Estate	<u>315,669</u>	<u>0.27%</u>
	Total	<u>\$ 20,902,698</u>	<u>17.94%</u>

The following table lists the major taxpayers within the High School District for the year ended June 30, 2018, listed in declining order of taxable value.

Taxpayer	Business	Taxable Value	Percent of Total Taxable Value
Northwestern Corporation	Utility	\$ 18,925,941	9.29%
MT Rail Link	Railroad	1,822,342	0.89%
Celoco Ptnrship DBA Verizon Wireless	Communications	1,388,665	0.68%
Charter Communications	Communications	1,290,999	0.63%
Southgate Mall	Communications	1,245,120	0.61%
RCHP Billings Missoula LLC	Retail Shopping Mall	977,941	0.48%
CenturyLink, Inc. (Qwest Corp)	Medical Facility/Offices	918,433	0.45%
Missoula Electric Coop	Electric Power Utility	830,434	0.41%
Yellowstone Pipeline	Water Utility	816,684	0.40%
Gateway Limited Partnership	Utility	<u>782,889</u>	<u>0.38%</u>
	Total	<u>\$ 28,999,448</u>	<u>14.22%</u>

MISSOULA COUNTY PUBLIC SCHOOLS
 SCHOOL DISTRICT NO. 1
 OTHER INFORMATION (CONTINUED)
 June 30, 2018

MAXIMUM BONDED INDEBTEDNESS

Montana statute limits the maximum bonded indebtedness. The calculation of each district's remaining bonding capacity is as follows:

SCHOOL DISTRICT	<u>Maximum Bonded Indebtedness</u>	<u>Less - Debt Outstanding</u>	<u>Remaining Bonding Capacity June 30, 2018</u>
High School	\$ 314,446,990	\$ 70,275,000	\$ 244,171,990
Elementary	<u>186,383,100</u>	<u>83,125,000</u>	<u>103,258,100</u>
Total	<u>\$ 500,830,090</u>	<u>\$ 153,400,000</u>	<u>\$ 347,430,090</u>

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
 OTHER INFORMATION (CONTINUED)
 COMBINING BALANCE SHEETS – GENERAL FUNDS
 June 30, 2018

	Elementary General Fund	High School General Fund	Total General Fund
ASSETS			
Cash and investments	\$ 2,488,404	\$ 1,462,760	\$ 3,951,164
Property taxes receivable	640,707	486,865	1,127,572
Prepaid expenses	110,282	18,163	128,445
Other current assets	111,544	13,718	125,262
Total assets	\$ 3,350,937	\$ 1,981,506	\$ 5,332,443
 LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES			
LIABILITIES			
Other current liabilities	\$ 193,655	\$ 211,644	\$ 405,299
Total liabilities	193,655	211,644	405,299
 DEFERRED INFLOWS OF RESOURCES			
Uncollected tax revenue	640,707	486,865	1,127,572
Total deferred inflows of resources	640,707	486,865	1,127,572
 FUND BALANCES			
Spendable:			
Assigned	807,145	77,505	884,650
Unassigned	1,709,430	1,205,492	2,914,922
Total fund balances	2,516,575	1,282,997	3,799,572
Total liabilities, deferred inflows and fund balances	\$ 3,350,937	\$ 1,981,506	\$ 5,332,443

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, 2018

	<u>Elementary General Fund</u>	<u>High School General Fund</u>	<u>Total General Fund</u>
REVENUES			
District levies	\$ 13,053,264	\$ 10,717,606	\$ 23,770,870
Investment interest	52,168	28,866	81,034
Tuition and fees	30,698	24,875	55,573
State sources	<u>24,852,997</u>	<u>18,611,413</u>	<u>43,464,410</u>
Total revenue	<u>37,989,127</u>	<u>29,382,760</u>	<u>67,371,887</u>
EXPENDITURES			
Current:			
Instruction	23,969,250	17,353,959	41,323,209
Support services	5,099,738	2,973,844	8,073,582
Administration	4,187,316	2,912,597	7,099,913
Operations and maintenance	3,757,040	3,770,471	7,527,511
Student transportation	155,930	654,531	810,461
Food service	230,000	50,000	280,000
Extracurricular	65,055	1,770,228	1,835,283
Transfer in	<u>50,000</u>	<u>30,000</u>	<u>80,000</u>
Total expenditures	<u>37,514,329</u>	<u>29,515,630</u>	<u>67,029,959</u>
Revenues over expenditures	474,798	(132,870)	341,928
Fund balances, beginning of year	<u>2,041,777</u>	<u>1,415,867</u>	<u>3,457,644</u>
Fund balances, end of year	<u>\$ 2,516,575</u>	<u>\$ 1,282,997</u>	<u>\$ 3,799,572</u>

SINGLE AUDIT SECTION

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Project Number	Federal Awards Expenditures
DEPARTMENT OF AGRICULTURE			
<i>Passed through the Office of Public Instruction</i>			
<i>Child Nutrition Cluster</i>			
Non-Cash Assistance (Commodities):	10.565	N/A	\$ 218,558
School Lunch Program	10.555	N/A	<u>2,360,099</u>
Total Department of Agriculture <i>Child Nutrition</i>			<u>2,578,657</u>
DEPARTMENT OF EDUCATION			
<i>Passed through the Office of Public Instruction:</i>			
Adult Ed. EL Civics	84.002	32-0584-5417	319
Adult Ed. EL Civics	84.002	32-0584-5418	24,750
Adult Ed. - Federal ABLE	84.002	32-0584-5617	4,170
Adult Ed. - Federal ABLE	84.002	32-0584-5618	<u>156,954</u>
Total CFDA 84.002			<u>186,193</u>
Title I Improving Basic Program	84.010A	32-0584-3117	22
Title I Improving Basic Program	84.010A	32-0584-3118	3,864
Title I Schoolwide	84.010A	32-0583-3217	389,694
Title I Schoolwide	84.010A	32-0584-3218	1,899,164
Title I - Part A	84.010A	32-0583-3117	148
Title I - Part A	84.010A	32-0583-3118	6,333
Title I-Support	84.010A	32-0584-3318	<u>34,840</u>
Total CFDA 84.010A			<u>2,334,065</u>
Title I - Migrant Part C	84.011A	32-0583-3617	32,739
Title I - Migrant Part C	84.011A	32-0583-3618	<u>10,359</u>
Total CFDA 84.011			<u>43,098</u>
Title I - Part D N & D	84.013A	32-0584-4217	16,418
Title I - Part D N & D	84.013A	32-0584-4218	<u>77,292</u>
Total CFDA 84.013A			<u>93,710</u>
<i>Special Education Cluster (IDEA)</i>			
IDEA Part B-Elementary	84.027	32-0584-7717	22,486
IDEA Part B-Elementary	84.027	32-0584-7718	1,010,727
IDEA Part B-High School	84.027	32-0584-7717	40,100
IDEA Part B-High School	84.027	32-0584-7718	<u>1,113,557</u>
Total CFDA 86.027			<u>2,186,870</u>
IDEA-MTSS	84.323A	32-0583-7818	<u>36,736</u>
IDEA Federal Handicapped-Preschool	84.173A	32-0584-7917	1,454
IDEA Federal Handicapped-Preschool	84.173A	32-0584-7918	<u>48,866</u>
Total CFDA 84.173A			<u>50,320</u>
<i>Total Special Education Cluster (IDEA)</i>			<u>2,273,926</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)
Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Project Number	Federal Awards Expenditures
Vo Ed Carl Perkins Basic Grant	84.048A	32-0584-8117	4,172
Vo Ed Carl Perkins Basic Grant	84.048A	32-0584-8118	<u>221,899</u>
Total CFDA 84.048A			<u>226,071</u>
21st Century Community Learning	84.287	32-0583-1717	3,755
21st Century Community Learning	84.287	32-0583-1718	<u>120,560</u>
Total CFDA 84.287			<u>124,315</u>
Title III Part A, English Language Acquisition	84.365A	32-0583-4117	4,441
Title III Part A, English Language Acquisition	84.365A	32-0583-4118	25,339
Emergency Immigrant	84.365A	32-0583-4118	<u>12,740</u>
Total CFDA 84.365A			<u>42,520</u>
Title IIA High School	84.367A	32-0584-1417	5,219
Title IIA High School	84.367A	32-0584-1418	208,423
Title IIA Elementary	84.367A	32-0583-1417	14,124
Title IIA Elementary	84.367A	32-0583-1418	<u>354,269</u>
Total CFDA 84.367A			<u>582,035</u>
Homeless Children and Youth	84.196A	32-0583-5717	7,410
Homeless Children and Youth	84.196A	32-0583-5718	<u>9,317</u>
Total CFDA 84.196A			<u>16,727</u>
ACT Plus Writing Test	84.334	32-0584-8418	<u>4,772</u>
Total State Administered - Office of Public Instruction			<u>5,927,432</u>
DEPARTMENT OF EDUCATION			
Title VII Indian Education	84.060A	S060A 160873	1,655
Title VII Indian Education	84.060A	S060A 170873	<u>99,927</u>
Total CFDA 84.060A			<u>101,582</u>
Voc Rehab	84.126A	H126A 150028	<u>39,168</u>
Total Federally Administered - Department of Education			<u>140,750</u>
Total Department of Education			<u>6,068,182</u>
Total Federal Awards			<u>\$ 8,646,839</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, 2018

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*.

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, 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, 2018, 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 27, 2019.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in finding #2018-001 in the accompanying schedule of findings and questioned costs that we consider to be significant deficiency.

Compliance and Other Matters

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

The District's Response to Finding

The District's response to the internal control over financial reporting finding identified in our audit is described in the accompanying schedule of findings and questioned cost. We did not audit the District's response and, accordingly, we express no opinion on it.

Purpose of this Report

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

Anderson Zurmuehlen + Co, P.C.

Missoula, Montana
March 27, 2019

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 Compliance Supplement* that could have direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. 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, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item #2018-003. Our opinion on the major federal program is not modified with respect to this matter.

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

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in finding #2018-002 in the accompanying schedule of findings and questioned costs that we consider to be significant deficiency.

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.

Anderson Zurmuehlen + Co, P.C.

Missoula, Montana
March 27, 2019

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS
Year Ended June 30, 2018

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?	Yes
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

84.010	Title 1 Grants to Local Educational Agencies	
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

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS (CONTINUED)
Year Ended June 30, 2018

Section II – Financial Statement Findings

Finding #2018-001 Prior Period Adjustment

Condition: Medicaid revenues and expense related to 2017 were not accrued and recorded in the 2017 financial statements, but were overstated in 2018. The error has no impact on the District's net position at June 30, 2017.

Criteria: Revenues should be 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.

Context: Revenue and expenditures were understated in 2017 and overstated in 2018 by \$418,079.

Cause: The District's accounting staff failed to identify the revenue and expenditures for accrual in 2017.

Effect: The error resulted in state revenue and supporting service expenditures being understated in 2017 and overstated in 2018.

Recommendation: We recommend management plans to implement procedures to ensure that the completeness and accuracy of both revenue and expense at yearend.

Client Response and

Corrective Actions: See management's Corrective Action Plan on page 105.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS (CONTINUED)
Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs

Finding #2018-002 Title 1 Enrollment Count Error

Condition: During our testing of the Title 1, Part A application, we noted that the District incorrectly reported the number of free/reduced students who were attending one of the schools. However, using the 125% rule, total funding for the school district was correct, the allocation of funding between the schools was wrong.

Criteria: Accurate reporting of free/reduced students per school on the grant application.

Context: One school received \$77,318 too much funding while two other schools did not receive enough funding, but in total, the grant amount received was correct.

Cause: The District reported inaccurate student counts as part of the District's Title 1, Part A application.

Effect: OPI has determined the correction is a local issue and the district will need to use state/local dollars to fund the "shortfall" for the two affected schools. This is an internal control findings because future errors could result in over/under funding to the District.

Recommendation: We recommend management ensure the District has adequate student count and student count review procedures to ensure applications are complete and accurate.

Client Response and Corrective Actions: See management's Corrective Action Plan on page 106.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS (CONTINUED)
Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs (Continued)

Finding #2018-003 Procurement

Condition: During our testing, we noted that following information was not included in the District's procurement policy: 1) a description of the competitive bid process, including written procedures with descriptions/specifications and all requirements to be evaluated; 2) steps to ensure that minority and women's labor and surplus area firms are used when possible; 3) guidance on micro-purchases, small purchases (up to \$150K), sealed bids, or sole source purchases.

Criteria: 200.318, paragraph (c) of the Uniform Guidance specifies information required to be included in the procurement policy

Cause: The District's procurement policy was not updated to conform to the requirements contained in the Uniform Guidance.

Effect: The District's procurement policy does not contain the information required by the Uniform Guidance.

Recommendation: We recommend that management update the District's procurement policy to include the elements required in 200.318, paragraph (c) of the Uniform Guidance.

Client Response and Corrective Actions: See management's Corrective Action Plan on page 107.

MISSOULA COUNTY PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
SCHEDULE OF PRIOR YEAR FINDINGS
Year Ended June 30, 2018

There were no prior year findings.



March 26, 2019

RE: Managements Response to Audit Finding #2018-001

Auditors Finding: During the course of the audit, we were notified of a restatement related to Medicaid revenue and expense that was recorded incorrectly in 2018. Specifically, Medicaid revenues and expenses related to 2017 were omitted from the 2017 financial statements. The error has no impact on the District's net position.

Managements Response: The MCPS accounting department incorrectly judged in the 2017 fiscal year that accrued revenue and corresponding expense for CSCT services provided by independent contractors would not be an issue of significance. The District agrees that the proper accruals were not made. These mental health provider organizations bill their services directly to the State of Montana. The State then makes payments directly to the District rather than to the provider. Upon receipt, the District pays that revenue immediately to the provider organizations. The accounting department previously and erroneously considered those revenues earned when the check was received and considered the payment a liability when paid. The District ensured the related revenues and expenses were recorded in the same fiscal year, but they were not necessarily in the correct year for those payments coming in after the fiscal year end.

Managements Corrective Action Plan: The accounting department will add documentation of the review of receipts and disbursements received or paid subsequent to year end as a checklist item. Additionally, the accounting department will discuss with other District staff, including directors, supervisors and principals, their identification of any significant items that should be recorded in the financial statements. The checklist and documentation of times and notes regarding discussions with District staff will be reviewed with the Executive Director of Business and Operations.

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March 25, 2019

RE: Managements Response to Audit Finding #2018-002

Finding: During the auditors testing of the Title 1, Part A application, they noted that the District incorrectly reported students which affected the eligibility of one school to receive Title 1 services.

Managements Response: The District acknowledges the mistake and realizes the importance of having controls in place to ensure these sorts of mistakes do not happen. In this particular circumstance, the initiation of the Community Eligibility Program (CEP) necessitated we run and pull a Student Eligibility Roster report from our Student Information System. The error occurred in using this report to calculate students ineligible for meal benefits of those who applied. We now use the Eligibility Statistics by School report from our Student Information System, which gives us an accurate number without additional calculations necessary. The District emphasizes the point that the students at the high school incorrectly identified as eligible, nevertheless, would have been served by the District. The methodology used to validate serving that school would have been different than the method actually used, specifically the 125% rule. And, though the District is not happy to have made this mistake, we do report that those funds were used to serve eligible students.

Managements Corrective Action Plan: The District will review the information submitted for the 2018-19 school year to ensure that our calculations are correct. Additionally, the administration charged with oversight of grants, will put in place procedures to ensure appropriate review to minimize future errors.

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March 26, 2019

RE: Managements Response to Audit Finding #2018-003

Auditors Finding: During our testing, we noted that the following information was not included in the District's procurement policy: 1) a description of the competitive bid process, including written procedures with descriptions/specifications and all requirements to be evaluated; 2) steps to ensure that minority and women's labor and surplus area firms are used when possible; 3) guidance on micro-purchases, small purchases (up to \$150K), sealed bids, or sole source purchases.

Managements Response: The District acknowledges that it's procurement policy is not updated to include the requirements of the Federal Uniform Guidance (2 CFR, Section 200). Despite this fact, the District has followed State law regarding the procurement of supplies and services.

Managements Corrective Action Plan: The District will review the Uniform Guidance in consultation with the District's legal counsel, and propose an update to board policy that meets the requirements of the uniform guidance. Additionally, staff will be trained as necessary to ensure compliance with the updated policy.

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