GALLATIN GATEWAY PUBLIC SCHOOL

GALLATIN COUNTY, MONTANA

Fiscal Year Ended June 30, 2016

AUDIT REPORT

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

GALLATIN GATEWAY PUBLIC SCHOOL

GALLATIN COUNTY, MONTANA

Fiscal Year Ended June 30, 2016

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GALLATIN GATEWAY PUBLIC SCHOOL

GALLATIN COUNTY, MONTANA

ORGANIZATION

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BOARD OF TRUSTEES

DISTRICT OFFICIALS

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

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Gallatin Gateway Public School
Gallatin County
Belgrade, 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 Gallatin Gateway Public School, Gallatin County, Montana, as of and for the year ended June 30, 2016, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

Robert K. Denning, CPA

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 Gallatin Gateway Public School, Gallatin County, Montana, as of and for the fiscal year ended June 30, 2016, and the respective changes in financial position and, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2016, the District adopted new accounting guidance, GASB statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, (an amendment of GASB No. 45).* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of changes for other post-employment benefits other than pensions, schedules of proportionate share of the net pension liability, and schedules of contributions on pages 40 through 44, 45, 46 and 47, 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.

Gallatin Gateway Public School, Gallatin County, Montana has omitted a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basis financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of revenues and expenditures for the extracurricular fund and the schedule of enrollment are presented for purposes of additional analysis and are not a required part of the financial statements.

The accompanying schedule of revenues and expenditures for the extracurricular fund and the schedule of enrollment are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements.

Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenues and expenditures for the extracurricular fund and the schedule of enrollment are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated June 26, 2017, on our consideration of the Gallatin Gateway Public School, Gallatin County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit preformed in accordance with *Government Auditing Standards* in considering Gallatin Gateway Public School, Gallatin County, Montana's internal control over financial reporting and compliance.

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

June 26, 2017

Gallatin Gateway Public School, Gallatin County, Montana
Statement of Net Position
June 30, 2016

		Governmental Activities
ASSETS		
Current assets:		
Cash and investments	$	404,614
Taxes and assessments receivable, net		35,361
Prepaid expenses		19,095
Total current assets	$	459,070
Noncurrent assets		
Capital assets - land	$	58,361
Capital assets - depreciable, net		1,387,421
Total noncurrent assets	$	1,445,782
Total assets	$	1,904,852
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources - pensions	$	108,220
Total deferred outflows of resources	$	108,220
LIABILITIES		
Current liabilities		
Accounts payable	$	42
Current portion of long-term capital liabilities		100,000
Current portion of compensated absences payable		8,146
Total current liabilities	$	108,188
Noncurrent liabilities		
Noncurrent portion of long-term liabilities	$	24,942
Noncurrent portion of long-term capital liabilities		435,000
Noncurrent portion of compensated absences		76,251
Net pension liability		1,042,208
Total noncurrent liabilities	$	1,578,401
Total liabilities	$	1,686,589
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - pensions	$	70,486
Total Deferred Inflows of resources	$	70,486
NET POSITION		
Net investment in capital assets	$	910,782
Restricted for capital projects		156,143
Restricted for debt service		15,937
Restricted for special projects		142,208
Unrestricted		(969,073)
Total net position	$	255,997

See accompanying Notes to the Financial Statements

Gallatin Gateway Public School, Gallatin County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position — Primary Government: Governmental Activities
Primary government:				
Governmental activities:				
Instructional - regular	$ 946,212	$ -	$ 43,262	$ (902,950)
Instructional - special education	47,592	-	24,041	(23,551)
Instructional - adult education	23,202	-	-	(23,202)
Supporting services - operations & maintenance	144,099	-	-	(144,099)
Supporting services - general	67,756	-	-	(67,756)
Supporting services - educational media services	62,984	-	-	(62,984)
Administration - general	47,059	-	-	(47,059)
Administration - school	75,071	-	-	(75,071)
Administration - business	95,984	-	-	(95,984)
Student transportation	71,401	2,440	17,702	(51,259)
Extracurricular	14,642	-	-	(14,642)
School food	95,929	42,385	32,883	(20,661)
Debt service expense - interest	19,515	-	-	(19,515)
Unallocated depreciation*	50,821	-	-	(50,821)
Total governmental activities	$ 1,762,267	$ 44,825	$ 117,888	$ (1,599,554)

General Revenues:	
Property taxes for general purposes	$ 675,652
Grants and entitlements not restricted to specific programs	674,580
Other state grants	28,389
Investment earnings	4,193
Miscellaneous (other revenue)	28,592
State entitlement (block grants)	78,806
State technology	1,073
County retirement	164,978
Total general revenues, special items and transfers	$ 1,656,263
Change in net position	$ 56,709
Net position - beginning	$ 188,416
Restatements	10,872
Net position - beginning - restated	$ 199,288
Net position - end	$ 255,997

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

Gallatin Gateway Public School, Gallatin County, Montana
Balance Sheet
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General	Transportation	Bus Depreciation	Debt Service	Building Reserve	Other Governmental Funds	Total Governmental Funds
ASSETS							
Current assets:							
Cash and investments	$ 110,749	$ 33,785	$ 97,856	$ 9,687	$ 53,208	$ 99,329	$ 404,614
Taxes and assessments receivable, net	20,624	3,687	1,281	6,250	1,765	1,754	35,361
Prepaid expenses	13,367	5,728	-	-	-	-	19,095
Total assets	$ 144,740	$ 43,200	$ 99,137	$ 15,937	$ 54,973	$ 101,083	$ 459,070
Current liabilities:							
Accounts payable	$ -	$ -	$ -	$ -	$ -	$ 42	$ 42
Total liabilities	$ -	$ -	$ -	$ -	$ -	$ 42	$ 42
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows of resources	$ 20,624	$ 3,687	$ 1,281	$ 6,250	$ 1,765	$ 1,754	$ 35,361
Total deferred inflows of resources	$ 20,624	$ 3,687	$ 1,281	$ 6,250	$ 1,765	$ 1,754	$ 35,361
FUND BALANCES							
Restricted	$ -	$ 39,513	$ 97,856	$ 9,687	$ 53,208	$ 99,287	$ 299,551
Unassigned fund balance	124,116	-	-	-	-	-	124,116
Total fund balance	$ 124,116	$ 39,513	$ 97,856	$ 9,687	$ 53,208	$ 99,287	$ 423,667

See accompanying Notes to the Financial Statements

Gallatin Gateway Public School, Gallatin County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2016

Total fund balances - governmental funds	$	423,667
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		1,445,782
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		35,361
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(644,339)
Proportionate share of ending collective net pension liability		(1,042,208)
Deferred ouflows related to net pension liability		108,220
Deferred inflows related to net pension liability		(70,486)
Total net position - governmental activities	**$**	255,997

See accompanying Notes to the Financial Statements

Gallatin Gateway Public School, Gallatin County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General	Transportation	Bus Depreciation	Debt Service	Building Reserve	Other Governmental Funds	Total Governmental Funds
REVENUES							
Local revenue	$ 406,972	$ 69,723	$ 25,268	$ 120,023	$ 35,540	$ 101,170	$ 758,696
County revenue	-	8,851	-	-	-	164,978	173,829
State revenue	771,813	14,850	-	3,039	-	4,923	794,625
Federal revenue	-	-	-	-	-	68,784	68,784
Total revenues	$ 1,178,785	$ 93,424	$ 25,268	$ 123,062	$ 35,540	$ 339,855	$ 1,795,934
EXPENDITURES							
Instructional - regular	$ 681,283	$ -	$ -	$ -	$ -	$ 198,830	$ 880,113
Instructional - special education	39,441	-	-	-	-	8,151	47,592
Instructional - adult education	-	-	-	-	-	23,202	23,202
Supporting services - operations & maintenance	117,149	13,863	-	-	5,237	7,850	144,099
Supporting services - general	56,027	-	-	-	-	11,729	67,756
Supporting services - educational media services	55,462	-	-	-	-	7,522	62,984
Administration - general	44,475	-	-	-	-	2,584	47,059
Administration - school	65,854	-	-	-	-	9,217	75,071
Administration - business	60,385	13,202	-	-	-	22,397	95,984
Student transportation	-	62,984	-	-	-	8,417	71,401
Extracurricular	13,427	-	-	-	-	1,215	14,642
School food	21,290	-	-	-	-	74,639	95,929
Debt service expense - principal	-	-	-	100,000	-	-	100,000
Debt service expense - interest	-	-	-	19,515	-	-	19,515
Capital outlay	-	-	-	-	19,460	-	19,460
Total expenditures	$ 1,154,793	$ 90,049	$ -	$ 119,515	$ 24,697	$ 375,753	$ 1,764,807
Excess (deficiency) of revenues over expenditures	$ 23,992	$ 3,375	$ 25,268	$ 3,547	$ 10,843	$ (35,898)	$ 31,127
OTHER FINANCING SOURCES (USES)							
Transfers in	$ -	$ -	$ -	$ -	$ 15,000	$ -	$ 15,000
Transfers out	-	-	(15,000)	-	-	-	(15,000)
Total other financing sources (uses)	$ -	$ -	$ (15,000)	$ -	$ 15,000	$ -	$ -
Net Change in Fund Balance	$ 23,992	$ 3,375	$ 10,268	$ 3,547	$ 25,843	$ (35,898)	$ 31,127
Fund balances - beginning	$ 81,092	$ 30,374	$ 87,588	$ 6,140	$ 27,365	$ 141,967	$ 374,526
Restatements	19,032	5,764	-	-	-	(6,782)	18,014
Fund balances - beginning, restated	$ 100,124	$ 36,138	$ 87,588	$ 6,140	$ 27,365	$ 135,185	$ 392,540
Fund balance - ending	$ 124,116	$ 39,513	$ 97,856	$ 9,687	$ 53,208	$ 99,287	$ 423,667

See accompanying Notes to the Financial Statements

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

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

Net change in fund balances - total governmental funds	$	31,127
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
- Capital assets purchased		19,460
- Depreciation expense		(50,821)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
- Long-term receivables (deferred revenue)		(5,347)
The change in compensated absences is shown as an expense in the Statement of Activities		(40,517)
Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:		
- Long-term debt principal payments		100,000
Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:		
- Post-employment benefits other than retirement liability		(2,160)
Pension expense related to the net pension liability is shown as an expense on the Statement of Activites and not reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance		(94,302)
State aid revenue related to the net pension liability is shown as a revenue on the Statement of Activities and not reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance		28,389
Current year contributions to retirement reclassified to deferred inflows		70,880
Change in net position - Statement of Activities	$	56,709

See accompanying Notes to the Financial Statements

Gallatin Gateway Public School, Gallatin County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2016

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and short-term investments	$ 14,133	$ 161,858
Total assets	$ 14,133	$ 161,858
LIABILITIES		
Warrants payable	$ -	$ 161,858
Total liabilities	$ -	$ 161,858
NET POSITION		
Assets held in trust	$ 14,133	

See accompanying Notes to the Financial Statements

Gallatin Gateway Public School, Gallatin County, Montana
Statement of Changes in Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2016

		Private Purpose Trust Funds
ADDITIONS		
Contributions:		
Student activities	$	25,548
Investment earnings:		12
Total additions	$	25,560
DEDUCTIONS		
Student activities	$	34,786
Change in net position	$	(9,226)
Net Position - Beginning of the year	$	21,937
Restatements		1,422
Net Position - Beginning of the year - Restated	$	23,359
Net Position - End of the year	$	14,133

See accompanying Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Recent Accounting Pronouncements
GASB No. 75 *Accounting and Financial Report for Postemployment Benefits Other than Pension (OPEB)*, is effective for years beginning after June 15, 2017 with early implementation encouraged. The statement fully amends the previously issued GASB No. 45 *Accounting and Financial Report for Postemployment Benefits Other than Pension*. GASB 75 established standards for recognition and measurement of the liabilities, deferred outflows and inflows of resources, and expense/expenditures related to OPEB. Different distinctions are made regarding the particular requirements depending upon whether the OPEB plans are administered through a trust that meets criteria identified in the statement. The statement also identifies the methods and assumptions required in projecting benefit payments, discounting those payments to actuarial present value, and applying that present value to periods of employee service in the District. The disclosure requirements for OPEB plans is defined in this statement, that includes further detail on the District's plan and benefits provided, the assumptions used in the valuations, sensitivity analysis, and number of employees in the plan. Lastly, it increased the required supplementary information requiring 10 most recent fiscal years summarizing sources of change in OPEB liability, its components, and other related ratios. These changes are similar to pension GASB No. 68 that became effective in the prior fiscal year.

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

Primary Government

The District was established under Montana law to provide elementary educational services to residents of the District. The District provides education from kindergarten through the eighth grade.

The District is managed by a Board of Trustees, elected in district-wide elections, and by an administration appointed by and responsible to the Board. The financial statements include all of the operations of the District controlled by the Board of Trustees. Based on the criteria for determining the reporting entity (separate legal entity and financial or fiscal dependency on other governments) the District is a primary government as defined by GASB Cod. Sec. 2100.

Basis of Presentation, Measurement Focus and Basis of Accounting

Government-Wide Financial Statements:

Basis of Presentation

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function. The District does not charge indirect expenses to programs or functions. The types of transactions reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements
On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred regardless of the timing of the cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The District generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted net assets are available.

Fund Financial Statements:

Basis of Presentation

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

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

Measurement Focus and Basis of Accounting

Governmental Funds:

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

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

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

Major Funds:
The District reports the following major governmental funds:

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

Transportation Fund – Authorized by Section 20-10-143, MCA, for the purpose of financing the maintenance and operation of district owned school buses, contracts with private carriers for school bus service, individual transportation contracts, and any amount necessary for the purchase, rental, or insurance of yellow school buses or operation of the transportation program. The fund may be used only to support costs of home-to-school transportation.

Bus Depreciation Fund – Authorized by Section 20-10-147, MCA, for the purpose of financing the conversion, remodeling, or rebuilding of a bus or for the replacement of a bus or radio. The trustees of a district may also use the bus depreciation reserve fund to purchase an additional bus for purposes of transportation.

Debt Service Fund – Authorized by Section 20-9-438, MCA, for the purpose of financing money that is necessary to pay the interest and the principal amount becoming due during the ensuing school fiscal year for each series or installment of bonds, according to the terms and conditions of the bonds and the redemption plans of the trustees.

Building Reserve Fund – Authorized by Section 20-9-502, MCA, for the purpose of financing the future construction, equipping, or enlarging of school buildings, for the purpose of purchasing land needed for school purposes in the district, or for the purpose of funding school transition costs.

Fiduciary Funds:

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

Private-purpose Trust Funds – To report all other trust arrangements under which the principal and income benefit individuals, private organizations, or other governments. This fund includes the extracurricular activities fund as described further below.

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

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

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

The District's cash, except for the Student Extracurricular Fund (an expendable trust) is held by the County Treasurer and pooled with other County cash. School district cash which is not necessary for short-term obligations, the District participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. The County's investment portfolio as of June 30, 2016, consisted of time deposits, repurchase agreements, treasury bills, and the State Short-Term Investment Pool (STIP). Interest earned on pooled investments is distributed to each contributing entity and fund on a pro rata basis.

The School District does not own specific identifiable investment securities in the pool; therefore, is not subject to categorization. Information regarding investment risk, collateral, security, and fair values for Gallatin County deposits and investments is available from Gallatin County Treasurer's office, 311 W Main St #103, Bozeman, MT 59715. Fair value approximates carrying value for investments as of June 30, 2016.

Authorized investments allowed by Section 20-9-213, MCA, include savings or time deposits in a state or national bank, building or loan association, or credit union insured by the FDIC or NCUA located in the state; repurchase agreements; and the State Unified Investment Program. Further, Section 7-6-202, MCA, authorizes investments in U.S. government treasury bills, notes, bonds, U.S. Treasury obligations, treasury receipts, general obligations of certain agencies of the United States, and U.S. government security money market fund if the fund meets certain conditions.

Deposits

The District's deposit balance at year end was $12,699 and the bank balance was $14,291. The deposits are fully insured by FDIC.

NOTE 3. RECEIVABLES

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

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

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

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

NOTE 4. INVENTORIES

The cost of inventories are recorded as an expenditure when consumed; therefore the inventory asset amount is not available for appropriation.

NOTE 5. CAPITAL ASSETS

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

Buildings	20 – 80 years
Improvements	20 – 80 years
Equipment	6 – 20 years

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

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

Governmental activities:

	Balance July 1, 2015	Additions	Restatements	Balance June 30, 2016
Capital assets not being depreciated:				
Land	$ 58,361	$ -	$ -	$ 58,361
Total capital assets not being depreciated	$ 58,361	$ -	$ -	$ 58,361
Other capital assets:				
Buildings and Improvements	$ 1,844,142	$ 19,460	$ -	$ 1,863,602
Machinery and equipment	170,973	-	-	170,973
Total other capital assets at historical cost	$ 2,015,115	$ 19,460	$ -	$ 2,034,575
Less: accumulated depreciation	$ (611,973)	$ (50,821)	$ 15,640	$ (647,154)
Total	$ 1,461,503	$ (31,361)	$ 15,640	$ 1,445,782

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

Governmental Activities:

Unallocated $50,281

NOTE 6. LONG TERM DEBT OBLIGATIONS

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

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

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

Governmental Activities:

	Balance July 1, 2015	Additions	Deletions	Restatements	Balance June 30, 2016	Due Within One Year
General obligation bonds	$ 635,000	$ -	$ (100,000)	$ -	$ 535,000	$ 100,000
Compensated absences	43,880	40,517	-	-	84,397	8,146
Net pension liability*	994,459	47,749	-	-	1,042,208	-
Other post-employment benefits**	-	2,160	-	22,782	24,942	-
Total	$ 1,673,339	$ 90,426	$ (100,000)	$ 22,782	$ 1,686,547	$ 108,146

*See Note 9
**See Note 7

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

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

Purpose	Origination Date	Interest Rate	Term	Maturity Date	Principal Amount	Annual Payment	Balance June 30, 2016
Refunding Bond	4/26/11	1.0 – 3.4%	10 yrs	7/1/21	$975,000	Varies	$ 535,000

Annual requirement to amortize debt:

For Fiscal Year Ended	Principal	Interest
2017	$ 100,000	$ 16,165
2018	100,000	13,715
2019	105,000	10,965
2020	110,000	7,710
2021	120,000	4,080
Total	$ 535,000	$ 52,635

Compensated Absences

Compensated absences are absences for which employees will be paid for time off earned for time during employment, such as earned vacation and sick leave. Non-teaching District employees earn vacation leave ranging from fifteen to twenty-four days per year depending on the employee’s years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. Sick leave is accumulated at the rate of twelve working days for each year of service. Part-time teaching employees are entitled to prorated benefits upon fulfillment of the qualifying period of time. Teacher employees are eligible for compensations at one fourth the accumulated sick leave amount on termination. Upon termination, teachers are paid pursuant to the master agreement.

The liability associated with governmental fund-type employees is reported in the governmental-type activities, while the liability associated with proprietary fund-type employees is recorded in the business-type activities and respective fund.

NOTE 7. POSTEMPLOYMENT HEALTHCARE PLAN

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

Benefits Provided - The government provides healthcare insurance benefits for retirees and their dependents upon reaching the age and service years defined in MCA 2-18-704. The benefit terms require that eligible retirees cover 100 percent of the health insurance premiums, but may pay the same premiums as the other members in the group health plan.

Employees covered by benefit terms. At June 30, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefit payments	1
Active employees	15
Total employees	16

Total OPEB Liability

The District's total OPEB liability of $24,942 at June 30, 2016, and was determined by using the alternative measurement method as of that date.

*Actuarial assumptions and other input - T*he total OPEB liability in the June 30, 2016 alternative measurement method was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	3.80%
Average salary increase (Consumer Price Index)	2.70%
Health care cost rate trend (Federal Office of the Actuary)	

Year	% Increase
2017	2.00%
2018	6.20%
2019	6.30%
2020	6.10%
2021	6.30%
2022	6.30%
2022	6.30%
2023	6.30%
2024	6.10%
2025 and after	5.90%

The discount rate was based on the 20-year General Obligation (GO) Bond Index.

Life expectancy of employees was based on the United States Life Tables, 2011 for Males: Table 2 and Females: Table 3 as published in the National Vital Statistics Reports, Vol. 64, No. 11, September 22, 2015.

The turnover rates were determined from the periodic experience studies of the Montana public retirement systems for the covered groups as documented in the GASB 68 actuarial valuations.

Changes in the Total OPEB Liability

Balance at 6/30/2015	$ -
Changes for the year:	
Service Cost	$ 2,160
Restatement	$ 22,782
Net Changes	$ 24,942
Balance at 6/30/2016	$ 24,942

Sensitivity of the total OPEB liability to changes in the discount rate - The following summarizes the total OPEB liability reported, and how that liability would change if the discount rate used to calculate the OPEB liability were to decrease or increase 1%:

	1% Decrease (2.80%)	Discount Rate (3.80%)	1% Increase (4.80%)
Total OPEB Liability	$ 28,961	$ 24,492	$ 21,697

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates - The following summarizes the total OPEB liability reported, and how that liability would change if the healthcare trend rates used in projecting the benefit payments were to decrease or increase 1%:

	1% Decrease	Healthcare Cost Trends*	1% Increase
Total OPEB Liability	$ 20,673	$ 24,942	$ 30,333

**Reference the assumptions footnotes to determine the healthcare cost trends used to calculate the OPEB liability.*

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2016, the District recognized an OPEB expense of $2,160. The District does not report any deferred outflows of resources and deferred inflows of resources related to OPEB as there were no differences between expected and actual experience or changes in assumptions performed in the alternative measurement method. In addition, since District records costs as they come due there are no deferred outflows of resources for contributions to the OPEB plan trust.

NOTE 8. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2016, were as follows:

Interfund Transfers

The following is an analysis of operating transfers in and out during Fiscal Year 2016:

Purpose	Receivable fund	Payable fund	Amount
School Safety and Security	Building Reserve – Nonmajor Governmental	Bus Depreciation – Nonmajor Governmental	$ 15,000

NOTE 9. NET PENSION LIABILITY

Plan Descriptions

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

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

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

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the *defined contribution* and *defined benefit* retirement plans. For members that choose to join the PERS-DCRP, a percentage of the employer contributions will be used to pay down the liability of the PERS-DBRP.

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

Summary of Benefits

TRS

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

- Tier Two uses a 5-year average final compensation (as opposed to 3-year AFC in Tier One).
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One).
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One).

- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation - 1.85% x AFC x 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 x AFC x years of creditable service).

A guaranteed annual benefit adjustment (GABA) is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA for Tier One members is 1.5% of the benefit payable as of January 1st. For Tier Two members the GABA each year may vary from 0.5% to 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation.

PERS

Member's highest average compensation (HAC)

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

Eligibility for Benefit

Service retirement:

Hired prior to July 1, 2011:	Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service.
Hired on or after July 1, 2011:	Age 65, 5 years of membership service; Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011:	Age 50, 5 years of membership service; or Any age, 25 years of membership service.
Hired on or after July 1, 2011:	Age 55, 5 years of membership service.

Vesting

5 years of membership service

Member's highest average compensation (HAC)

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

Compensation Cap

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

Monthly Benefit Formula

Members hired prior to July 1, 2011:

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

Members hired on or after July 1, 2011:

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

Guaranteed Annual Benefit Adjustment (GABA)

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

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

<u>Overview of Contributions</u>

<u>TRS</u>

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

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

<u>PERS</u>

1. Rates are specified by state law for periodic employer and employee contributions.
   a. The State legislature has the authority to establish and amend contribution rates to the plan.
2. Member contributions to the system:
   a. Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.
   b. The 7.90% member contributions is temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
3. Employer contributions to the system:
   a. Local government entities are required to contribution 8.17% of members' compensation.
   b. School district employers contributed 7.90% of members' compensation.
   c. Following the 2013 Legislative Session, PERS-employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates.
   d. Effective July 1, 2013, the additional employer contributions for DCRP is allocated to the defined benefit plan's Plan Choice Rate unfunded liability. The portion of the employer contributions allocated to the PCR are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
   e. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
4. Non-Employer Contributions
   a. Special Funding
      i. The State contributes 0.1% of members' compensation on behalf of local government entities.

ii. The State contributes 0.37% of members' compensation on behalf of school district entities.

b. Not Special Funding

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

Stand-Alone Statements

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

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

Net Pension Liability (NPL)

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

The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Severance Tax and interest to PERS. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer. The following table displays the amounts and the percentages of Net Pension Liability for the fiscal years ended June 30, 2016 and June 30, 2015 (reporting dates).

	TRS NPL as of 6/30/15	TRS NPL as of 6/30/16	Percent of Collective NPL	PERS NPL as of 6/30/15	PERS NPL as of 6/30/16	Percent of Collective NPL	Total NPL as of 6/30/15	Total NPL as of 6/30/16	Percent of Collective NPL
Employer Proportionate Share	$ 885,950	$ 929,872	0.0566%	$ 108,509	$ 112,336	0.008036%	$ 994,459	$ 1,042,208	0.0646%
State of Montana Proportionate Share associated with Employer	609,412	629,878	0.0383%	5,072	5,279	0.003780%	614,484	635,157	0.0421%
Total	$ 1,495,362	$ 1,559,750	0.0949%	$ 113,581	$ 117,615	0.011816%	$ 1,608,943	$ 1,677,365	0.1067%

At June 30, 2016, the employer recorded a liability of $1,042,208 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2015. The employer's proportion of the Net Pension Liability was based on the employer's contributions received by TRS and PERS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of TRS and PERS participating employers. At June 30, 2016, the employer's proportion was 0.0646 percent.

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

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

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

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

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

Pension Expense as of 6/30/16

	TRS	PERS	Total
Employer Proportionate Share	$ 62,323	$ 4,509	$ 66,832
State of Montana Proportionate Share associated with the Employer	25,365	328	25,693
Total	$ 87,688	$ 4,837	$ 92,525

At June 30, 2016, the employer recognized a Pension Expense of $66,832 for its proportionate share of the pension expense. The employer also recognized grant revenue of $25,693 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the employer.

Recognition of Beginning Deferred Outflow

At June 30, 2016, the employer recognized a beginning deferred outflow of resources for the employers Fiscal Year 2015 contributions of $99,548.

Deferred Inflows and Outflows

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

	TRS Deferred Outflows of Resources	TRS Deferred Inflows of Resources	PERS Deferred Outflows of Resources	PERS Deferred Inflows of Resources	Total Deferred Outflows of Resources	Total Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 9,805	$ -	$ -	$ 680	$ 9,805	$ 680
Changes in actuarial assumptions	13,159	1,964	-	-	13,159	1,964
Difference between projected and actual investment earnings	-	49,933	-	9,510	-	59,443
Difference between actual and expected contributions	-	-	-	8,399	-	8,399
Changes in proportion	15,120	-	7,894	-	23,014	-
*Contributions paid subsequent to the measurement date - FY 2016 Contributions	62,242	-	-	-	62,242	-
Total	$ 100,326	$ 51,897	$ 7,894	$ 18,589	$ 108,220	$ 70,486

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

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

TRS: Fiscal Year ended June 30, 2016	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	$ 18,453	$ 21,594	$ (3,141)
2018	$ 18,457	$ 21,594	$ (3,137)
2019	$ 1,430	$ 21,519	$ (20,089)
2020	$ 12,809	$ -	$ 12,809
2021	$ -	$ -	$ -
Thereafter	$ -	$ -	$ -

PERS: Fiscal Year ended June 30, 2016	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	$ -	$ 7,053	$ (7,053)
2018	$ -	$ 7,053	$ (7,053)
2019	$ -	$ 6,955	$ (6,955)
2020	$ 2,473	$ -	$ 2,473
2021	$ -	$ -	$ -
Thereafter	$ -	$ -	$ -

Actuarial Assumptions

TRS

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

- Total Wage Increases* 4% - 8.51%
- Investment Return 7.75%
- Price Inflation 3.25%
- Postretirement Benefit Increases (starting three years after retirement) 1.50%
- Mortality among contributing members, service retired members, and beneficiaries
  - For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.

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

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

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

PERS

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

• General Wage Growth	4.00%
• Includes Inflation at	3.00%
• Merit Increases	0% - 6%
• Investment Return	7.75%
• Admin Expense as a % of Payroll	0.27%
• Post-Retirement Benefit Increases	

Guaranteed Annual Benefit Adjustment (GABA)

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

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and before June 30, 2014
- Members hired on or after July 1, 2013:
  - 1.5% 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.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

TRS

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. In addition to the contributions the State general fund will contribute $25 million annually to the System payable July 1st of each year. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2119. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

PERS

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non- employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

TRS

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return*
Broad US Equity	36.00%	4.80%	1.73%
Broad International Equity	18.00%	6.05%	1.09%
Private Equity	12.00%	8.50%	1.02%
Intermediate Bonds	23.40%	1.50%	0.35%
Core Real Estate	4.00%	4.50%	0.18%
High-Yield Bonds	2.60%	3.25%	0.08%
Non-Core Real Estate	4.00%	7.50%	0.30%
Total	100.00%	36.10%	4.75%
		Inflation	3.25%
		Expected Arithmetic Nominal Return	8.00%

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

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

PERS

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%
Total	100.00%	23.90%

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

Sensitivity Analysis

	1.0% Decrease -6.75%	Current Discount Rate	1.0% Increase -8.75%
TRS	$ 1,277,569	$ 929,872	$ 637,305
PERS	$ 173,198	$ 112,336	$ 60,940

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

Summary of Significant Accounting Policies

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

NOTE 10. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

Governmental Fund equity is classified as fund balance. The District categorizes fund balance of the governmental funds into the following categories:

Restricted – Constraint is externally imposed by a third party, State Constitution, or enabling legislation.

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

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

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

Restricted Fund Balance

Fund	Amount	Purpose of Restriction
Transportation	$ 39,513	Student transportation
Bus Depreciation	97,856	Bus replacement
Debt Service	9,687	Debt service
Building Reserve	53,208	Future capital projects
All Other Aggregate	6,743	School food
	856	Student instructional services
	24,727	Employer costs of benefits
	43,618	Third-party grantor restrictions

	19,065	Adult instructional service
	2,245	Future technology upgrades
	2,033	Future capital projects
Total	$ 299,551	

NOTE 11. RESTATEMENTS

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

Fund	Amount	Reason for Adjustment
General	$ 6,782	To report flexibility fund as part of the general fund – GASB 54
General	12,250	To recognize insurance payment in correct period
Transportation	5,764	To recognize insurance payment in correct period
Flexibility	(6,782)	To report the flexibility fund as part of the general fund – GASB 54
Governmental Activities	15,640	Capital asset accumulated depreciation adjustments
Governmental Activities	$ (22,782)	Recognize OPEB liability for GASB 75 implementation
Total	$ 10,872	

NOTE 12. JOINT VENTURES

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

Special Education Cooperative
The District is a member of the Gallatin-Madison County Special Education Cooperative. The Cooperative is comprised of fourteen member districts, each of which contributes to the operating costs of providing special educational services to the participating districts. Each year each member District appoints a member to the Joint Advisory Board.

The District's contributions for the payment of the special educational services provided was $6,435 for the fiscal year ended June 30, 2016. Separate financial statements are available from the Gallatin-Madison County Special Education Cooperative, P.O. Box 162, Belgrade, MT 59714.

NOTE 13. SERVICES PROVIDED BY OTHER GOVERNMENTS

County Provided Services

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

NOTE 14. RISK MANAGEMENT

The District faces considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability, i.e., errors and omissions, (d) environmental damage, (e) workers' compensation, i.e., employee injuries, and (f) medical insurance costs of employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Insurance Polices:

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

Insurance Pools:

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

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

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

NOTE 15. SUBSEQUENT EVENTS

In May 2017, the District purchased a new Blue Bird bus from Hartley’s School Buses. The total cost of the bus was $95,800, but the District traded in an old bus for the amount of $28,500 for a net cost of $67,300. The funds used to purchase the bus were from reserves in the Bus Depreciation fund.

REQUIRED SUPPLEMENTAL INFORMATION

Gallatin Gateway Public School, Gallatin County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2016

	General			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY	VARIANCE WITH FINAL
	ORIGINAL	FINAL	BASIS) See Note A	BUDGET
RESOURCES (INFLOWS):				
Local revenue	$ 403,968	$ 403,968	$ 406,926	$ 2,958
State revenue	762,556	762,556	762,556	-
Amounts available for appropriation	$ 1,166,524	$ 1,166,524	$ 1,169,482	$ 2,958
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Instructional - regular	$ 661,264	$ 661,264	$ 681,283	$ (20,019)
Instructional - special education	55,600	55,600	39,441	16,159
Supporting services - operations & maintenance	112,295	112,295	117,149	(4,854)
Supporting services - general	57,624	57,624	56,027	1,597
Supporting services - educational media services	53,977	53,977	55,462	(1,485)
Administration - general	75,185	75,185	44,475	30,710
Administration - school	74,066	74,066	65,854	8,212
Administration - business	52,270	52,270	44,357	7,913
Extracurricular	21,429	21,429	13,427	8,002
School food	2,814	2,814	21,290	(18,476)
Total charges to appropriations	$ 1,166,524	$ 1,166,524	$ 1,138,765	$ 27,759
Net change in fund balance			$ 30,717	
Fund balance - beginning of the year			$ 81,092	
Restatements			12,250	
Fund balance - beginning of the year - restated			$ 93,342	
Fund balance - end of the year			$ 124,059	

Gallatin Gateway Public School, Gallatin County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2016

	Transportation			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
RESOURCES (INFLOWS):				
Local revenue	$ 68,217	$ 68,217	$ 69,723	$ 1,506
County revenue	10,934	10,934	8,851	(2,083)
State revenue	16,933	16,933	14,850	(2,083)
Amounts available for appropriation	$ 96,084	$ 96,084	$ 93,424	$ (2,660)
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Supporting services - operations & maintenance	$ 11,850	$ 11,850	$ 13,863	$ (2,013)
Administration - business	15,873	15,873	13,202	2,671
Student transportation	77,658	77,658	62,984	14,674
Total charges to appropriations	$ 105,381	$ 105,381	$ 90,049	$ 15,332
Net change in fund balance			$ 3,375	
Fund balance - beginning of the year			$ 30,374	
Restatements			5,764	
Fund balance - beginning of the year - restated			$ 36,138	
Fund balance - end of the year			$ 39,513	

Gallatin Gateway Public School, Gallatin County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2016

	Bus Depreciation			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY	VARIANCE WITH FINAL
	ORIGINAL	FINAL	BASIS) See Note A	BUDGET
RESOURCES (INFLOWS):				
Local revenue	$ 24,300	$ 24,300	$ 25,268	$ 968
Amounts available for appropriation	$ 24,300	$ 24,300	$ 25,268	$ 968
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Capital outlay	$ 111,888	$ 111,888	$ -	$ 111,888
Total charges to appropriations	$ 111,888	$ 111,888	$ -	$ 111,888
OTHER FINANCING SOURCES (USES)				
Transfers out	$ -	$ -	$ (15,000)	$ (15,000)
Total other financing sources (uses)	$ -	$ -	$ (15,000)	$ (15,000)
Net change in fund balance			$ 10,268	
Fund balance - beginning of the year			$ 87,588	
Fund balance - end of the year			$ 97,856	

Gallatin Gateway Public School, Gallatin County, Montana
Budgetary Comparison Schedule
Budget-to-GAAP Reconciliation
For the Fiscal Year Ended June 30, 2016

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

	General	Transportation	Bus Depreciation
Sources/Inflows of resources			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	$ 1,169,482	$ 93,424	$ 25,268
Combined funds (GASBS 54) revenues	9,303	-	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	$ 1,178,785	$ 93,424	$ 25,268
Uses/Outflows of resources			
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 1,138,765	$ 90,049	$ -
Combined funds (GASBS 54) expenditures	16,028	-	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 1,154,793	$ 90,049	$ -

Gallatin Gateway Public School, Gallatin County, Montana
Required Supplementary Information
Schedule of Changes in the Gallatin Gateway Public School'
Total OPEB Liability and Related Ratios
For the Year Ended June 30, 2016

		2016
Total OPEB Liability		
Service Cost	$	2,160
Net change in total OPEB liability		2,160
Total OPEB Liability - beginning		-
Restatement		22,782
Total OPEB Liability - ending	$	24,942
Covered-employee payroll	$	466,451
Total OPEB liability as a percentage of covered -employee payroll		5%

**The above schedule is presented by combining the required schedules from GASB 75 paragraphs 170a and 170b. The GASB requires that 10 years of information related to the OPEB liability be presented, but due to this being the first year of implementation only one year of data is available.*

Gallatin Gateway Public School, Gallatin County, Montana
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2016

	TRS 2016	TRS 2015	PERS 2016	PERS 2015
Employer's proportion of the net pension liability	0.0566%	0.0576%	0.008036%	0.008708%
Employer's proportionate share of the net pension liability associated with the Employer	$ 929,872	$ 885,950	$ 112,336	$ 108,509
State of Montana's proportionate share of the net pension liability associated with the Employer	$ 629,878	$ 609,412	$ 5,279	$ 5,072
Total	$ 1,559,750	$ 1,495,362	$ 117,615	$ 113,581
Employer's covered-employee payroll	$ 722,359	$ 726,030	$ 96,965	$ 101,992
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	128.73%	122.03%	115.852%	106.389%
Plan fiduciary net position as a percentage of the total pension liability	69.30%	70.36%	78.4%	79.9%

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

Gallatin Gateway Public School, Gallatin County, Montana
Required Supplementary Information
Schedule of Contributions
For the Year Ended June 30, 2016

	TRS 2016	TRS 2015	PERS 2016	PERS 2015
Contractually required contributions	$ 62,242	$ 91,033	$ 8,638	$ 7,728
Contributions in relation to the contractually required contributions	$ 62,242	$ 91,033	$ 8,638	$ 7,728
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 717,904	$ 722,359	$ 106,350	$ 96,965
Contributions as a percentage of covered-employee payroll	8.67%	12.60%	8.122%	7.970%

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

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

<u>Teachers' Retirement System of Montana (TRS)</u>

Changes of Benefit Terms:
The following changes to the plan provision were made as identified:

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

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

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

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

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

- A State or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board.

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

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

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

Changes in actuarial assumptions and other inputs:
The following changes to the actuarial assumptions were adopted in 2015:

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three-year COLA deferral period for Tier 2 Members.
- The 0.63% load applied to the projected retirement benefits of the university members "to account for larger than average annual compensation increases observed in the years immediately preceding retirement" is not applied to benefits expected to be paid to university members on account of death, disability and termination (prior to retirement eligibility.
- The actuarial valuation was updated to reflect the assumed rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.

- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the $500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to "retain membership in the System" are covered by the $500 death benefit after termination.

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

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

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

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

- Mortality among disabled members was updated to the following:

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

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

Method and assumptions used in calculations of actuarially determined contributions:

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

Public Employees' Retirement System of Montana (PERS)

Changes of Benefit Terms
The following changes to the plan provision were made as identified:

2013 Legislative Changes

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

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

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

- All PERS members hired on or after July 1, 2013 are subject to a 110% annual cap on compensation considered as part of a member's highest or final average compensation.
- All bonuses paid to PERS members on or after July 1, 2013 will not be treated as compensation for retirement purposes.

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

Guaranteed Annual Benefit Adjustment (GABA) - for PERS
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

- 3% for members hired prior **to** July 1, 2007
- 1.5% for members hired on or after July 1, 2007 and **before** July 1, 2013
- Members hired on or after July 1, 2013:
  - 1.5% each tear 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.

2015 Legislative Changes

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

Second Retirement Benefit - for PERS

- 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 2.5%);
  - 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.
- 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.

- 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:
    - o Refund of member's contributions from second employment, plus regular interest (currently 2.5%);
    - o No service credit for second employment
    - o Start same benefit amount the month following termination; and,
    - o GABA starts again in the January immediately following second retirement.
- 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:
    - o Member receives same retirement benefit as prior to return to service;
    - o Member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
    - o 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%, 0.47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

Changes in Actuarial Assumptions and Methods
Method and assumptions used in calculations of actuarially determined contributions

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

Admin Expense as % of Payroll	0.27%

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

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

The following actuarial assumptions are from the June 2010 Experience Study:

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

SUPPLEMENTAL INFORMATION

Gallatin Gateway Public School
Gallatin County, Montana
Schedule of Enrollment
For the Fiscal Year Ended June 30, 2016

Fall Enrollment - October, 2015

Elementary School District	FALL Per Enrollment Reports	Audit Per District Records	Difference
Kindergarten Full	13	13	0
Kindergarten Part	0	0	0
Grades 1-6	101	101	0
Grades 7-8	35	35	0
Total Elementary	149	149	0

Part-time Students

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

Spring Enrollment - February, 2016

Elementary School District	SPRING Per Enrollment Reports	Audit Per District Records	Difference
Kindergarten - Full	13	13	0
Kindergarten - Part	0	0	0
Grades 1-6	99	99	0
Grades 7-8	35	35	0
Total Elementary	147	147	0

Part-time Students

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

Gallatin Gateway Public School
Gallatin County, Montana
Extracurricular Fund
SCHEDULE OF REVENUES AND EXPENDITURES - ALL FUNDS ACCOUNTS
Fiscal Year Ended June 30, 2016

Fund Account	Beginning Balance	Revenues	Expenditures	Transfers In(Out)	Ending Balance
Class of 2015	$ 2,796	$ -	$ -	$ (2,796)	$ -
Class of 2016	7,290	22,477	30,498	2,500	1,769
Class of 2017	2,805	560	-	148	3,513
Class of 2018	3,988	1,840	3,408	148	2,568
Class of 2019	2,354	450	659	-	2,145
Class of 2020	2,234	-	-	-	2,234
Class of 2021	33	-	-	-	33
Miscellaneous	62	221	221	-	62
Student Council	375	-	-	-	375
Total	$ 21,937	$ 25,548	$ 34,786	$ -	$ 12,699

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

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

To the Board of Trustees
Gallatin Gateway Public School
Gallatin County
Belgrade, 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 Gallatin Gateway Public School, Gallatin County, Montana, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Gallatin Gateway Public School' basic financial statements and have issued our report thereon dated June 26, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Gallatin Gateway Public School' 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 Gallatin Gateway Public School', internal control. Accordingly, we do not express an opinion on the effectiveness of Gallatin Gateway Public School' internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses as identified as item(s) 2016-001 and 2016-002.

Robert K. Denning, CPA

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described below to be significant deficiencies as identified as item(s) 2016-003 and 2016-004.

2016-001 **Misclassified Capital Outlay**

Condition:
The District misclassified capital outlay expenditures as repair and maintenance.

Context:
The auditor selected a scope for significant claims by opinion unit, and completed an observation and inspection of the supporting documents.

Criteria:
The District has a capital asset policy with a threshold of $5,000, and any capital improvements meeting this threshold are to be recognized as capital outlay.

Effect:
The District material misstated the capital outlay expenditures in the Building Reserve Fund by $5,110 for replacing and installing the building water heater. This misstatement has been adjusted, and the financial statements are determined to be fairly stated.

Cause:
The District was not aware that the costs to get the asset in working order should be included in the original cost, and therefore recorded the claim as repair and maintenance because the water heater itself was below the $5,000 threshold.

Recommendation:
The auditor recommends that any repair and maintenance costs meeting the $5,000 be analyzed in further detail to determine if the costs extended the life of asset or is an improvement to an existing asset.

Auditee Response:
Future purchases will be analyzed closer to determine if they meet the $5,000 threshold and recorded accordingly.

2016-002 **Unrecorded Prepaid Expense**

Condition:
The District prepaid its property and liability insurance for fiscal year 2017, and recognized the costs in expenditures even though the costs had not been incurred as of June 30, 2016.

Context:
The auditor selected a scope for significant claims by opinion unit, and completed an observation and inspection of the supporting documents.

Criteria:
Generally accepted accounting principles state that payments made in advance of the receipt of services should be recognized as prepaid expenses and recognized when the related services have been incurred.

Effect:
The District materially understated its prepaid expenses and expenditures to be overstated in the General and Transportation funds by $13,367 and $5,728 for the fiscal 2017 invoice. In addition, the insurance costs for fiscal 2016 were recognized in the wrong period causing the expenditures to be understated in the General and Transportation funds by $12,250 and $5,764. These have been corrected with an audit adjustment, and the financial statements determined to be fairly stated.

Cause:
The District receives the upcoming fiscal year insurance information and cost in June, and has been paying these costs prior to receiving the actual invoice that comes in July. In addition, there is no process to review for prepaid expenditures at the end of the year.

Recommendation:
We recommend that the District begin paying these insurance costs in the month the invoice is received, and implement a procedure to analyze the costs at the end of the year for any items that may be prepaid and need to be capitalized as an asset for financial reporting.

Auditee Response:
Adjustments will be made to FY17 to correct, and in future years, the invoice will be paid in the correct fiscal year and not prepaid.

2016-003 **<u>Misclassification of Revenues</u>**

Condition:
The local (food sales) and state (match) revenues in the school food fund were overstated and the federal (nutrition) revenue was understated.

Context:
We compared the federal and state revenue for child nutrition programs on the Montana Office of Public Instruction website to the amounts reported by the District.

Criteria:
Internal controls to ensure revenues reported by the District as properly posted in the accounting records to the revenues codes established in the chart of accounts established and documented in the Montana Office of Public Instruction School Accounting Manual.

Effect:
Local revenues were overstated $24,224, stated revenues were overstated $3,593, and federal revenues were understated $27,817 in the aggregate opinion unit. In addition, operating grants were understated and charges for services were overstated on the statement of activities. This has been corrected for the audit report.

Cause:
An error in coding the revenues was made and not detected by internal control procedures.

Recommendation:
The District should establish internal control procedures to ensure food service revenues are accurately posted to the accounting system.

Auditee Response:
In FY17, the coding issue was identified and corrected. Revenues are classified as federal versus local.

2016-004 <u>Required Supplementary Information (2015-001 and 2014-004)</u>

Condition:
Management has omitted the management discussion and analysis that the generally accepted account principles require to be presented as a supplement to the basic financial statements.

Context:
We did not receive the management discussion and analysis to include with the audit report.

Criteria:
Generally accepted accounting principles require that management prepare a management discussion and analysis to introduce the basic financial statements and provide an analytical overview of the governments financial activities.

Effect:
The District is not following the generally accepted accounting principles set by the GASB.

Cause:
The District did not prepare the management discussion and analysis letter.

Recommendation:
Annually should prepare and develop a management discussion and analysis as required by the generally accepted accounting principles.

Auditee Response:
More research will be done by the District to develop an MD&A for future years.

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

<u>Gallatin Gateway Public School's Response to Findings</u>
Gallatin Gateway Public School's response to the findings identified in our audit is described above. Gallatin Gateway Public School' response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

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

June 26, 2017

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

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REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

To the Board of Trustees
Gallatin Gateway Public School
Gallatin County
Belgrade, Montana

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

Recommendation	Action Taken
Segregation of Duties	Implemented
Budget Over Expenditures	Implemented

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

June 26, 2017

Robert K. Denning, CPA