

FRENCHTOWN SCHOOL DISTRICT NO. 40
Missoula County, Montana

AUDITED FINANCIAL STATEMENTS AND
REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS

June 30, 2016

Cote & Associates, CPA, PLLC
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Frenchtown School District No. 40
June 30, 2016

TABLE OF CONTENTS

Independent Auditor's Report	Pages 1-2
Organization	Page 3
Management's Discussion and Analysis	Pages 4-10
Financial Statements	
Government-Wide Statement of Net Position, As of June 30, 2016	Page 11
Government-Wide Statement of Activities for the Fiscal Year Ended June 30, 2016	Page 12
Balance Sheet-Governmental Funds, As of June 30, 2016	Page 13
Reconciliation of the Balance Sheet-Governmental Funds to the Government-Wide Statement of Net Position, As of June 30, 2016	Page 13
Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds, for the Fiscal Year Ended June 30, 2016	Page 14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds to the Government-Wide Statement of Activities, for the Fiscal Year Ended June 30, 2016	Page 15
Net Position-Internal Service (Health Insurance) Fund, As of June 30, 2016	Page 16
Statement of Revenues, Expenses and Changes in Fund Net Position-Internal Service, (Health Insurance) Fund for the Fiscal Year Ended June 30, 2016	Page 17
Statement of Cash Flows-Internal Service (Health Insurance) Fund, for the Fiscal Year Ended June 30, 2016	Page 18
Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position, As of June 30, 2016	Page 19
Notes to the Financial Statements	Pages 20-43
Required Supplementary Information	
General Fund-Schedule of Revenues, Expenditures, and Changes in Encumbrances-Budget to Actual for the Fiscal Year Ended June 30, 2016	Page 44
Bus Depreciation-Schedule of Revenues, Expenditures, and Changes in Encumbrances-Budget to Actual for the Fiscal Year Ended June 30, 2016	Page 45
Notes to the Budget and Actual Schedule	Page 45
Schedule of Proportionate Share of the Net Pension Liability- Teachers' Retirement System of Montana	Page 46
Schedule of Employer Contributions – Teachers' Retirement System of Montana	Page 46

Frenchtown School District No. 40
June 30, 2016

Notes to Required Supplementary Information- Teachers' Retirement System	Pages 46-48
Schedule of Proportionate Share of the Net Pension Liability – Public Employees Retirement System	Page 49
Schedule of Employer Contributions – Public Employees Retirement System	Page 49
Notes to Required Supplementary Information – Public Employees Retirement System	Pages 49-51
Supplementary Information	
Schedule of Expenditures of Federal Awards	Page 52
Notes to the Schedule of Expenditures of Federal Awards	Page 53
Supplementary Information, continued	
Schedule of School District Enrollment	Page 54
Extracurricular Fund-Schedule of Revenues, Expenditures, and Changes in Fund Equity by Student Activity for the Fiscal Year Ended June 30, 2016	Pages 55-56
Statistical Information	
Student Enrollment	Page 57
School District Valuations	Page 57
School District Tax Levies	Page 58
Tax Collections	Page 58
Major Taxpayers	Page 59
Maximum Bonded Indebtedness	Page 59
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	Pages 60-61
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with Uniform Guidance	Pages 62-63
Summary of Auditor's Results for the Year Ended June 30, 2016	Page 64
Schedule of Findings and Questioned Costs and Prior Audit Findings for the Year Ended June 30, 2016	Page 65

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Frenchtown School District No. 40
Missoula County
Frenchtown, Montana

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund and the aggregate remaining fund information of the Frenchtown School District No. 40 (District), Missoula 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 District'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 District's internal control. Accordingly, I 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.

I believe that audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the District as of June 30, 2016 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and GASB 68 disclosures for the Teacher's Retirement System and Public Employees Retirement System on pages 4-10 and 44-51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 inquires of management about the methods of preparing information and comparing the information for consistency with management's responses to my inquires, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide an assurance.

Supplementary Information

My 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 expenditures of federal awards as required by *Title 12 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards; and the schedule of school district enrollment and the extracurricular fund schedule of revenues, expenditures and changes in fund equity by student activity as required by the State of Montana, are presented for purposes of additional analysis and are not required parts of the financial statements.

Such information is the responsibility of management and was derived from and relates 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 my opinion, the supplementary information listed above is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements. Statistical information in schedules of student enrollment, school district taxable valuations, school district tax levies, tax collections, major taxpayers and maximum bonded indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated March 10, 2017 on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Cote & Associates CPA PLLC

Cote & Associates, CPA, PLLC

March 10, 2017
Missoula, Montana

Frenchtown School District
June 30, 2016

ORGANIZATION

For the Fiscal Year Ended June 30, 2016

Board of Trustees

Debbie Lester	Chairman
Dave Weber	Vice Chairman
Evan Jordan	Trustee
Kayla Johnson	Trustee
Jami Romney FitzGerald	Trustee
Peter Simonich	Trustee
Teresa Teagle	Trustee
Trisha Piedalue	Trustee

Officials

Randy Cline	District Superintendent
Susie Johnston	District Clerk
Sauna Anderson	Business Manager
Kirsten Pabst	County Attorney
Erin Lipkind	County Superintendent of Schools

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

This discussion and analysis of the Frenchtown School District (District) financial performance provides an overview of the financial activities for the year ending June 30, 2016. It should be read in conjunction with the financial statements and notes. Frenchtown School District's 2016 fiscal year (FY) was July 1, 2015 through June 30, 2016.

This annual report consists of a series of financial statements. The government-wide statement of net position and statement of activities provide information about the Frenchtown School District as a whole. The fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds.

FINANCIAL HIGHLIGHTS DURING FISCAL SCHOOL YEAR 2015-2016

The District's budget has suffered since 2009 following the closure of the Smurfit-Stone Container linerboard plant. The plant property has been the highest value taxable property in the District but slipped to number two in 2015; the current corporate owner of the plant is in arrears on its tax payments. A list of the top ten taxpayers appears in the supplementary information section. Protested tax settlements are at the county or state level so the District does not have any control over amount or timing.

In December 2015 the high school and junior high school suffered extensive damage from a water leak; the primary damage was to the two gyms and connecting passages. The District received \$852,022 in insurance for repair/replacement and had disbursed \$777,824 by June 30; the remainder of the work occurred over the summer of 2016. This District initiated a loan with the State of Montana Intercap program in order to assure funding for planned upgrades that will include a roof replacement, elevator maintenance for the elementary school, stadium repairs, new lockers, clock and inter-com upgrade.

The District received an updated estimate of its Other Post Employment Benefit liability (OPEB) as required by governmental accounting standards. The district's potential OPB liability is related to its self-insured health plan. Because the District is able to charge retirees for an age-adjusted premium, it was again determined that the District does not have an OPEB liability currently.

REPORTING THE DISTRICT AS A WHOLE- Government-Wide Statements

The Statement of Net Position and the Statement of Activities

The statement of net position and the statement of activities report information about the District as a whole and about its activities in a way that shows if the District is in a better financial position as a result of each year's activities. These statements include all assets and liabilities using the **accrual basis** of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two sets of statements also report the District's net position and the changes in them. This is one way to measure the District's financial position. Over time, increases or decreases in the District's net position can be an indicator of whether its financial health is improving or deteriorating.

TRANSITION FROM FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Following the governmental fund financial statements (as described below) is a reconciliation translating the fund financial statements to the government-wide statements. Longer term assets and liabilities such as general capital assets and long term debt are added to the balance sheet to arrive at the governmental funds statement of net assets. Increases or decreases in assets and liabilities create increases or decreases in revenue and expenses when activities are reconciled from the governmental fund statements to the government-wide. Capitalization of capital assets will remove some of the capital outlay expenditures (reducing expense) and depreciation will increase expense at the government-wide level.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS- Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds. Some funds are required to be established by state law. The District has established other funds to help control and manage money for particular purposes. The District's governmental and proprietary (business-type) funds use different accounting approaches.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific purposes.

Governmental Funds—Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds. The balances left at year-end are available for spending. These funds are reported using the **modified accrual** method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short term view of the District's general government operations and the basic services it provides. Governmental fund information helps in determining whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The general fund includes all revenues and expenses that are not specifically assigned to any other fund. Special revenue funds track revenue from specific sources and related expenditures, debt service funds track the flow of receipts and expenditures required to service governmental debts, and capital projects funds track revenues and expenditures associated with land, land improvements, building and equipment replacement and improvement.

Proprietary/Business-type Funds— there are two types, enterprise funds and internal service funds. The District does not have any enterprise funds, but they do have one internal service fund, the self-health insurance fund. Internal service funds are used when the District intends to operate a service where charges cover costs. These funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities, so there is no reconciliation. Fund statements provide greater detail than the government-wide statements and include a statement of cash flows.

Fiduciary Funds—financial statements show assets, liabilities and where appropriate, changes in assets and liabilities for funds which the District operates in a trust or agency capacity. Net assets of these funds are not available to the District to satisfy District obligations.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. In addition to the basic financial statements and accompanying notes, this report also presents additional schedules of information as shown in the Table of Contents.

THE DISTRICT AS A WHOLE

Condensed financial information for the District is outlined in tables on the following pages.

Missoula County, Montana
Frenchtown School District

Comparative and combined governmental and business-type assets, liabilities and net position are as follows:

Table 1	2016	2015	Change	%
Current assets	\$ 4,240,608	\$ 4,243,097	\$ (2,489)	(0.1)
Capital assets, net	22,152,665	22,406,271	(253,606)	(1.1)
Total assets	<u>\$ 26,393,273</u>	<u>\$ 26,649,368</u>	<u>\$ (256,095)</u>	(1.0)
Deferred Outflows	\$ 1,129,663	\$ 802,675	\$ 326,988	
Current liabilities	\$ 1,492,008	\$ 1,255,680	\$ 236,328	18.8
Noncurrent liabilities	20,920,572	20,761,368	159,204	0.8
Total liabilities	<u>\$ 22,412,580</u>	<u>\$ 22,017,048</u>	<u>\$ 395,532</u>	1.8
Deferred Inflows	\$ 609,435	\$ 1,358,124	\$ (748,689)	
Net position:				
Net investment in capital assets	\$ 9,088,269	\$ 8,626,271	\$ 461,998	5.4
Restricted net position	1,230,288	1,974,089	(743,801)	(37.7)
Unrestricted net position	<u>(5,817,636)</u>	<u>(6,523,434)</u>	<u>705,798</u>	(10.8)
Total net position	<u><u>\$ 4,500,921</u></u>	<u><u>\$ 4,076,926</u></u>	<u><u>\$ 423,995</u></u>	10.4

Table 1 Comments: The biggest factor influencing an increase in net position is the addition of capital assets and reduction in debt as shown in the schedules in the notes. The school wrote off some capital assets in relation to water damage caused by a leak in December 2015 but reconstruction along with planned purchases added \$520,233 in new assets while the \$950,000 principal payment on bonds significantly reduced the debt included in "net investment in capital assets".

Comparative and combined governmental and business-type internal service revenues and expenses are below:

Table 2	2016	2015	Change	%
Revenues				
Program revenue				
Charges for services	\$ 1,034,485	\$ 926,291	\$ 108,194	11.68
Operating grants and contributions	3,885,227	1,749,885	2,135,342	122.03
Capital grants and contributions	25,080	24,691	389	1.58
General Revenue				
District property taxes	\$ 3,652,689	\$ 3,674,748	\$ (22,059)	(0.60)
State revenues	5,439,973	6,304,759	(864,786)	(13.72)
County shared Revenue	117,579	1,319,268	(1,201,689)	(91.09)
Investment earnings	13,179	7,057	6,122	86.75
Other	77,113	33,146	43,967	132.65
Total revenues	<u>\$ 14,245,325</u>	<u>\$ 14,039,845</u>	<u>\$ 205,480</u>	1.46
Expenses:				
Instruction programs	\$ 6,878,761	\$ 7,388,930	\$ (510,169)	(6.90)
Support services	1,655,585	812,624	842,961	103.73
Administration	1,780,228	1,425,187	355,041	24.91
Operation and maintenance	1,486,920	1,320,116	166,804	12.64
Student transportation	623,334	546,257	77,077	14.11
School food	742,701	649,511	93,190	14.35
Extracurricular	527,281	448,574	78,707	17.55
Interest	449,817	478,047	(28,230)	(5.91)
Total expenses	<u>\$ 14,144,627</u>	<u>\$ 13,069,246</u>	<u>\$ 1,075,381</u>	8.23
Change in net positions before special item	<u>100,698</u>	<u>970,599</u>	<u>(869,901)</u>	(89.63)
Insurance recovery net of disbursements	320,378	320,378	-	
Changes in net position	<u>\$ 421,076</u>	<u>\$ 970,599</u>	<u>\$ (549,523)</u>	(56.62)
Net position, July 1	4,076,926	11,059,872	(6,982,946)	(63.14)
Changes in beginning equity	2,919	(7,953,545)	7,956,464	-
Net position, July 1 restated	<u>\$ 4,079,845</u>	<u>\$ 3,106,327</u>	<u>\$ 973,518</u>	31.34
Net position, June 30	<u><u>\$ 4,500,921</u></u>	<u><u>\$ 4,076,926</u></u>	<u><u>\$ 423,995</u></u>	10.40

Missoula County, Montana
Frenchtown School District

Table 2 Comments: Again, the capitalization of building and equipment related disbursements influenced the \$423,995 increase in net position. Regular school operations only produced \$103,617 of the net position increase. Construction in progress, building and equipment additions actually capitalized at June 30, 2016 did not include \$364,710 of installations in process but not completed.

THE DISTRICT'S FUNDS

Changes in Fund Balances reflect modified accrual or close to cash flow activity:

Table 3 Comments: Fund Balance is not affected by capital assets or long term debt so is closer to an operational view. Total fund balance increased by \$182,611 since June 30, 2015.

Table 3	Major Funds							Total
	General	Bus	Retirement	Misceallenous	Debt	Other	Total	
	Fund	Depreciation	Fund	Fund	Service	Governmental	Governmental	
						Funds	Funds	
Fund balances June 30, 2014	\$ 1,081,816	282,240	-	-	204,616	718,248	\$ 2,286,920	
Major fund balance re-classifications			253,938	215,324		(469,262)		
Fiscal year 15 revenues	8,213,534	197,628	1,206,210	1,412,816	1,351,241	1,314,208	13,695,637	
Fiscal year 15 expenditures	(8,161,068)	-	(1,042,349)	(1,336,325)	(1,398,047)	(1,238,362)	(13,176,151)	
Fiscal year 15 transfers & other financing sources(uses)	(20,335)	(60,000)	-	-	-	80,335	-	
Prior period adjustments	9,455	(2)	-	2,745	-	352	12,550	
Fund balances June 30, 2015	\$ 1,123,402	\$ 419,866	\$ 417,799	\$ 294,560	\$ 157,810	\$ 405,519	\$ 2,818,956	
Major fund re-classification			(417,799)			417,799	(1)	
Fiscal year 16 revenues	8,495,315	200,601	-	1,535,134	1,347,008	2,367,847	13,945,905	
Fiscal year 16 expenditures	(8,531,915)	(176,171)	-	(1,436,314)	(1,399,817)	(2,527,673)	(14,071,890)	
Fiscal year 16 transfers & other financing sources(uses)	-	(50,000)	-	-	-	284,396	234,396	
Special item: insurance proceeds net of disbursements						74,198	74,198	
Fund balances Junes 20, 2016	\$ 1,086,802	\$ 394,296	\$ -	\$ 393,380	\$ 105,001	\$ 1,022,086	\$ 3,001,564	

BUDGETARY HIGHLIGHTS

General Fund

Table 4

Year Ended	Fund Balance available, Revenues & Transfers In			Expenditures and Transfers Out		
	Original	Final	Actual	Original	Final	Actual
	Budget	Budget		Budget	Budget	
June 30, 2015	\$ 8,223,805	\$ 8,223,805	\$ 8,213,534	\$ 8,223,805	\$ 8,223,805	\$ 8,220,549
2016	\$ 8,406,771	\$ 8,433,691	\$ 8,495,315	\$ 8,406,771	\$ 8,433,691	\$ 8,433,673

Bus Depreciation Fund

Year Ended	Fund Balance available, Revenues & Transfers In			Expenditures and Transfers Out		
	Original	Final	Actual	Original	Final	Actual
	Budget	Budget		Budget	Budget	
June 30, 2015	\$ 201,708	\$ 201,708	\$ 197,628	\$ 60,000	\$ 60,000	\$ 60,000
2016	\$ 200,324	\$ 200,324	\$ 200,601	\$ 620,190	\$ 620,190	\$ 405,371

Table 4 Comments: Table 4 shows budgetary highlights for the general fund and budgeted special revenue funds displayed as major funds in the fund financial statements. The Miscellaneous fund, which is also a major special revenue fund is considered a non-budgeted fund under Montana school accounting rules so is not displayed here. Two new yellow

Missoula County, Montana
Frenchtown School District

bus purchases were made from the bus depreciation fund in fiscal 2016 and a replacement activity bus was on order at year end; a special transfer for school safety improvements was made, as allowed, to the building reserve fund. The general fund was amended for an anticipated increase in revenue.

CAPITAL AND DEBT ADMINISTRATION

Capital Assets – Capital Assets, Balances at June 30,

Table 5	2016	2015
Land	\$ 590,662	\$ 590,662
Land improvements	978,501	956,294
Construction in Progress	58,562	-
Buildings	27,908,229	27,705,660
Equipment	2,943,521	2,851,532
Total	\$ 32,479,475	\$ 32,104,148
Less accumulated depreciation	(10,326,810)	(9,697,887)
Net capital assets	\$ 22,152,665	\$ 22,406,261

Table 5 Comments: Capital asset projects completed or in process during 2015-16 included: replacement of gym floors at the high school and junior high school, new gym bleachers, a server upgrade, two new yellow buses. A replacement activity bus was on order at year end; the old activity bus which was traded in was offered back to the District at the cost of the trade in so the District opted to buy back the bus for a backup bus (occurs in FY 17).

Debt Administration – see Note 7 for details

Government-wide Outstanding Long Term Liabilities, Balances at June 30, 2016 and 2015:

Table 6	2016	2015
Intercap loan	\$ 234,396	-
All general obligation bonds	12,830,000	13,780,000
Compensated absences	742,906	662,039
Net Pension Liability	8,394,474	7,350,141
Total	\$ 22,201,776	\$ 21,792,180

Table 6 comments – No new bond debt was incurred in fiscal 2016, compensated absences liability increased over the prior year by \$80,867. The District initiated a 10 year loan from the State of Montana Intercap program for major building upkeep and improvements such as a replacement roof at the K-4 school.

ECONOMIC FACTORS, NEXT YEAR'S BUDGET AND RATES

THE FUTURE OF THE SCHOOL

During the 2015-2016 school year, FTSD saw a significant enrollment increase. Enrollment stabilized in 2012-2013 after two years of declining enrollment. Since 2012-2013 enrollment has increased almost every year. Comparison of enrollment for the 2014-2015 School Year and the 2015-2016 School Year shows our enrollment from 1,199 in February 2015 to 1,263 in February 2016.

Student population increased in every school in 2015-2016. The following chart shows that each school had significant increases from October 2014 to October 2015:

	<u>9/14</u>	<u>9/15</u>
K-6	641	670
7-8	188	197
9-12	<u>369</u>	<u>389</u>
Total	1,195	1,256

Missoula County, Montana
Frenchtown School District

One contributing factor to this growth was increased housing starts in Frenchtown, as several new housing developments had completed and sold homes to families with school age children. Also the district continued to allow enrollment of discretionary non-resident student who were in good standing at their previous school. Admitting nonresident students has been a win-win situation financially for both the school district and the district taxpayers. The admission of 85 nonresident students created additional revenue for the district through increased ANB, while not increasing its expenses.

The Frenchtown Academy for Career Education (FACE), an alternative high, started operation during the 2012-2013 school year. It paid for itself by getting ANB for students that might have otherwise dropped out. Also, the alternative school had a positive impact by the very fact it would keep students from dropping out. The graduation rate for Seniors attending FHS in the 2015-2016 school year was 100%.

With the increase in ANB from the additional students and the inflationary adjustment for school funding, FTSD actually saw a budget increase for \$4,067,541 for FY17. This is the fourth straight year of significant funding increases for the district after declining funding the previous four years. Because there was a projected increase in school funding for the 2016-2017 school year, the FTSD School Board voted at the regular Board meeting in March 2016 not to ask the public to approve a levy for school operations.

At the end of the 2015-2016 school year the district was still awaiting any positive developments on the former Smurfit-Stone Container Frenchtown linerboard plant site and to what the site's owners, M2 Green Redevelopment Group will do. There was no positive news about the former mill site; in fact there are two issues that continue to cast doubt on the redevelopment of the plant site: possible status of some of the site as an EPA Superfund and that M2 Green has failed to pay most of its property taxes since the 2014 fiscal year. They are now in arrears for three years. As of October 2016 M2 Green owned Missoula County \$1,027,644.82 in delinquent taxes. 45% of that total is owed to FTSD #40 for an amount of \$368,415.33.

The failure of M2 Green to pay its taxes had major impacts on the budget for the 2015-2016 school year. Each year when taxes are due, taxpayers have the option of protesting their taxes if they feel they were unfairly taxed for the upcoming fiscal year. Those taxes must still be paid, but are set aside in a protested tax fund until the dispute is resolved. While in this fund, there are options available to a school district to access the funds while the protested issue is resolved. These are taxes that simply go unpaid, sometimes for years, and a school district has no way to access any of the funds due to it from the delinquent taxpayer. It simply becomes a shortfall in expected revenues. As mentioned above, for fiscal year 2016, the largest taxpayer in the district, M2 Green, did not pay its taxes, which created a burden on the school budget. School districts, like any business or individual, needs to have revenue (in this case taxes) to pay its bills. Because of these delinquent taxes in the 2016 fiscal year, the district had to use its reserves (somewhat like a savings account, but much more restrictive as to how it can be used) to pay all of its bills. The largest shortfall was in the Debt Service Fund, which is used to pay annual bond payments. Because of the shortfall in revenue, the district borrowed from its reserves to pay its bond obligation the last two fiscal years.

The Frenchtown School Board asked the district voters to approve a building reserve levy in November 2015. The building reserve levy was for a total of \$750,000, paid for in installments of \$150,000 each year for the next five years. When the five years passes, the levy will end (it "sunset") and the additional tax levy ends.

Because of the budget deficits created by a combination of a loss of state and federal funds and increases in school operation costs, the district lost school funding authority each school year from 2010-2014. The building reserve levy was needed to catch up on many deferred infrastructure and maintenance projects were deferred because the district wanted to keep necessary cuts away from the classroom cuts, because the district chose educating students as its number one priority during those years.

The district had gone 10 years without any additions from the district taxpayers to its operations levy. The sole purpose of the Board asking the school district voters to approve a building reserve levy in 2016 was to save the district from having to make difficult cuts in the future, due to having to fund the deferred infrastructure and maintenance projects from the

Missoula County, Montana
Frenchtown School District

general fund. When the votes were counted after the election day in November, the building reserve levy passed 940 votes FOR and 930 votes AGAINST.

Deferred Infrastructure and Maintenance Projects to be funded by the building reserve include:

1. Heating – Ventilation – Cooling (HVC)
 - a. Elementary Boilers
 - b. Heaters in K-4 wing
2. Windows replacement and shading devices for the south side of the elementary building
3. Elementary Elevator Repairs
4. Roof repairs/replacement
5. Sidewalk repairs/replacement and Parking Lot repairs
6. FHS Gym Bleacher replacement
7. FHS Locker room Lockers repairs/replacement
8. K-12 Grounds and Stadium refurbishment and repairs
9. Unexpected Required Repairs year-to-year
10. Bronc Softball/Soccer Concessions/Restrooms/Storage Building. This is the only new project proposed as part of the levy, this is a student-designed and will be student-built by the high school construction class.

One of our deferred maintenance projects we have not been able to fund with the building reserve was a retrofit of all the windows in the K-6 elementary building. We had hoped it would be funded by a Quality School Grant in FY18. This project was at a cost of about \$500,000 and the Quality School grant would have paid for about \$400,000 of it. FTSD did not make the list of projects to be funded by the Quality School grant. We cannot afford to do the project without some other source of funding.

Another impact on the general fund that hammers the general budget almost every year is health insurance cost increases. Our premium costs have gone up about 46% (23% for district, 23% for the employee), in the last 4 years. Obviously, with these kind of increases, all employees are seeking salary increases and for the district to help cover their cost of increased health insurance premium costs each year. In 2015-2016, the district implemented an option of a High Deductible Low Premium (HDLP) health insurance plan for our employees to meet the mandates of the Affordable Care Act (ACA). It also reduced the cost of their out-of-pocket expenses each month if they chose the HDLP option.

Randy Cline

Randy Cline, Superintendent

Copies of this MD&A and the full audit report with financial statements can be obtained by going to the Frenchtown School district website at www.ftsd.org under public documents or by contacting the District Clerk at Frenchtown K-1`2 Schools, PO Box 117, Frenchtown, MT 59834 or (406) 626-2600.

BASIC FINANCIAL STATEMENTS

Frenchtown School District
Missoula County, Montana

Government-Wide Statement of Net Position
for the Fiscal Year Ended June 30, 2016

Assets	2016
Current assets:	
Cash and investments	\$ 3,643,021
Property taxes receivable	490,867
Due from other governments	69,465
Other receivables	26,955
Prepaid expense	10,300
Total current assets	\$ 4,240,608
Non-current assets:	
Capital assets, land	\$ 590,662
Capital assets, depreciable, net	21,562,003
Total non-current assets	\$ 22,152,665
Total assets	\$ 26,393,273
Deferred Outflows	\$ 1,129,663
Liabilities	
Current liabilities:	
Accounts payable and accrued	\$ 302,503
Current portion of compensated absences	186,133
Current portion of Inter-cap loan	23,372
Current portion of long-term bonds payable	980,000
Total current liabilities	\$ 1,492,008
Non-current liabilities:	
Long-term portion of compensated absences	\$ 465,074
Long-term portion of Inter-cap loan	211,024
Long-term portion of bonds payable	11,850,000
Net Pension Liability	8,394,474
Total non-current liabilities	\$ 20,920,572
Total liabilities	\$ 22,412,580
Deferred Inflows	\$ 609,435
Net position	
Net investment in capital assets	\$ 9,088,269
Restricted for:	-
Regular Programs	-
Other Programs	42,229
Support services & admin	254,715
Student Transportation	374,580
Operations & Maintenance	54,027
School Food	12,859
Debt Service	105,001
Health Insurance	386,877
Unrestricted	(5,817,636)
Total net position	\$ 4,500,921

Frenchtown School District
Missoula County, Montana

Government-Wide Statement of Activities
for the Fiscal Year Ended June 30, 2016

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Expense(Revenue) June 30, 2016
Governmental activities:					
Instruction:					
Regular programs	\$ 6,855,974	\$ 18,883	\$ 3,858,558	\$ 25,080	\$ 2,953,453
Other programs	22,787		26,669	-	(3,882)
Support services	1,655,585	751,541		-	904,044
Administration:					
General	198,156			-	198,156
Schools	783,278			-	783,278
Financial	798,794			-	798,794
Student transportation	623,334				623,334
Operation and maintenance	1,486,920	1,990			1,484,930
School food	742,701	262,071		-	480,630
Extracurricular	527,281		-	-	527,281
Interest	449,817	-	-	-	449,817
Total governmental activities	<u>\$ 14,144,627</u>	<u>\$ 1,034,485</u>	<u>\$ 3,885,227</u>	<u>\$ 25,080</u>	<u>\$ 9,199,835</u>
General revenues:					
				\$	3,652,689
District property taxes					5,250,056
State equalization					189,917
Other state revenue					117,579
County shared revenue					13,179
Investment earnings					77,113
Other					<u>9,300,533</u>
Total general revenues				\$	
Change in net position before special item					100,698
Special Item: Net insurance proceeds for following year					<u>320,378</u>
Change in net position after special item				\$	421,076
Net position-July 1, 2015				\$	<u>4,076,926</u>
Re-classify from Student Activity fund					<u>2,919</u>
Net position-June 30, 2016				\$	<u><u>4,500,921</u></u>

Frenchtown School District
Missoula County, Montana

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds for the Fiscal Year Ended June 30, 2016

	Major Funds					
	General Fund	Bus Depreciation Fund	Miscellaneous Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
District property taxes	\$ 1,860,961	\$ 198,833		\$ 1,234,429	\$ 418,724	\$ 3,712,947
Intergovernmental:						
County	-		26,669		1,121,180	1,147,849
State	6,562,030		694,797	110,155	234,334	7,601,316
Federal			719,332		379,482	1,098,814
School food sales						-
Interest	6,246	1,768		2,424	2,742	13,180
Other	66,078		91,417		211,385	368,880
Total revenue	<u>\$ 8,495,315</u>	<u>\$ 200,601</u>	<u>\$ 1,532,215</u>	<u>\$ 1,347,008</u>	<u>\$ 2,367,847</u>	<u>\$ 13,942,986</u>
Expenditures						
Current operations						
Instruction:						
Regular programs	\$ 4,726,324	-	\$ 711,873	-	\$ 834,357	\$ 6,272,554
Other programs		-	22,703	-	83	22,786
Support services	797,965	-	627,994	-	122,071	1,548,030
Administration:						
General administration	163,888	-	-	-	21,332	185,220
School administration	523,723	-	4,546	-	184,980	713,249
Business	645,492	-	31,356	-	69,532	746,380
Student transportation	8,127	171	3,634	-	447,822	459,754
Operation and maintenance	1,160,977	-	2,972	-	173,211	1,337,160
School food	61,111	-	-	-	595,467	656,578
Extracurricular	405,283	-	7,962	-	43,064	456,309
Capital outlay	39,025	176,000	23,274	-	35,754	274,053
Debt service	-	-	-	1,399,817	-	1,399,817
Total expenditures	<u>\$ 8,531,915</u>	<u>\$ 176,171</u>	<u>\$ 1,436,314</u>	<u>\$ 1,399,817</u>	<u>\$ 2,527,673</u>	<u>\$ 14,071,890</u>
Excess of revenues/(under) expenditures	\$ (36,600)	\$ 24,430	\$ 95,901	\$ (52,809)	\$ (159,826)	\$ (128,904)
Other Financing Sources(Uses):						
Transfers in (out)	\$	\$ (50,000)	\$ -	\$ -	\$ 50,000	\$ -
Proceeds from debt issuance					234,396	234,396
Change in fund balances before special item	\$ (36,600)	\$ (25,570)	\$ 95,901	\$ (52,809)	\$ 124,570	\$ 105,492
Special item:						
Insurance recovery from water leak damage					852,022	852,022
Expenditures related to water leak					(777,824)	(777,824)
Change in fund balances after special item	<u>(36,600)</u>	<u>(25,570)</u>	<u>95,901</u>	<u>(52,809)</u>	<u>198,768</u>	<u>179,690</u>
Fund balances-July 1, 2015, as previously reported	\$ 1,123,402	\$ 419,866	\$ 294,560	\$ 157,810	\$ 405,519	\$ 2,401,157
Re-classify from Student Activities			2,919			2,919
Retirement fund major in year ended June 30, 2015				-	417,799	417,799
Fund balances-July 1, 2015, as restated	<u>\$ 1,123,402</u>	<u>\$ 419,866</u>	<u>\$ 297,479</u>	<u>\$ 157,810</u>	<u>\$ 823,318</u>	<u>\$ 2,821,875</u>
Fund Balances-June 30, 2015	<u>\$ 1,086,802</u>	<u>\$ 394,296</u>	<u>\$ 393,380</u>	<u>\$ 105,001</u>	<u>\$ 1,022,086</u>	<u>\$ 3,001,565</u>

Frenchtown School District
Missoula County, Montana

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds to the Government-Wide Statement of Activities
for the Fiscal Year Ended June 30, 2016

Change in fund balance as reported in governmental funds statement	\$	179,690
Effect of accrual items in conversion to government-wide statements:		
Change in deferred inflow:		
Change in deferred tax receivables		(60,258)
Expenses on the statement of activities not included in the government funds statement:		
Depreciation expense	\$	(777,793)
Loss on partially depreciated gym floor resurfacing due to flood		(3,972)
Change in compensated absence liability		10,832
PERS and TRS proportionate share pension expense		(915,333)
Expenditures reported in the government funds statement not included in the statement of activities:		
Capital outlay - scheduled		274,053
Capital outlay as part of water leak repairs		246,180
Principal payments on bonds		950,000
Re-classification of 2016 pension payments to deferred outflow		591,108
Inflow that is not revenue:		
Proceeds from debt issuance (Inter-cap short to medium -term loan)		(234,395)
Other accrued revenue:		
"On-Behalf" payments by the State of Montana for pensions		331,976
Donated portion of capital assets		7,244
Excess of revenues over (under) expenses in the internal service fund		(178,256)
Change in net position reported on the statement of activities	\$	<u><u>421,076</u></u>

Frenchtown School District
Missoula County, Montana

Net Position-Internal Service (Health Insurance) Fund
As of June 30, 2016

	<u>2016</u>
Assets	
Current assets:	
Cash and investments	\$ 379,297
Investments	320,349
Due from stop loss carrier	26,955
Total assets	<u>\$ 726,601</u>
Deferred outflows of resources	
Deferred outflows	<u>24,599</u>
Total deferred inflows of resources	<u>24,599</u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 38,085
Estimated claims incurred but not reported	242,843
Total liabilities	<u>\$ 280,928</u>
Deferred inflows of resources	
Premium payments received in advance	<u>83,395</u>
Total deferred inflows of resources	<u>83,395</u>
Net position	
Restricted for health insurance fund	<u>\$ 386,877</u>
Total net position	<u><u>\$ 386,877</u></u>

Frenchtown School District
Missoula County, Montana

Statement of Revenues, Expenses and Changes in Fund Net Position-Internal Service (Health Insurance) Fund
for the Fiscal Year Ended June 30, 2016

	<u>2016</u>
Operating revenues	
Health insurance premiums & stop-loss received	\$ <u>1,737,783</u>
Operating expenses	
Medical claims	\$ 1,609,004
Stop-loss premiums	289,790
Administrative fees	<u>29,000</u>
Total operating expenses	\$ <u>1,927,794</u>
Operating income	\$ (190,011)
Non-operating revenues	
Interest/Dividend income	\$ 11,755
Change in Investment Fair Market Value	<u>-</u>
Total non-operating revenue	\$ <u>11,755</u>
Change in net position	\$ (178,256)
Total net position	
Net position-beginning	\$ <u>565,133</u>
Net position-ending	\$ <u><u>386,877</u></u>

Frenchtown School District
Missoula County, Montana

Statement of Cash Flows-Internal Service (Health Insurance) Fund
for the Fiscal Year Ended June 30, 2016

	2016
Cash flows from operating activities	
Health insurance premiums received	\$ 1,239,828
Stop-loss received	511,325
Medical claims paid	(1,518,707)
Insurance premiums & admin paid	(343,388)
Net cash provided/(used) by operating activities	\$ (110,942)
Cash flows from investing activities	
Int Net cash provided/(used) by investing activities	\$ 11,755
	\$ 11,755
Net increases(decrease) in cash and investments	\$ (99,187)
Cash and investments-beginning	\$ 798,833
Cash and investments-ending	\$ 699,646

Reconciliation of Operating Income to Net Cash Provided/(Used) by Operating Activities:

Net operating income	\$ (190,011)
Adjustments to reconcile operating income to net cash provided/(used) by operating activities:	
(Increase)/decrease in amount due from stop/loss carrier	\$ 13,045
Increase/(decrease) in accounts payable	(6,915)
Increase/(decrease) in claims incurred but not reported	97,212
Change in deferred outflows	(24,599)
FMV correction	652
Increase/(decrease) in deferred inflows	(326)
Net cash provided/(used) by operating activities	\$ (110,942)

Frenchtown School District
Missoula County, Montana

Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position
As of June 30, 2016

	Activity Fund	Scholarship Fund	Total
Fiduciary net position			
Assets			
Cash in banks	\$ 134,815	\$ 34,703	\$ 169,518
Petty cash	1,025	-	1,025
Total assets	\$ 135,840	\$ 34,703	\$ 170,543
Net position			
Held in trust for student activities	\$ 135,840	\$ -	\$ 135,840
Held in trust for scholarships	-	34,703	34,703
Total net position	\$ 135,840	\$ 34,703	\$ 170,543
Changes in fiduciary net position			
Additions:			
Receipts from student activities	\$ 216,475	\$ -	\$ 216,475
Contributions to scholarships	-	5,250	5,250
Investment earnings	8	153	161
Other	-	-	-
Total additions	\$ 216,483	\$ 5,403	\$ 221,886
Deductions:			
Disbursements for student activities	\$ 199,323	\$ -	\$ 199,323
Scholarships	-	10,900	10,900
Other endowed purposes	-	1,300	1,300
Total deductions	\$ 199,323	\$ 12,200	\$ 211,523
Changes in net position held in trust	\$ 17,160	\$ (6,797)	\$ 10,363
Transfers and closures	-	-	-
Change after transfers/closures	\$ 17,160	\$ (6,797)	\$ 10,363
Net position, July 1, 2015	\$ 121,600	\$ 41,500	\$ 163,100
Funds re-classified	(2,920)	-	(2,920)
Net position, June 30, 2016	\$ 135,840	\$ 34,703	\$ 170,543

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Frenchtown School District (District) is a single district which provides education from kindergarten through the twelfth grade and adult education classes in Frenchtown, Montana. All operations of the District are controlled by a Board of Trustees, elected in District-wide elections, and responsible for all of the District's activities. The financial statements include all of the District's operations controlled by the Board of Trustees. Based on the criteria for determining the reporting entity (separate legal entity and fiscal or financial dependency on other governments), the District is considered to be an independent reporting entity and has no component units.

B. FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The statement of net position and the statement of activities show information about the overall financial position and activities of the District with the exception of the student activity and endowment funds. Eliminations have been made to minimize the double-counting of internal activities.

The statement of net position and statement of activities are reported using the economic resources measurement focus and the **accrual basis** of accounting. The activities of the District are generally financed through property taxes, state equalization funding, federal and state grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. On the accrual basis, revenues from property taxes are recognized in the fiscal year in which eligibility requirements have been met.

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; indirect expenses are specifically identified to programs or functions to the extent possible. Program revenues include fees for services (primarily driver education fees, Medicaid and school lunch fees) and grants and contributions that are restricted to a particular program. Revenues that are not classified as program revenues, including property taxes, are presented as general revenues. Internal balances are eliminated. Receivables are considered available if received in the following month.

Under the terms of the District's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the District applies cost-reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

Fund Financial Statements

These statements provide information about the District's funds, including separate statements for the District's governmental funds, internal service fund and fiduciary funds (the student activity and scholarship funds). The emphasis of fund financial statements is on major governmental funds based on the fund meeting the criteria that at least one element of assets, liabilities, revenue or expenditures is greater than 10% of its category and greater than 5% overall. Each major governmental fund is displayed in a separate column. All of the remaining governmental funds are aggregated and reported in a single column as other governmental funds.

Governmental Funds—are reported using the current resources measurement focus and the **modified accrual** basis of accounting. Under this method, revenues are recognized when measurable and available. State and other government revenues applicable to the current fiscal year and collected soon after year-end are recognized as revenue.

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

B. FINANCIAL STATEMENT PRESENTATION, continued
Fund Financial Statements, continued

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and payments for compensated absences which are recognized as expenditures when paid.

General capital assets acquisitions are reported as expenditures (capital outlay) in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The governmental **major funds** are:

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.

Bus Depreciation Fund – this fund accumulates resources to purchase yellow school buses, replacement only of activity buses, and two-way radio equipment in accordance with the District's replacement plan and in accordance with state statute limitations. Source of funds is internal transfer for allowable share of bus depreciation.

Retirement Fund – this fund accumulates resources to make retirement related payments to the PERS and TRS systems to which the District belongs.. Source of funds is District mill levy and county shared revenues.

Miscellaneous Fund – this fund accumulates resources from donations (other than for scholarships), grants and other designated payments. The fund is sub-divided by projects so that related receipts and payments are specifically identified and matched.

Debt Service Fund—this fund is used to account for revenues and disbursements to repay general obligation debt.

Non-major governmental funds are:

Fund Name	Purpose	Major Revenue or Inflows
Transportation	Wages and maintenance for the District-owned bus system	District mill levy, county and state shared revenues
School Food	Wages and supplies for school meals served	Paid meals, federal meal subsidy and commodities
Tuition	Costs related to out of district students	District mill levy and fees
Retirement	Accumulate \$ and pay pension costs	County shared & District tax revenue
Adult Education	Costs related to adult education offerings	District mill levy and state block grant
Traffic Education	Costs related to drivers education	Fees and state reimbursement
Compensated Absence	Estimated cost at retirement to pay for unused vacation for certain administrative staff	Internal transfer up to a limitation formula
Technology	Purchase, rent, repair and maintain technological equipment for district personnel	Property tax and state shared revenue
Flexibility	Paying salaries, operating expenses, building expenses, purchasing supplies and equipment	State grant and voted property levy
Building	Costs for certain non-routine building expenditures	Bond proceeds, insurance proceeds, sale of property
Building Reserve	Vote approved building or construction projects	Voted mill levy

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, continued

B. FINANCIAL STATEMENT PRESENTATION, continued

Proprietary Funds—are reported using the economic resources management focus and the accrual basis of accounting similar to the basis used for the government-wide financial statements. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. Investment earnings are reported as non-operating revenues. All assets and liabilities are recorded in the enterprise funds financial statements.

Self-Insurance-Health Fund—this fund is an internal service fund that accounts for medical coverage provided to the District's employees. All activity, other than investing is considered operations.

Fiduciary Funds—are also reported using the economic resources measurement focus and the accrual basis of accounting.

Private Purpose Trust Funds—the District has two private-purpose trust funds, a student activity fund, which accounts for the extracurricular activities of its students, and an endowment fund which accounts for funds received for college scholarships for its graduating seniors.

C. CASH AND INVESTMENTS

State law permits investment of District funds in insured savings or time deposits, bank repurchase agreements, direct obligations of the U.S. Government, and the State's unified investment program. Investments are stated at estimated fair value which approximates cost. It is Board policy that all District funds be invested in a prudent manner so as to achieve maximum economic benefit to the District. The District's operating cash is maintained with Missoula County, in accordance with state law, which pools cash of several entities, directs its investment and shares earnings pro-ratably as explained later. Self-Insurance funds are invested with local credit unions and one commercial investment firm; student funds are banked locally in Frenchtown. Investment disclosures are included in Missoula County's annual CAFR for cash pooled at the county.

C. INVENTORIES AND PREPAID EXPENSES

Inventories, generally maintenance supplies, are considered to be immaterial and are not recorded. Material expenditures made in the current year for costs attributable to future years are recorded as a prepaid asset. These expenditures are recognized when used (consumption method).

D. PROPERTY TAXES

Property taxes receivable are offset by deferred inflows of resources in the fund financial statements. The District does not record an allowance for uncollectible taxes; however at June 30, 2016 \$5,664 of taxes receivable were protested and the second largest taxpayer was 3 years in arrears. Tax levies are limited by a variety of funding formulas developed by the State, which are designed to equalize school funding throughout the state.

Property taxes are levied in August of each fiscal year, based on assessments as of the prior January 1. Real property taxes are usually billed in October and are payable 50% on November 30 and 50% on the following May 31. Personal property taxes are assessed in May based on the prior August assessment. The Missoula County Treasurer maintains property tax records, collects taxes and credits collections to the District's account at the county.

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, continued

E. CAPITAL ASSETS

Capital assets are carried at actual or estimated historical cost based on appraisals. Major additions and betterments with a cost in excess of \$5,000 and useful life in excess of one year are recorded as additions to fixed assets. Repair and maintenance costs are not capitalized. Land is not depreciated; depreciation for other assets is computed using the straight-line method and the estimated useful lives are as follows:

Land Improvements	15-35 Years
Buildings and Improvements	10-65 Years
Equipment	5-25 Years

F. COMPENSATED ABSENCES

Non-teaching District employees earn vacation ranging from 15 to 24 days per year depending on the individual's years of service. Vacation may be accumulated to a total not to exceed two times the maximum number of days earned annually. Sick leave is earned at a rate of one day per month for all District employees. Teaching staff are allowed to carry over a maximum of 100 sick days from the previous year. Upon retirement or termination, employees are paid for 100 percent of unused vacation leave and 25 percent of unused sick leave. Termination payments are made at the employee's current salary rate. Part-time employees are entitled to prorated benefits.

G. PENSIONS

In the government-wide and proprietary statements, for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) and additions to/deductions from PERS or TRS fiduciary net position have been determined on the same basis as they are reported by the respective retirement systems. For this purpose benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

In the fund financial statements only pension contributions are reported as expenditures; in the current period there were no circumstances which would require a net pension liability in the fund financial statements.

H. NET POSITION/FUND BALANCE

Net Position – Net position represents the difference between assets and deferred outflows minus liabilities and deferred inflows. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws and regulations of other governments.

Fund Balance – Fund balances in the governmental fund balance sheet, is divided according to the following definitions:

Nonspendable Fund Balance – is the portion of net resources that cannot be spent because (1) of their form or (2) because they must be kept intact.

Restricted Fund Balance – (externally enforceable limitation on use) reflects limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments or limitations imposed by law through constitutional provisions or enabling legislation.

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, continued

H. NET POSITION/FUND BALANCE, continued

Committed Fund Balance – (self-imposed limitations set in place prior to the end of the period) reflects limitations imposed at the highest level of decision making that requires formal action at the same level to remove.

Assigned Fund Balance – (limitations resulting from intended use) reflects intended use established by the highest level of decision making or by body or official designated by the governing body.

Unassigned Fund Balance – (residual net resources) this classification includes all balances in excess of the more restrictive classifications. Any fund that had a negative fund balance at the end of the year would report the negative in this category.

See Notes 10 and 11 for classification of elements of net position and fund balance.

C. ACCOUNTING STANDARDS IMPLEMENTATION

For the year ended June 30, 2015 the District implemented Governmental Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions* (GASB 68). GASB 68 modified earlier pension guidance to require that individual governmental entities report the full net pension liability (and related financial statement elements) that result from pension plans. In Montana school districts belong to two “multiple employer cost-sharing” plans which are the Public Employees Retirement System (PERS) and Teachers Retirement System (TRS). Following earlier guidance from GASB 67 the plans developed information needed for each entity’s reporting and calculated the “proportionate share” for each member. Both plans chose to use the proportionate share of actual contributions for the affected fiscal year as a percentage to allocate net pension liability, pension expense, and “on-behalf” payments from the state and coal tax monies; the District’s actual fiscal year contributions are included in deferred inflows. The plans can use a measurement date up to 12 months prior to the reporting date; for both plans the measurement date was June 30, 2014 for reporting as of June 30, 2015. Net pension liability is a disclosure of a potential contingent liability and does not require immediate payments beyond the normal contribution rate as set by the State of Montana. Fiscal 2016 accruals reflect changes for the year as explained in Note 15.

For the year ended June 30, 2016 the District finalized implementation of Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* as noted below.

NOTE 2: CASH AND INVESTMENTS

Missoula County is the cash depository for the District’s governmental operating funds and the scholarship trust fund. The District participates in the Missoula County Treasurer’s investment program. Funds deposited with the County Treasurer are pooled and invested in accordance with State law. Funds are withdrawn from the investment program as needed to pay warrants. Earnings are allocated to the District based on average month-end cash balances and are distributed monthly. Information about the pooled investments is included in the County’s annual CAFR found on the Missoula County website, www.co.missoula.mt.us or 200 W. Broadway, Missoula, MT 59802. Student activity trust funds are deposited in FDIC insured, interest bearing, checking accounts.

Cash at June 30, 2016 was deposited or invested as follows:

<u>Entity/institution holding cash</u>	<u>Amount</u>	<u>Cash and investments in the financial statements</u>
Missoula County Treasurer balance	\$ 4,541,867	Cash in Statement of Net Position \$ 3,643,021
Less outstanding warrants	(1,564,690)	Net position includes internal service fund
Health fund cash at credit unions	379,297	
Health fund cash invested	320,350	Cash in fiduciary funds 203,656
Student activity fund at bank	167,928	
Petty cash	1,925	
Total	<u>\$ 3,846,677</u>	<u>3,846,677</u>

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 2: CASH AND INVESTMENTS, continued

Certificates of deposit are part of Raymond James Co. health fund investments, each is with a different institution. Credit union deposits are spread among three credit unions with less than \$250,000 in any one institution. All certificates of deposit are considered investments in the statement of cash flows. The above investments are stated at fair value measured from level 1 inputs. Fair value may be measured using one of three categories of inputs: Level 1 – quoted prices in active markets, Level 2- observable inputs, Level 3- unobservable inputs. The District is allowed to treat investments maturing in 90 days or less as cash equivalents in the internal service fund.

Cash held in trust for the student activities account is deposited with a local bank in Frenchtown.

NOTE 3: DUE FROM OTHER GOVERNMENTS AND OTHER RECEIVABLES

Due from other governments consists of federal grants of \$61,013 and state grants \$8,452. Generally the District does not recognize an allowance for uncollectible in this account since all amounts are expected to be collected. The District does not recognize and allowance for uncollectible accounts in relation to taxes however, taxpayer M2 Green was \$368,417 in arrears at 6/30/16 and \$5,665 of taxes were protested.

NOTE 4: CAPITAL ASSETS

Changes to capital assets during the year ended June 30, 2015 are as follows:

	Balance June 30, 2015	Adjustments	Additions	Deletions	Balance June 30, 2016
Cost of Assets:					
Land	\$ 590,662	\$ -	-	\$ -	\$ 590,662
Depreciable capital assets:					
Land Improvements	956,294	7,244	14,963	-	978,501
Buildings	27,705,660	-	219,019	16,450	27,908,229
Equipment	2,851,532	-	227,689	135,700	2,943,521
Construction in Progress	-	-	58,562	-	58,562
Total	<u>\$ 32,104,148</u>	<u>\$ 7,244</u>	<u>520,233</u>	<u>\$ 152,150</u>	<u>\$ 32,479,475</u>
Accumulated Depreciation:					
Land Improvements	\$ (499,819)	-	(40,119)	-	\$ (539,938)
Buildings	(7,149,395)	-	(570,973)	(13,160)	(7,707,208)
Equipment	(2,048,663)	-	(166,701)	(135,700)	(2,079,664)
Total	<u>\$ (9,697,877)</u>	<u>\$ -</u>	<u>(777,793)</u>	<u>\$ (148,860)</u>	<u>\$ (10,326,810)</u>
Net Book Value	<u>\$ 22,406,271</u>	<u>\$ 7,244</u>	<u>(257,560)</u>	<u>\$ 3,290</u>	<u>\$ 22,152,665</u>

The library collection is not capitalized. Net depreciation expense was charged to functions as follows:

Regular Programs	\$ 567,533
Student Transportation	119,179
Extracurricular	39,085
Operations and Maintenance	20,219
School Food	11,920
Business Administration	19,857
Total Depreciation Expense	<u>\$ 777,793</u>

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable in the governmental funds consists of supplies and services, such as utilities used or purchased in June but billed later; the net liability of the internal service fund is also accrued in this category when consolidated to the statement of net position. Net pension liability as provided by the PERS and TRS state pension systems appears in the government-wide financial statements; see more information in Note 15.

NOTE 6: DEFERRED INFLOWS

Deferred inflows in governmental funds equal property taxes receivable; in the internal service fund deferred inflows represents premiums received by June 30, 2016 but for July and August of fiscal 2017. The government-wide statements eliminate tax deferred inflows but also report deferred inflows related to pensions.

NOTE 7: LONG-TERM DEBT

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

	Balance			Balance		Due Within
	June 30, 2015	Increase	Decrease	June 30, 2016	One Year	
Intercap Loan	-	234,396		234,396		23,372
General Obligation Bonds:						
Series 2007	\$ 5,530,000	\$ -	\$ 430,000	\$ 5,100,000		\$ 445,000
Series 2013	8,250,000	-	520,000	7,730,000		535,000
Compensated Absences	662,039	-	10,832	651,207		186,133
Net Pension Liability	7,350,141	1,044,333	-	8,394,474		-
Total	<u>\$ 21,792,180</u>	<u>\$ 1,278,729</u>	<u>\$ 960,832</u>	<u>\$ 22,110,077</u>		<u>\$ 1,189,505</u>

General Obligation Bonds—

Series 2007 - The District issued \$14,935,000 of general obligation bonds in February 2007 to finance the District's capital projects. The interest rate on the bonds varies from 4.0% to 5.0%. Interest payments are paid semi-annually. Principal payments are due annually in varying amounts to July 1, 2027. The bonds maturing on or after July 1, 2018 are subject to early redemption at a price equal to the unpaid principal plus accrued interest. During the year ended June 30, 2013 the District refunded part of its debt to obtain lower interest rates and paid \$6,314,764 against the outstanding balance of the 2007 Series bonds.

Series 2013 – The series 2013 refunding bonds were issued in February 2013 in the amount of \$9,345,000 to redeem all of Series 2008 bonds and a portion of the Series 2007 bonds. Interest payments are due semi-annually on January 1 and July 1; principal payments are due annually on July 1. Interest rates vary from 1.75% to 3.0%. The bonds mature on July 1, 2027. The 2013 refunding bonds are expected to save the District \$ 509,961.

Loan

Intercap Loan- In April of 2016 the District arranged to borrow from the State of Montana Intercap Loan program to assure the ability to perform repairs and improvements, in a timely fashion. The full amount approved for borrowing was \$750,000. At June 30, 2016 two draws had been taken totaling \$234,396. Repayment is over ten years with semi-annual payments in August and February through 2021 and a last payment on June 15, 2021. The full outstanding balance may be repaid before maturity with a 30 day notice. The initial interest rate through February 2017 is 1.55%; the rate is adjusted annually based on an index.

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 7: LONG-TERM DEBT, continued

Compensated absences—payments are made by the affected fund, usually the general fund; however, compensated absence payments can be made by the compensated absences fund, a special revenue fund. Vacation pay is classified as compensated absences due within one year, accrued sick leave is classified as non-current.

Net Pension Liability(NPL)- In accordance with pension reporting established by the Governmental Accounting Standards Board and implemented by the District in fiscal 2015, the District reports its proportionate share of the net pension liabilities for its participation in the Teachers Retirement System(TRS) and the Public Employees Retirement System (PERS). Full disclosures and tables prepared by the two systems appear in Note 15. The District is not required to make payments on the NPL beyond the annual percentage of payroll rates established by the State of Montana as disclosed in Note 13.

Amortized debt service for bonds and loans to maturity table:

Year Ended June 30	2007 Bonds		2013 Refunding Bond		Intericap Loan		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2017	\$ 445,000	\$ 222,963	\$ 535,000	\$ 196,525	\$ 23,372	\$ 636	\$ 1,423,496
2018	470,000	204,050	545,000	185,825	46,790	5,498	1,457,163
2019	985,000	185,250	60,000	174,925	46,849	4,342	1,456,366
2020	1,025,000	136,000	60,000	173,725	46,908	3,186	1,444,819
2021	1,065,000	92,437	65,000	172,675	46,969	2,034	1,444,115
2022	1,110,000	47,174	65,000	171,538	23,508	584	1,417,804
2023	-	-	1,220,000	170,400	-	-	1,390,400
2024	-	-	1,245,000	146,000	-	-	1,391,000
2025	-	-	1,270,000	114,875	-	-	1,384,875
2026	-	-	1,310,000	79,950	-	-	1,389,950
2027	-	-	1,355,000	40,650	-	-	1,395,650
Total	\$ 5,100,000	\$ 887,874	\$ 7,730,000	\$ 1,627,088	\$ 234,396	\$ 16,280	\$ 15,595,638

Of amortized bonds and loans at June 30, 2016, the total principle due is \$13,064,396 and estimated interest to be paid is \$2,531,242. Legal debt margins are in the statistical section.

NOTE 8: ESTIMATED RETIREE HEALTH CARE COSTS/OTHER POST EMPLOYMENT BENEFITS (OPEB)

State law (MCA 2-18-704) requires that retirees with at least five years of service and at least 50 years old are allowed to participate in the District's self-insured medical coverage plan until they become eligible for Medicare coverage. Retirees are required to pay the full premium for such coverage. The District commissioned an actuarial study of the potential OPEB liability and it was determined that there is no OPEB liability. This opinion was re-affirmed for the years ended June 30, 2015 through 2018.

Plan name: Frenchtown School District #40 Benefit Plan Trust.

Administration: Benefits are administered by Allegiance Benefit Plan Management, Inc.; a SOC-1, Type 2 report for July 1, 2014 through June 30, 2015 is available from Allegiance, 2806 S. Garfield, Missoula, Mt 59801. The District established separate bank accounts and investments to administer the cash transactions of the trust.

Benefits: Retirees pay 100% of the premium for single or retiree plus spouse coverage. The premium covers medical, dental and vision. A retiree may not opt out of dental or vision coverage. Fiscal 2015 premiums were retiree only \$888.40, retiree plus spouse \$979.58.

Cost of Coverage: For retirees the cost to the District and the retiree is the age-specific premium.

Financial statements for the plan: The plan's financial statements are presented as part of the District financial statements on pages 16-18 of this report.

Funding policy: The plan trustees are empowered to establish premiums, using the advisory resources of Allegiance Benefit Plan Management, Inc. or other actuarial assistance as needed.

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 9: INTERFUND TRANSFERS

The District transferred \$50,000 from the bus depreciation fund to its building reserve fund to finance safety related improvements.

NOTE 10: PRIOR PERIOD ADJUSTMENT EXPLANATION

The District re-classified three student activity accounts to the miscellaneous fund for a transfer of \$2,919 to start fiscal 2016.

NOTE 11: GOVERNMENTAL FUND BALANCE REPORTING

Classifications for governmental fund balance are discussed in Note 1, part H. The following table discloses the composition of single line classifications in the governmental funds balance sheet.

	General Fund	Bus Depreciation Fund	Miscellaneous Fund	Debt Service Fund	Other Governmental Funds	Fund Balance Classification Totals
Non-Spendable:						
Form	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Legal/Contractual	-	-	-	-	-	-
Total Non-spendable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Restricted						
Regular programs	\$ -	\$ -	\$ 254,108	\$ -	\$ 308,361	\$ 562,469
Other programs	-	-	-	-	42,229	42,229
Support services	-	-	-	-	210,325	210,325
Admin: General	-	-	-	-	22,824	22,824
Admin: School	21,566	-	-	-	-	21,566
Admin: Business	16,269	-	-	-	-	16,269
Student Transportation Operations & Maintenance	-	394,296	-	-	99,463	493,759
School food	-	-	-	-	74,246	74,246
Debt Service	-	-	-	105,001	-	105,001
Total Restricted	<u>\$ 37,835</u>	<u>\$ 394,296</u>	<u>\$ 254,108</u>	<u>\$ 105,001</u>	<u>\$ 782,227</u>	<u>\$ 1,573,467</u>
Committed						
Total Committed	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 73,713</u>	<u>\$ -</u>	<u>\$ 239,861</u>	<u>\$ 313,574</u>
Assigned						
Regular programs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other programs	-	-	65,559	-	-	65,559
School food	-	-	-	-	-	-
Total Assigned	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,559</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,559</u>
Unassigned						
General Fund	\$ 1,048,967	\$ -	\$ -	\$ -	\$ -	\$ 1,048,967
Miscellaneous Fund	-	-	-	-	-	-
Tuition Fund	-	-	-	-	-	-
Total Unassigned	<u>\$ 1,048,967</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,048,967</u>
Total Fund Balances	<u>\$ 1,086,802</u>	<u>\$ 394,296</u>	<u>\$ 393,380</u>	<u>\$ 105,001</u>	<u>\$ 1,022,088</u>	<u>\$ 3,001,567</u>

NOTE 12: GOVERNMENT-WIDE RESTRICTED NET ASSETS

Restricted Net Position—state law authorizes certain funds and establishes the criteria for property tax levies and certain other shared payments for specific purposes. Certain assets may be restricted by bond covenants or grantors. The District classifies all or a portion of net assets of these funds as restricted net assets. Generally the District applies restricted resources to expenses incurred before using unrestricted resources when both types are available.

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 12: GOVERNMENT-WIDE RESTRICTED NET ASSETS, continued

A schedule which translates restricted fund balance to restricted net assets is shown below:

	Total Restricted Fund Balance	Accruals for depreciation & comp. absences	Net Position Self-Insurance Fund	Restricted Net Position
Regular programs	\$ 524,634	(524,634)		-
Other programs	42,229			42,229
Support services	210,325			210,325
Admin: General	22,824			22,824
Admin: School	21,566			21,566
Admin: Business	16,269	(16,269)		-
Student Transportation Operations & Maintenance	493,759	(119,179)		374,580
School food	74,246	(20,219)		54,027
Debt Service	24,779	(11,920)		12,859
Health Insurance	105,001			105,001
			386,877	386,877
Totals	<u>\$ 1,535,632</u>	<u>(692,221)</u>	<u>386,877</u>	<u>1,230,288</u>

NOTE 13: RETIREMENT PLANS

The District participates in two statewide, mandatory, cost-sharing, multiple employer, defined benefit retirement plans which cover all employees, except certain substitute teachers and part-time, non-teaching employees. The Montana Teachers' Retirement System (TRS) covers teaching employees, including principals and superintendents. The Montana Public Employees' Retirement System (PERS) covers other employees. The plans are established by state law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

Contribution rates for both plans are required and determined by state law. There were no changes in contribution rates for MTRS and MPERS in 2016. The contribution rates, expressed as a percentage of covered payroll:

	Employer	Employee	State	Total	
TRS	8.00%	7.90%	0.37%	17.11%	Fiscal 2016
PERS	8.27%	7.90%	0.10%	16.27%	Fiscal 2016

The amounts contributed to TRS and PERS during the years ended June 30, 2013, 2014 and 2015 were equal to the required contribution of each year. The amounts **contributed by both the District and its employees** (including additional voluntary contributions by employees as permitted by state law) were as follows:

	2014	2015	2016
TRS	\$ 857,973	\$ 952,154	\$ 982,366
PERS	194,478	192,231	199,850
Total	<u>\$ 1,052,451</u>	<u>\$ 1,144,385</u>	<u>\$ 1,182,216</u>

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 13: RETIREMENT PLANS, continued

Both plans issue a publicly available financial report that includes financial statements and required supplementary information for the plans. Those reports may be obtained from the following:

MT Teachers Retirement System
P.O. Box 200139
1500 East Sixth Avenue
Helena, MT 59620-0139
Telephone: (406) 444-3134
www.trs.mt.gov

MT Public Employees Retirement System
P.O. Box 200131
100 North Park Ave, Suite 200
Helena, MT 59620-0131
Telephone: (406) 444-3154
www.mpera.mt.gov

As required by Governmental Accounting Standards Board Statement No. 68 (GASB 68) the District implemented reporting of its shared liability in the Public Employees Retirement System (PERS) and the Teachers Retirement System (TRS). See Note 15.

NOTE 14: RISK MANAGEMENT

The District faces a number of risks including (1) loss or damage to property, (2) general liability, (3) workers compensation, and (4) employee medical insurance. Commercial insurance policies are purchased for loss or damage to property, and general liability.

The District participates in a statewide public risk pool, the Montana Schools Group Workers Compensation Risk Retention Program (WCRRP), for workers compensation coverage. Approximately 200 school districts participate in WCRRP. All school districts participants in this pool are jointly and severally liable for the liabilities of this public risk pool. The pool issues audited financial statements. Information about the amount of claim liabilities, charges in claims liabilities, and amount of claims paid, operating results and other information is available at 1 South Montana Avenue, Helena, MT 59601.

The Districts self-insures some medical, dental, and vision health coverage. This activity is accounted for in an internal service fund. The self-insurance program provides coverage for up to \$45,000 for the medical expenses of each participating employee, retiree, and family member. For the purpose of the statement of cash flows all activities, except results of investing, are considered operations.

The District purchases commercial insurance for claims in excess of medical coverage provided by the fund. Dental expenses are paid per covered person up to \$1,000 per year. Any amount above this is paid by the participants. The fund also provides life and disability insurance for District employees.

Changes in medical claims liabilities were as follows:

	Processed Claims	Estimated CIBNR	Total
Claims Liability, June 30, 2015	\$ 45,000	\$ 145,631	\$ 190,631
Claims Liability, June 30, 2016	\$ 38,085	\$ 242,843	\$ 280,928
Total changes	(6,915)	97,212	90,297

Processed claims appear as accounts payable in the financial statements. Claims incurred but not reported (CIBNR) are estimated by Allegiance Benefits at the end of each fiscal year.

Prior to the fiscal year end, the District pays the health insurance premiums for July and August of the next fiscal year. These advance premium payments are reported as deferred inflows. Receivables at June 30, 2016 consist of payments due from the plan's stop-loss insurer for claims in excess of the self-insurance maximum.

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 15: PENSION PLANS' DISCLOSURES- TRS and PERS

The District participates in two pension plans: (1) the Teachers Retirement System (TRS) which covers eligible staff who are certified teachers, and (2) the Public Employees Retirement System (PERS) which covers eligible staff who are not certified as teachers. Combined pension amounts for the District's proportionate share of pension liabilities, deferred outflows of resources and pension expense appear below.

	The Employer's Proportionate Share Associated with TRS	The Employer's Proportionate Share Associated with PERS	The Employer's Total Pension Amounts
Total Pension Liability	\$ 22,918,930	\$ 3,089,715	\$ 26,008,645
Fiduciary Net Position	15,882,268	1,731,903	17,614,171
Net Pension Liability	\$ 7,036,662	\$ 1,357,812	\$ 8,394,474
			-
Deferred Outflows of Resources	\$ 1,005,139	\$ 99,925	\$ 1,105,064
Deferred Inflows of Resources	399,393	126,646	526,039
			-
Pension Expense	\$ 823,917	\$ 91,416	\$ 915,333

Following are separate sets of disclosures for TRS and PERS as prepared by the systems and audited by the Montana Legislative Auditor's office; section numbers correspond to GASB 68 required disclosure paragraphs.

**A-Teachers Retirement System (TRS) Disclosures
Prepared as of June 30, 2015 (Measurement Date)
For the Year Ended June 30, 2016 (Reporting Date)**

Net Pension Liability – 80a, 80b, 80c, 80d, 80e, 80f

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

	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/15	Percent of Collective NPL as of 06/30/16	Percent of Collective NPL as of 06/30/16	Change in Percent of Collective NPL
Frenchtown K-12 Schools Proportionate Share	\$ 7,036,662	\$ 6,139,230	0.4283%	0.3989%	0.0294%
State of Montana Proportionate Share Associated with Employer	4,717,615	4,207,166	0.2871%	0.2734%	0.0137%
Total	\$ 11,754,277	\$ 10,346,396	0.7154%	0.6723%	0.0431%

At June 30, 2016, the employer recorded a liability of \$7,036,662 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. Therefore, no update procedures were used to roll forward the total pension liability to the measurement date. The employer's proportion of the net pension liability was based on the employer's contributions received by TRS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of TRS' participating employers. At June 30, 2016, the employer's proportion was 0.4283 percent.

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 15: PENSION PLANS' DISCLOSURES, **A-Teachers Retirement System (TRS) Disclosures**, continued

Changes in actuarial assumptions and methods: Since the previous measurement date the following changes were made:

- 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.

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

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

Pension Expense – 80g, 80j

	Pension Expense as of 6/30/16
Frenchtown K-12 Schools	
Proportionate Share	\$ 528,492
State of Montana Proportionate Share Associated with Employer	295,425
Total	\$ 823,917

At June 30, 2016, the employer recognized a Pension Expense of \$823,917 for its proportionate share of the TRS' pension expense. The employer also recognized grant revenue of \$295,425 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the employer.

Deferred Inflows and Outflows – 80h, 80i

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 74,201	\$ -
Changes in actuarial assumptions	99,580	14,861
Differences between projected and actual investment earnings	-	377,863
Changes in proportion & Difference between actual and expected contributions	340,175	6,669
*Contributions paid to TRS subsequent to the measurement date - FY 2015 Contributions (to be entered by the entity)	491,183	-
Total	\$ 1,005,139	\$ 399,393

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 15: PENSION PLANS' DISCLOSURES, **A-Teachers Retirement System (TRS) Disclosures**, continued

*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:

Year Ended June 30:	Deferred Outflows of Resources (a)	Deferred Inflows of Resources (b)	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense (a) - (b)
2017	\$ 199,866	\$ 166,753	\$ 33,113
2018	\$ 199,866	\$ 166,730	\$ 33,136
2019	\$ 114,226	\$ 162,842	\$ (48,616)
2020	\$ 96,932	\$ -	\$ 96,932
2021	\$ -	\$ -	\$ -
Thereafter	\$ -	\$ -	\$ -

Plan Description – 76a

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

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

Summary of Benefits – 76b

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 (through a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members).

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 15: PENSION PLANS' DISCLOSURES, **A-Teachers Retirement System (TRS) Disclosures**, continued

- Tier Two provides for an enhanced benefit calculation – $1.85\% \times \text{AFC} \times \text{years of creditable service}$ – for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than $1.6667 \times \text{AFC} \times \text{years of creditable service}$).

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

Overview of Contributions – 76c

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

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

School District and Other Employers

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

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 15: PENSION PLANS' DISCLOSURES, **A-Teachers Retirement System (TRS) Disclosures**, continued

State and University Employers

	<u>Members</u>	<u>Employers</u>	<u>General Fund</u>	<u>Total Employee & Employer</u>
Prior to July 1, 2007	7.15%	7.47%	0.11%	14.73%
July 1, 2007 to June 30, 2009	7.15%	9.47%	0.11%	16.73%
July 1, 2009 to June 30, 2013	7.15%	9.85%	0.11%	17.11%
July 1, 2013 to June 30, 2014	8.15%	10.85%	0.11%	19.11%
July 1, 2014 to June 30, 2015	8.15%	10.95%	0.11%	19.21%
July 1, 2015 to June 30, 2016	8.15%	11.05%	0.11%	19.31%
July 1, 2016 to June 30, 2017	8.15%	11.15%	0.11%	19.41%
July 1, 2017 to June 30, 2018	8.15%	11.25%	0.11%	19.51%
July 1, 2018 to June 30, 2019	8.15%	11.35%	0.11%	19.61%
July 1, 2019 to June 30, 2020	8.15%	11.45%	0.11%	19.71%
July 1, 2020 to June 30, 2021	8.15%	11.55%	0.11%	19.81%
July 1, 2021 to June 30, 2022	8.15%	11.65%	0.11%	19.91%
July 1, 2022 to June 30, 2023	8.15%	11.75%	0.11%	20.01%
July 1, 2023 to June 30, 2024	8.15%	11.85%	0.11%	20.11%

TRS Stand-Alone Statements – 76d

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

Actuarial Assumptions – 77

The Total Pension Liability as of June 30, 2015, 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 Increase* 4%-8.51% for non-university members and 5% for University members
- Investment Return 7.75%
- Price Inflation 3.25%
- Postretirement Benefit Increases
 - Tier One members: If the retiree has received benefits for at least 3 years, the retirement allowance will be increased by 1.5% on January 1st.
 - Tier Two Members, the retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the System to be at least 90% funded and the provisions of the increase is not projected to cause the funded ration to be less than 85%.
- Mortality among contributing members, service retired members, and beneficiaries
 - For Males: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
 - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 15: PENSION PLANS' DISCLOSURES, **A-Teachers Retirement System (TRS) Disclosures**, continued

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

*Total Wage Increases include 4.00% general wage increase assumption.

Discount Rate – 78a, 78b, 78d

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 project 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.

Target Allocations – 78c, 78e, 78f

<u>Asset Class</u>	<u>Target Asset Allocation (a)</u>	<u>Real Rate of Return Arithmetic Basis (b)</u>	<u>Long-Term Expected Portfolio Real Rate of Return</u>
Broad US Equity	36.00%	4.80%	1.73%
Broad International Equity	18.00%	6.05%	1.09%
Private Equity	12.00%	8.50%	1.02%
Intermediate Bonds	23.40%	1.50%	0.35%
Core Real Estate	4.00%	4.50%	0.18%
High Yield Bonds	2.60%	3.25%	0.08%
Non-Core Real Estate	4.00%	7.50%	0.30%
Total	<u>100.00%</u>		<u>4.75%</u>
		Inflation rate	<u>3.25%</u>
		Expected arithmetic rate of 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 4.5%.

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

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 15: PENSION PLANS' DISCLOSURES, **A-Teachers Retirement System (TRS) Disclosures**, continued

a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015, is summarized in the above table.

Sensitivity Analysis – 78g

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
The Employer's proportion of Net Pension Liability	\$ 9,667,807	\$ 7,036,662	\$ 4,822,704

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 – 79

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

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

B-Public Employee Retirement System Disclosures

June 30, 2015 (measurement date)

June 30, 2016 (reporting date)

Pension Amount Totals – 74

GASB Statement 68, paragraph 74 requires that when employees are provided benefits through more than one pension system, whether provided through cost-sharing, single-employer or agent pension plans, the employer must combine the amounts reported as a total or aggregate for all pensions.

Net Pension Liability – 80a, 80b, 80c, 80d, 80e, 80f

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 Public Employees' Retirement System (PERS). Statement 68 which became effective June 30, 2015 includes requirements for employers to record and report their proportionate share of the collective Net Pension Liability(NPL), Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions.

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

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 15: PENSION PLANS' DISCLOSURES, **B-Public Employees Retirement System(PERS) Disclosures**, continued

The State of Montana also has a funding situation that is not Special funding whereby the State General Fund provides contributions from the Coal Tax Severance fund. All employers are required to report the portion of Coal Tax Severance income and earnings attributable to the employer.

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

	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/15	Percent of Collective NPL as of 06/30/16	Percent of Collective NPL as of 06/30/15	Change in Percent of Collective NPL
Frenchtown K-12 Schools					
Proportionate Share	\$ 1,357,812	\$ 1,210,911	0.097134%	0.097183%	-0.000049%
State of Montana Proportionate Share Associated with Employer	63,803	56,606	0.004564%	0.004543%	0.000021%
Total	<u>\$ 1,421,615</u>	<u>\$ 1,267,517</u>	<u>0.101698%</u>	<u>0.101726%</u>	<u>-0.000028%</u>

The table above displays the employer proportionate share of the NPL and the employer's proportion of NPL for June 30, 2015 and 2016. The employer's proportion of the NPL was based on the employer's contributions received by the PERS during the measurement period July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of PERS' participating employers. As of the employer's reporting date the employer recorded a liability of \$1,357,812 and the employer's proportionate share was .097134%.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability.

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

Changes in proportionate share: 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 – 80g

	Pension Expense as of 6/30/16	Pension Expense as of 6/30/15
Employer's Proportionate Share	\$ 87,452	91,860
State of Montana Proportionate Share Associated with Employer	3,965	4,261
Total	<u>\$ 91,416</u>	<u>96,121</u>

At June 30, 2016, the employer recognized its proportionate share of the PERS' Pension Expense of \$91,416.24. The employer also recognized grant revenue of \$3,964.58 for the support provided by the State of Montana for its proportionate share of the Pension Expense that is associated with the employer, and grant revenue of \$32,586.02 from the Coal Tax fund

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 15: PENSION PLANS' DISCLOSURES, **B-Public Employees Retirement System(PERS) Disclosures**, continued

Recognition of Deferred Inflows and Outflows – 57,80b,80i

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. Expected Experience	\$ -	\$ 8,215
Changes in Assumptions	-	-
Actual vs. Expected Investment eArnings	-	114,953
Changes in Proportion Share and Differences between employer Contributions and Proportionate Share of Contributions	-	3,479
Employer contributions subsequent to the measurement date- #FY2016 Contributions	99,925	-
Total	\$ 96,155	\$ 126,647

*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 NPL 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:

Year Ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	\$ (52,309)
2018	\$ (52,309)
2019	\$ (51,926)
2020	\$ 29,897
2021	\$ -
Thereafter	\$ -

Plan Description – 76a

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

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

The PERS-DBRP provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature.

NOTE 15: PENSION PLANS' DISCLOSURES, **B-Public Employee Retirement System Disclosures**, continued

Summary of Benefits – 76b

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

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 part of a member's highest average compensation.

Monthly benefit formula

Members hired prior to July 1, 2011:

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

Members hired on or after July 1, 2011:

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

Overview of Contributions – 76c

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

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 15: PENSION PLANS' DISCLOSURES, **B-Public Employee Retirement System Disclosures**, continued

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

3. Non Employer Contributions
 - a. Special Funding
 - i. The State contributes 0.1% of members' compensation on behalf of local government entities.
 - ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
 - b. Not Special Funding
 - i. The State contributes a portion of Coal Severance Tax income and earnings frm the Coal Trust Permanent Trust fund.

Fiscal Year	Member		State &	Local government		School Districts	
	Hired	Hired	Universities	Employer	State	Employer	State
	<07/01/11	>07/01/11	Employer	Employer	State	Employer	State
2016	7.900%	7.900%	8.370%	8.270%	0.100%	8.000%	0.370%
2015	7.900%	7.900%	8.270%	8.170%	0.100%	7.900%	0.370%
2014	7.900%	7.900%	8.170%	8.070%	0.100%	7.800%	0.370%
2012-2013	6.900%	7.900%	7.170%	7.070%	0.100%	6.800%	0.370%
2010-2011	6.900%		7.170%	7.070%	0.100%	6.800%	0.370%
2008-2009	6.900%		7.035%	6.935%	0.100%	6.800%	2.350%
2000-2007	6.900%		6.900%	6.800%	0.100%	6.800%	0.100%

Stand-Alone Statements – 76d

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

CAFR information including our stand alone financial statements can be found on our web site at <http://mpera.mt.gov/annualReports.shtml>.

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

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 15: PENSION PLANS' DISCLOSURES, **B-Public Employee Retirement System Disclosures**, continued

Actuarial Assumptions – 77

The 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 TPL. 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:

- | | |
|------------------------------------|----------|
| • Investment Return | 7.75% |
| • Admin Expense as a % of Payroll | 0.27% |
| • General Wage Growth* | 4.00% |
| • *includes Inflation at | 3.00% |
| • Merit Increases | 0% to 6% |
| • Postretirement Benefit Increases | |

Guaranteed Annual Benefit Adjustment (GABA)

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

- 3% for members hired **prior to** July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013
 - a. 1.5% each year PERS is funded at or above 90%;
 - b. 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and,
 - c. 0% whenever the amortization period for PERS is 40 years or more.
- 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 – 78a, 78b, 78d, 78e

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 TPL. A municipal bond rate was not incorporated in the discount rate.

Frenchtown School District
Missoula County, Montana
Notes to the Financial Statements

NOTE 15: PENSION PLANS' DISCLOSURES, **B-Public Employee Retirement System Disclosures**, continued

Target Allocations – 78c, 78e, 78f

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of a building block method in which best-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. Summarized in the table below are best estimates of the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015.

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis
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%
	100.00%	

Sensitivity Analysis – 78g

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
PERS' Net Pension Liability \$	2,093,453	\$ 1,357,812	\$ 736,581

The above table presents the NPL calculated using the discount rate of 7.75% as well as what the NPL would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate.

Summary of Significant Accounting Policies – 79

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

REQUIRED SUPPLEMENTARY INFORMATION

Frenchtown School District
Missoula County, Montana

General Fund-Schedule of Revenues, Expenditures and Changes in Fund Balance-
Budget to Actual
for the Fiscal Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Budget to Actual Variance</u>	<u>GAAP Encumbrance Adjustment</u>	<u>Fund Financial Statement</u>
Revenues						
District property taxes	\$ 1,866,195	\$ 1,866,195	\$ 1,860,961	\$ 5,234	\$ -	\$ 1,860,961
Intergovernmental:		-		-		
State revenues	6,535,019	6,561,939	6,562,030	(91)	-	6,562,030
Federal payments		-		-	-	-
Interest	3,314	3,314	6,246	(2,932)	-	6,246
Other	2,243	2,243	66,078	(63,835)	-	66,078
Total revenues	<u>\$ 8,406,771</u>	<u>\$ 8,433,691</u>	<u>\$ 8,495,315</u>	<u>\$ (61,624)</u>	<u>\$ -</u>	<u>\$ 8,495,315</u>
Expenditures						
Current operations:						
Instruction:						
Regular program	\$ 4,600,000	\$ 4,600,000	\$ 4,594,326	\$ 5,674	\$ 131,998	\$ 4,726,324
Special program		-	-	-		-
Support services	800,000	800,000	797,965	2,035		797,965
Administration:		-		-		
General	164,000	164,000	163,888	112		163,888
School	524,000	524,000	523,723	277		523,723
Financial	646,000	646,000	645,492	508		645,492
Student Transportation	8,000	8,000	8,127	(127)		8,127
Operations and maintenance	1,145,571	1,153,891	1,160,977	(7,086)		1,160,977
School food	60,000	60,000	61,111	(1,111)		61,111
Extracurricular	405,000	405,000	405,283	(283)		405,283
Capital outlay	54,200	72,800	72,781	19	(33,756)	39,025
Debt service		-	-	-		-
Total expenditures	<u>\$ 8,406,771</u>	<u>\$ 8,433,691</u>	<u>\$ 8,433,673</u>	<u>\$ 18</u>	<u>\$ 98,242</u>	<u>\$ 8,531,915</u>
Excess/(deficiency) of revenues over expenditures and encumbrances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,642</u>	<u>\$ (61,642)</u>		<u>\$ (36,600)</u>
Transfers in (out)				-		-
Excess/(deficiency) of revenues over expenditures and transfers	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,642</u>	<u>\$ (61,642)</u>		<u>\$ (36,600)</u>
Beginning Fund Balance	<u>\$ 1,123,402</u>	<u>\$ 1,123,402</u>	<u>\$ 1,123,402</u>			<u>\$ 1,123,402</u>
Ending fund Balance	<u>\$ 1,123,402</u>	<u>\$ 1,123,402</u>	<u>\$ 1,185,044</u>			<u>\$ 1,086,802</u>

Please see accompanying notes to the schedule.

Frenchtown School District
Missoula County, Montana

Notes to the Budget to Actual Schedules

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget to Actual
Bus Depreciation Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>GAAP Encumbrance Adjustment</u>	<u>Fund Financial Statement</u>
Revenues						
District property taxes	\$ 200,324	\$ 200,324	\$ 198,833	\$ (1,491)	\$ -	\$ 198,833
Interest			1,768	1,768	-	1,768
Total revenues	<u>\$ 200,324</u>	<u>\$ 200,324</u>	<u>\$ 200,601</u>	<u>\$ 277</u>	<u>\$ -</u>	<u>\$ 200,601</u>
Expenditures						
Parts & Supplies	\$ -	\$ -	171	-	-	171
Capital outlay	570,190	570,190	355,200	214,990	(179,200)	176,000
Total expenditures	<u>\$ 570,190</u>	<u>\$ 570,190</u>	<u>\$ 355,371</u>	<u>\$ 214,990</u>	<u>\$ (179,200)</u>	<u>\$ 176,171</u>
Excess/(deficiency) of revenues over expenditures and encumbrances	<u>\$ (369,866)</u>	<u>\$ (369,866)</u>	<u>\$ (154,770)</u>	<u>\$ (214,713)</u>	<u>\$ -</u>	<u>\$ 24,430</u>
Transfers in (out)	<u>\$ (50,000)</u>	<u>\$ (50,000)</u>	<u>\$ (50,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (50,000)</u>
Excess/(deficiency) of revenues over expenditures and transfers	<u>\$ (419,866)</u>	<u>\$ (419,866)</u>	<u>\$ (204,770)</u>	<u>\$ (214,713)</u>	<u>\$ -</u>	<u>\$ (25,570)</u>
Beginning Fund Balance	<u>\$ 419,866</u>	<u>\$ 419,866</u>	<u>\$ 419,866</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 419,866</u>
Ending fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 215,096</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 394,296</u>

Please see accompanying notes to schedules.

Note to the Budget to Actual Schedules

Generally Accepted Governmental Accounting Principles in the United States require a budget to actual schedule as Required Supplementary Information to the financial statements for the general fund and budgeted special revenues funds which are major funds in the financial statements. For fiscal 2016 the bus depreciation fund also requires a budget to actual schedule.

State law requires the District to prepare budgets for certain funds, generally funds supported by property tax revenues. Budgets are prepared on a near cash or budgetary basis of accounting which allows encumbrances at year end. Budgeted fund expenditures are limited by State law to the total budgeted amount which may be amended as defined by State law.

General fund budgets are based on the State of Montana's foundation program which is based primarily on enrollment. Budgets of other funds are based on expected revenues and expenditures. The Board approves the original budget by the second Monday in August.

State law permits the inclusion of obligations (encumbrances) for construction-in-progress and the purchase of personal property as expenditures for budget purposes.

State law requires only that a fund's total expenditures not exceed total budgeted expenditures.

Reserved Fund Balances—State law permits a reserve for operations in certain budgeted funds. The maximum reserve for operations permitted for the District, which is a percentage of the subsequent year's budgeted expenditures, and the actual reserves at June 30, 2016 are as follows:

	<u>Actual</u>	<u>Allowable</u>
General Fund	10.08%	10.00%
Transportation Fund	16.66%	20.00%
Retirement	20.00%	20.00%
Adult Education	0.00%	35.00%

State law also permits the District to reserve the collection of protested and delinquent property taxes in the general fund. This reserve was \$0 for fiscal 2016.

Frenchtown School District
Missoula County, Montana

**Schedule of Proportionate Share of the Net Pension Liability
Teachers Retirement System of Montana
For the Year Ended June 30
Determined as of the Measurement Date**

	2016	2015
Employer's proportion of the net pension liability	0.4283%	0.3989%
Employer's proportion share of the net pension liability associated with the Employer	\$ 7,036,662	\$ 6,139,230
State of Montana's proportionate share of the net pension liability associated with the Employer	\$ 4,717,615	\$ 4,207,166
Total	\$ 11,754,277	\$ 10,346,396
Employer's covered-employee payroll	\$ 5,466,333	\$ 5,031,069
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	128.73%	122.03%
Plan fiduciary net position as a percentage of the total pension liability	69.30%	70.36%

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

Schedule of Contributions
Teachers' Retirement System of Montana
For the Year Ended June 30

	2016	2015
Contractually required contributions	\$ 491,183	\$ 506,648
Contributions in relation to the contractually required contributions	\$ 491,183	\$ 506,648
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	\$5,591,727	\$5,800,000
Contributions as a percentage of covered-employee payroll	8.78%	8.74%

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

Notes to Teacher's Retirement System Required Supplementary Information
For the Year Ended June 30, 2016

Changes of Benefit Terms:

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

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

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

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

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

- (1) **Final Average Compensation:** average of earned compensation paid in five consecutive years of full-time service that yields the highest average.
- (2) **Service Retirement:** Eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55
- (3) **Early Retirement:** Eligible to receive an early retirement allowance if a member is not eligible for service retirement but has at least five years of creditable service and attained age 55

Frenchtown School District
Missoula County, Montana

- (4) **Professional Retirement Option:** if the member has been credited with 30 or more years of service and has attained the age of 60 they are eligible for an enhanced allowance equal to 1.85% of average compensation times all service at retirement. Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%
- (5) **Annual Contribution:** 8.15% of member's earned compensation
- (6) **Supplemental Contribution Rate:** On or after July 1, 2023, the TRS Board may require a supplemental contribution up to .05% if the following three conditions are met:
 - a. The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and
 - b. The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and
 - c. A State or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS board.
- (7) **Disability Retirement:** A member will not be eligible for disability retirement if the member is or will be eligible for service retirement on the date of termination
- (8) **Guaranteed Annual Benefit Adjustment (GABA):**
 - a. If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provisions of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the .05% floor up to 1.5%, as set by the Board

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

- Annual State Contribution equal to \$25 million paid to the System in monthly installments.
- One-time contribution payable to the Retirement System by the trustees of a school district maintaining a retirement fund. The one-time contribution to the Retirement system shall be the amount earmarked as an operating reserve in excess of 20% of the adopted retirement fund budget for the fiscal year 2013. The amount received was \$22 million in FY 2014.
- 1% supplemental employer contributions. 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 1% of the member's earned compensation.
- Each employer is required to contribute 9.85% of total compensation paid to all re-employed TRS employees employed in a TRS reportable position to the System.

Changes in actuarial assumptions and other inputs:

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

Frenchtown School District
Missoula County, Montana

- 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 8.5% 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 expensed to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:

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

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

- Mortality among disabled members was updated to the following:

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

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

Method and assumptions used in calculations of actuarially determined contributions:

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

Frenchtown School District
Missoula County, Montana
**Schedule of Proportionate Share of the Net Pension Liability
For the Last Ten Years***

81a1

Public Employees' Retirement System

	2016	2015
Employer's Proportion of the Net Pension Liability as a percentage	0.0971340%	0.0971830%
Employer's proportionate share of the Net Pension Liability as an amount	\$ 1,357,812	\$ 1,210,911
State of Montana's proportionate share of the Net Pension Liability associated with the Employer	\$ 68,804	\$ 56,606
Total	\$ 1,426,616	\$ 1,267,517
Employer's Pensionable Payroll	\$ 1,172,026	\$ 1,138,191
Employer's proportionate share of the Net Pension Liability as a percentage of its Pensionable payroll	115.852%	106.389%
Plan fiduciary net position as a percentage of the Total Pension Liability	78.400%	79.900%

**The amounts presented above for each fiscal year were determined as of June 30th, the measurement date. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

**Schedule of Contributions
For the Last Ten Fiscal Years***

81b

Public Employees' Retirement System

	2016	2015
Contractually Required Contributions	\$ 99,925	\$ 95,345
Contributions in Relation to the Contractually Required Contributions	\$ 99,925	\$ 95,345
Contributions Deficiency(Excess)	\$ -	\$ -
Employer's Pensionable payroll	\$ 1,213,467	\$ 1,172,026
Contributions as a percentage of Pensionable Payroll	8.235%	8.235%

**The amounts presented above for each fiscal year were determined as of June 30th, the measurement date. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

**Notes to Required Supplementary Information
Public Employees Retirement System
For the Year ended June 30, 2016**

82

Change in Benefit Terms

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

2013 Legislative Changes:

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

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

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

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

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

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

Guaranteed Annual Benefit Adjustment (GABA) – for PERS

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

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

2015 Legislative Changes:

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

Second Retirement Benefit – for PERS

1) Applies to PERS members who return to active service on or after January 1, 2016.

Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:

- refund of member's contributions from second employment plus regular interest (currently 0.25%);
- no service credit for second employment;
- start same benefit amount the month following termination; and
- GABA starts again in the January after receiving recalculated benefit for 12 months

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

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

3) For members who retire **on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:**

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

4) For members who retire **on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:**

- Member receives same retirement benefit as prior to return to service;
- Member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
- GABA starts on both benefits in January after member receives original and new benefit for 12 months.

Frenchtown School District
Missoula County, Montana

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

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

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

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

The following addition 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 in the 2013 Economic Experience study:

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

The following 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

SUPPLEMENTARY INFORMATION

Frenchtown School District
Missoula County, Montana

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Project Title	CFDA Number	Project Number	Award	Expenditures	Totals
U.S. Department of Agriculture					
Food and Nutrition Service					
Pass Through - Montana Office of Public Instruction					
Child Nutrition Cluster:					
Cash Assistance:					
School Lunch Program	10.555	N/A	N/A	329,482	
CFDA 10.555 Cash Total				<u>\$ 329,482</u>	\$ 329,482
Non-Cash Assistance (Commodities)					
National School Lunch program	10.555	N/A	N/A	\$ 27,348	27,348
Total for Program Cluster					
Total U.S. Department of Agriculture					<u>\$ 356,830</u>
U.S. Department of Education					
Office of elementary and Secondary Education					
Pass-Through - Montana Office of Public Instruction					
Title I, Part A:					
Title I, Part A Improving Basic Programs	84.010A	32-0599-31-15	\$ 297,993	7,211	
Title I, Part A Improving Basic Programs	84.010A	32-0599-31-16	\$ 292,622	\$ 289,987	
Total Title I, Part A and CFDA 84.010 Total				<u>\$ 297,198</u>	\$ 297,198
Title II, Improving Teacher Quality					
Title II, Part A, Improving Teacher Quality	84.367	32-0599-14-16	\$ 43,003	43,003	
Total Title II, Part A and CFDA 84.367 Total				<u>\$ 43,003</u>	43,003
Title IVB, 21st Century Community Learning Centers	84.999	32-0599-00-00	\$ 122,507	\$ 122,507	\$ 122,507
Office of Special Education and Rehabilitation Services					
Pass Through - Montana Office of Public Instruction					
Special Education Cluster:					
IDEA - Part B Children with disabilities	84.027	32-0599-77-16	\$ 218,686	\$ 218,686	
IDEA - Preschool	84.173	32-0599-77-16	\$ 8,725	8,725	
Total Special Education Cluster IDEA				<u>\$ 227,411</u>	\$ 227,411
Office of vocational and Adult Education					
Pass-Through - Montana Office of Public Instruction					
Carl Perkins Vocational Education	84.048	32-0599-82-16	\$ 13,001	\$ 13,001	\$ 13,001
Total U.S. Department of Education					<u>\$ 703,120</u>
U.S. Department of Health and Human Services					
Substance Abuse and Mental Health Services Administration (SAMHSA)					
Pass-Through Missoula County					
Drug Free Communities	93.276		\$ 26,670	\$ 26,670	\$ 26,670
Total Expenditures of Federal Awards					<u>\$ 1,086,620</u>

Please see accompanying note to the schedule.

Frenchtown School District
Missoula County, Montana

Notes to the Schedule of Expenditure of Federal Awards
For the Year Ended June 30, 2016

1. Accounting Policies

The accounting policies used in preparing the schedule of expenditure of federal awards are the same as those used in the preparation of the fund financial statements as described in Note 1.B to the financial statements (fund financial statements). The District applies the OPI approved indirect cost rate where indirect costs are allowed.

Frenchtown School District
Missoula County, Montana

Schedule of School District Enrollment
For the Year Ended June 30, 2016

	School Records	Enrollment Records	Variance
<u>Fall Enrollment-October 2015</u>			
Pre-Kindergarten	-	-	-
Kindergarten	86	86	-
Grades 1-4	383	383	-
Grades 5-6	199	199	-
Grades 7 & 8	196	196	-
Grades 9-12	389	389	-
Combined Total	<u>1,253</u>	<u>1,253</u>	-
<u>Spring Enrollment-February 2016</u>			
Pre-Kindergarten	-	-	-
Kindergarten	86	86	-
Grades 1-4	392	392	-
Grades 5-6	197	197	-
Grades 7 & 8	194	194	-
Grades 9-12	386	386	-
Combined Total	<u>1,255</u>	<u>1,255</u>	-
<u>Part Time Spring Enrollment</u>			
<180 hrs/yr	-	-	-
180-359 hrs/yr	-	-	-
360-539 hrs/yr	-	-	-
540-719 hrs/yr	-	-	-
<u>Early High School Graduates-Spring</u>	8	8	-
<u>19 Year-olds at Spring Enrollment</u>	-	-	-

Frenchtown School District
Missoula County, Montana

Extracurricular Fund – Schedule of Revenues, Expenditures, and Changes in Fund Equity by
Student Activities for the Fiscal Year Ended June 30, 2016

Organization	Balance June 30, 2015	Revenues	Expenditures	Transfers In (Out)	Balance June 30, 2016
Academic Challenge	\$ 785	\$ 1,085	1,410	\$ -	\$ 460
Activities	40,204	14,224	11,629	3,227	46,026
Art Club	66	-	-	-	66
Band	1,787	8,850	9,571	-	1,066
BBB Fund Raiser	227	3,610	1,809	(1,500)	528
Boys Basketball	-	3,167	3,457	226	(64)
Candy Machine	-	156	-	-	156
Cheer	-	810	-	(810)	-
Cheerleaders	775	50	596	-	229
Choir	197	4,069	3,407	-	859
Class of 2019	500	-	-	-	500
Class of 2018	800	180	102	-	878
Class of 2017	894	3,416	1,530	(18)	2,762
Class of 2016	4,584	7,161	10,806	-	939
Class of 2015	796	305	-	(1,101)	(0)
Concessions	-	30,934	25,659	10,252	15,527
Old Concessions	20,583	-	4,884	(15,699)	0
Cross Country	-	550	668	118	-
Cross Country Fund Raiser	420	1,083	906	-	597
Destination Imagination K-6	4	6,330	3,444	-	2,891
Divisional Basketball	-	150	150	-	-
Divisional Track	-	5,495	6,104	609	-
Elementary P.E. Fund	2,007			(2,007) *	-
Elementary Special Ed. Projects	573			(573) *	-
Elementary Recycling	339			(339) *	-
FCCLA	706	1,926	1,584	-	1,049
Football Gold Card Fund Raiser	2,238	4,870	3,086		4,022
Football	-	8,701	3,773	(4,928)	-
GBB Fund Raiser	2,570	2,871	2,881	(2,000)	561
Girls Basketball	-	3,778	4,168	390	-
Golf	-	225	375	150	-
Golf Fund Raiser	2,994	61	-		3,055
Grade School Activities	3,196	965	1,056	-	3,105
Home Economics	815	-	-	-	815
In & Out	129				129
Industrial Tech Club	64	250	-	-	314
Sub-Total	\$ 88,253	\$ 115,272	\$ 103,052	\$ (14,004)	\$ 86,470

(continued on next page)

* Re-classified to Miscellaneous fund

Frenchtown School District
Missoula County, Montana

Extracurricular Fund – Schedule of Revenues, Expenditures, and Changes in Fund Equity by
Student Activities for the Fiscal Year Ended June 30, 2016

Organization	Balance 41,820	Revenues	Expenditures	Transfers In (Out)	Balance June 30, 2016
(continued from previous page)					
Sub-Total	\$ 88,253	\$ 115,272	\$ 103,052	\$ (14,004)	\$ 86,470
Intermediate Activities	274	-	-	-	274
Jr. High Cross Country Fundraiser	89	-	-	-	89
Jr. High Festival	885	3,023	2,535	-	1,373
Jr. High GBB Fundraiser	833	-	-	-	833
Jr. High Lounge/Pop	716	-	551	-	165
Jr. High Soccer Fundraiser	171	-	-	-	171
Jr. High Tackle Football	1,406	-	263	-	1,143
Jr. High Track Fundraiser	13	2,553	2,542	-	24
Jr. High Volleyball Fundraiser	437	231	-	-	668
Jr. High Wrestling	443	-	-	-	443
JMG (Jobs for MT Grads)	132	-	63	-	69
Jr. High Activities	651	7,086	6,988	275	1,023
Jr. High Annual	140	-	-	-	140
Jr. High Graduation	675	5,443	4,897	-	1,220
Jr. High Student Council	770	10,473	7,720	-	3,523
Key Club	1,133	3,035	3,020	-	1,148
Little Dribblers	1,782	-	1,244	-	538
Math Counts	119	-	-	-	119
Meals	149	2,796	6,314	13,666	10,297
Music	245	590	-	-	835
Newspaper	248	-	-	-	248
NHS Scholarship	5,028	1,111	1,820	-	4,319
Pep Club	730	-	-	-	730
Percussion Fundraiser	11	60	-	-	71
S.C. Improvement Fund	3,838	-	80	1,101	4,859
Softball Fundraiser	2,741	4,481	3,001	-	4,221
School Play	447	17,444	17,689	-	202
Soccer	-	2,743	2,184	(559)	-
Soccer Fundraiser-Boys	1,186	1,844	1,070	-	1,960
Soccer Fundraiser-Girls	850	1,844	1,070	-	1,624
Softball	-	11,279	9,150	(2,129)	-
Speech & Drama	-	150	206	56	-
Speech & Drama Club	33	-	-	-	33
State Basketball	-	-	-	-	-
Student Council	1,280	5,494	5,580	-	1,194
Sunshine Fund	-	572	-	-	572
Track	-	4,039	1,248	(2,791)	-
Track Fundraiser	135	1,183	1,144	-	174
Volleyball	-	3,144	3,426	282	-
Volleyball Fundraiser	138	2,799	615	(80)	2,242
WR Fundraiser	142	-	50	-	92
Wrestling	-	1,073	1,950	877	-
Yearbook	5,475	6,715	9,458	-	2,732
	-	-	-	-	-
Fractional Interest Rounding	2	-	-	-	2
Total	\$ 121,600	\$ 216,476	\$ 198,929	\$ (3,306) *	\$ 135,840

STATISTICAL INFORMATION

Frenchtown School District
Missoula County, Montana

Supplemental Information
For the Year Ended June 30, 2016

Student Enrollment

The fall enrollment of K-12 students, for the years ended June 30, attending the District's schools has been as follows:

	Fall Enrollment	Percentage Change
October 2006	1,230	
Change	4	0.3%
October 2007	1,234	
Change	15	1.2%
October 2008	1,249	
Change	(3)	(0.2)%
October 2009	1,246	
Change	(64)	(5.1)%
October 2010	1,182	
Change	(16)	(1.4)%
October 2011	1,166	
Change	(4)	(0.3)%
October 2012	1,162	
Change	32	2.8%
October 2013	1,194	
Change	6	0.5%
October 2014	1,200	
Change	53	4.4%
October 2015	1,253	

School District Taxable Valuations

	Assessed (Market) Valuation	Taxable Valuation	Taxable Valuation as a Percent of Assessed Valuation
January 1, 2007	\$ 444,200,000	\$ 13,100,000	2.95%
January 1, 2008	\$ 461,500,000	\$ 13,500,000	2.93%
January 1, 2009	\$ 473,400,000	\$ 13,300,000	2.81%
January 1, 2010	\$ 446,100,000	\$ 11,800,000	2.65%
January 1, 2011	\$ 420,900,000	\$ 10,900,000	2.59%
January 1, 2012	\$ 436,600,000	\$ 11,000,000	2.52%
January 1, 2013	\$ 452,000,000	\$ 11,043,405	2.43%
January 1, 2014	\$ 469,300,000	\$ 11,200,000	2.38%
January 1, 2015	\$ 734,600,000	\$ 10,800,000	1.47%
Note: 2015 reassessment and taxable valuation formula change			
January 1, 2016	\$ 734,882,621	\$ 10,819,608	1.47%

Frenchtown School District
Missoula County, Montana

Supplemental Information
For the Year Ended June 30, 2016

School District Tax Levies (in mills)

¹ 2009 mill value amounts include a total of 14.55 additional mills to correct a tax levy calculation error regarding a taxable valuation error in 2007.

Taxing Entity	Fiscal Year Ended June 30,									
	2007	2008	2009 ¹	2010	2011	2012	2013	2014	2015	2016
School District No.40										
General Fund	156.20	156.80	161.39	155.71	164.70	167.60	166.84	167.68	167.62	172.48
Transportation Fund	11.46	14.18	20.46	20.70	16.25	17.32	20.47	20.02	23.81	25.18
Debt Service Fund	10.15	112.29	74.04	98.50	100.33	100.93	104.46	95.81	106.87	114.72
Bus Depreciation Fund	6.66	4.88	9.60	8.25	6.31	0.69	0.71	18.08	17.92	18.51
Building Reserve Fund	3.64	3.81	4.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Technology Fund	2.55	2.67	2.81	2.62	2.88	3.20	3.17	3.16	3.14	3.23
Adult Education Fund	0.00	0.00	2.00	2.00	0.00	0.00	0.00	1.00	1.00	1.00
Tuition Fund	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.92	9.61
Total School District	<u>190.66</u>	<u>294.63</u>	<u>274.32</u>	<u>287.78</u>	<u>290.47</u>	<u>289.74</u>	<u>295.65</u>	<u>305.75</u>	<u>328.28</u>	<u>344.73</u>
State School Levy	144.26	144.26	145.64	144.62	143.45	142.50	140.17	144.60	145.64	144.35
District Levy	190.66	294.63	274.32	285.78	290.47	289.74	295.65	305.75	328.28	344.73
State Levy-University	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
County	168.14	168.14	176.57	174.74	175.58	177.91	181.42	186.69	196.46	205.66
Frenchtown Rural Fire District	42.08	136.19	46.46	46.46	46.46	46.46	50.14	54.14	58.14	65.74
Others: MUTD, Elk Meadows							136.34	175.30	192.36	198.48
Total	<u>551.14</u>	<u>749.22</u>	<u>648.99</u>	<u>657.60</u>	<u>661.96</u>	<u>662.61</u>	<u>809.72</u>	<u>872.48</u>	<u>926.88</u>	<u>964.96</u>

Tax Collections

Fiscal Year	Total Tax Levy	Current Collections	Current	Total Tax Collections ¹	Total
			Collections as a Percent of Levy		Collections as a Percent of Levy
2015/16	\$ 3,668,417	\$ 3,501,387	95.45%	\$ 3,698,708	100.8%
2014/15	\$ 3,663,614	\$ 3,458,600	94.40%	\$ 3,602,034	98.3%
2013/14	\$ 3,382,125	\$ 3,174,512	93.90%	\$ 3,283,214	97.1%
2012/13	\$ 3,265,102	\$ 2,971,706	91.0%	\$ 3,278,005	100.4%
2011/12	\$ 3,169,351	\$ 2,931,090	92.5%	\$ 3,132,220	98.8%
2010/11	\$ 3,408,030 ²	\$ 3,227,404	94.7%	\$ 3,465,967	101.7%
2009/10	\$ 3,811,241	\$ 3,264,974	85.7%	\$ 3,764,278	98.8%
2008/09	\$ 3,511,719	\$ 2,944,114	83.8%	\$ 3,155,419	89.9%
2007/08	\$ 3,862,636	\$ 3,598,797	93.2%	\$ 3,670,049	95.0%
2006/07	\$ 2,396,146	\$ 2,194,796	91.6%	\$ 2,352,583	98.1%

Note: Fiscal 2014/15 includes \$69,733 of protested taxes received

¹ Total tax collection figures include delinquencies from prior years, plus correction tax levy for 2003, but excludes penalty and interest.

² Levied amount differed from budgeted amount due to adjustments made by the County between the budgeting process and the actual levy.

Frenchtown School District
Missoula County, Montana

Supplemental Information
For the Year Ended June 30, 2016

Major Taxpayers

The taxable values of the District's ten largest taxpayers are as follows:

<u>Taxpayer</u>	<u>Business</u>	<u>January 1, 2016 Taxable Value</u>	<u>Percent of Ten Largest Values</u>	<u>Percent of Total Taxable Value</u>
Montana Rail Link	Railroad	\$ 348,253	22.31%	3.2187%
M2Green Redevelopment	Industrial	275,870	17.68%	2.5497%
Missoula Electric Coop INC	Electric Utility	256,991	16.47%	2.3752%
NorthWestern Energy	Gas and Electric Utility	248,759	15.94%	2.2991%
Montana Stewards LLC	Town Pump Travel Plaza	132,913	8.52%	1.2284%
Centurylink INC	Tele-Communications	99,389	6.37%	0.9186%
Riverside Contracting	Construciton	64,673	4.14%	0.5977%
Verizon Wireless	Tele-Communications	49,965	3.20%	0.4618%
Decker Montana Land Company LLC	Agricultural/Land	42,072	2.70%	0.3888%
4M Family Limited Partnership	Truck Stop (Muralts)	41,775	2.68%	0.3861%
Total		<u>\$ 1,560,660</u>	<u>100.00%</u>	<u>14.4244%</u>

Maximum Bonded Indebtedness

State law permits a maximum bonded indebtedness for the school district of 100% of the District's taxable valuation at June 30, 2015 of \$ 10,800,000. However, for school districts that qualify for guaranteed tax base aid, the law permits maximum bonded indebtedness equal to 50% of the statewide taxable valuation per student time's average number belonging (ANB).

Maximum bonded indebtedness under this exception is:

	<u>State Guarantee Per Student</u>	<u>Average Number Belonging FY 16 Budget</u>	<u>Percent Allowed</u>	<u>Maximum Bonded Indebtedness</u>
High School	\$ 31,174	396	50%	\$ 6,172,452
Elementary	\$ 26,428	858	50%	11,337,612
Maximum Bonded Indebtedness Allowed				<u>17,510,064</u>
Less:				
Outstanding Bonds at June 30, 2016				<u>(12,830,000)</u>
Maximum Bonded Indebtedness Available				<u>\$ 4,680,064</u>

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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*

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Frenchtown School District No. 40
Missoula County
Frenchtown, Montana

I 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, business-type activity, each major fund and the aggregate remaining fund information of Frenchtown School District No. 40 (District), Missoula 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 financial statements and have issued my report thereon dated March 10, 2016.

Internal Control over Financial Reporting

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

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

My 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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist and have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatements. I 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 my audit, and accordingly I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Cote & Associates CPA PLLC

Cote & Associates, CPA, PLLC

March 10, 2017
Missoula, Montana

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Frenchtown School District No. 40
Missoula County
Frenchtown, MT

Report on Compliance for Each Major Federal Program

I have audited Frenchtown School District No.40's (District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each major Program

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

Report on Internal Control Over Compliance

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

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

I have audited the financial statements of the District as of and for the year ended June 30, 2016 and have issued my report thereon dated March 10, 2017 which contained an unmodified opinion on those financial statements. My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The audit report also contained an unmodified opinion on the schedule of expenditures of federal awards as required by Uniform Guidance.

Cote & Associates CPA PLLC

Cote & Associates, CPA, PLLC

March 10, 2017
Missoula, Montana

Frenchtown School District
Missoula County, Montana

Summary of Auditor's Results for the Year Ended June 30, 2016

<i>Financial Statements</i>	
Type of auditor's report issued:	Unqualified
Internal control over financial reporting: <ul style="list-style-type: none"> • Material weakness(es) identified? • Reportable condition(s) identified that are not considered to be material weaknesses? 	No No
Noncompliance material to financial statements noted?	No
<i>Federal Awards</i>	
Internal control over major programs: <ul style="list-style-type: none"> • Material weakness(es) identified? • Reportable condition(s) identified that are not considered to be material weaknesses? 	No None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) on OMB Circular A-133?	No
Identification of major programs:	<ul style="list-style-type: none"> • Title I, Part A Cluster-CFDA 84.010 • Child Nutrition Cluster- CFDA 10.553, 10.555
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000 or greater
Auditee qualified as low-risk auditee?	Yes

Frenchtown School District
Missoula County, Montana

SCHEDULE OF FINDINGS

There were no findings for the June 30, 2016 report

REPORT ON PRIOR FINDINGS

There were no findings for the June 30, 2015 report