

Board of Trustees
 Belfry School District No. 3
 Carbon County
 Belfry, MT 59008

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Board of Trustees
Belfry School District No. 3
Carbon County
Belfry, MT 59008

ORGANIZATION
Fiscal Year Ended June 30, 2014

BOARD OF TRUSTEES

Greg Maddox	Chairman
Gary Pulse	Trustee
Willis Herden	Trustee
Linda Gasser	Trustee
Duane Hergenrider	Trustee

OFFICIALS

Jason Olson	Superintendent
Beth Pulse	Business Manager/District Clerk
Jerry Scott	County Superintendent
Alex Nixon	County Attorney

Belfry School District No. 3

Management's Discussion and Analysis of Annual Audit Report

June 30, 2014

Management's Discussion and Analysis - June 30, 2014

This Management Discussion and Analysis (MD&A) written by the District Clerk and Superintendent of the Belfry School District provides an overview of the financial position and governmental activities for the fiscal year ended June 30, 2014. Please read it in conjunction with our audit report and financial statements.

Financial Highlights for 2014

The District completed a locker room remodel which increased our capital assets by \$250,000.00 which contributed to our change in net position of 5.81%

Using this Financial Report

Statement No. 34 of the Governmental Accounting Standards Board (GASB) requires the general format of this report. Components and purposes of the report are explained below.

Reporting the District as a Whole

The report includes two district-wide statements that focus on operations of the District as a whole. These statements measure inputs and outflows using an economic resources measurement focus, and use the accrual basis of accounting. Activities that are fiduciary in nature are not included in these statements.

- A. The *Statement of Net Position* shows the assets, liabilities, and the net position of the school district. The statement categorizes assets to show that some assets are very liquid, such as cash. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in "fixed" or "capital" assets, such as land, buildings, equipment, and other long-lived property; and some assets are available to fund budgets of the following year.
- B. The *Statement of Activities* shows the amounts of program-specific and general school district revenues used to support the various functions of the school district.

Belfry School reports under the category of Governmental Activities: These funds provide a short-term view of the district's operations. Basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other short-term assets and liabilities (receivables and payables) that can readily be converted to cash or will soon be paid with cash. The governmental fund statements provide a detailed short-term view of the general government operations and the basic services it provides.

Belfry School District No. 3

Management's Discussion and Analysis of Annual Audit Report

June 30, 2014

Reporting the District's Most Significant Funds

The fund statements provide detailed information about the funds used by the school district. State law and Generally Accepted Accounting Principles (GAAP) establish the fund structure of school districts. State law generally requires school districts to segregate money generated for specific purposes, such as transportation, into separate fund accounts.

The fund statements report balances and activities of the most significant or major funds separately and combine activities of less significant funds under a single category. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the school district's operations, and the existence of legal budget requirements. Internal Service funds are never reported as major funds, but are combined and presented in a separate column. The general fund is always reported as a major fund. The transportation fund, bus depreciation fund, the miscellaneous fund, and the flexibility fund are also considered major funds in our district.

The *Balance Sheet* and *Statement of Revenues, Expenditures, and Change in Fund Balances* are shown for governmental funds such as general funds and special revenue funds for transportation, school food services and impact aid funds. These funds use the modified accrual basis of accounting and represent the majority of the district's activities and programs.

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

Reporting the District's Trust and Fiduciary Responsibilities

Fiduciary funds: The district is the fiduciary for the student activity fund. This report includes the activities in a separate *Statement of Fiduciary Net Position and Changes in Fiduciary Net Position* because the district cannot use these assets to fund its operations. The district is responsible for ensuring these assets are used for their intended purpose.

Budget to Actual Comparisons

The budgetary comparison schedules show how actual expenditures compared to the original and final budgeted expenditures for the general fund. There were no budget amendments adopted during the year.

The District as a Whole

One important question asked about school district finances is, "Is the District, as a whole, in a better or worse financial position as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the

Belfry School District No. 3

Management's Discussion and Analysis of Annual Audit Report

June 30, 2014

District as a whole and about its activities is a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the basis of accounting used by most private-sector companies.

The change in net position over time is one indicator of whether the District's financial health is improving or deteriorating. However, there are other non-financial factors that influence the financial health of the school district, such as enrollment changes, changes in how the State of Montana funds educational costs, and changes in the tax base of the school district.

Changes in Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In our case, assets exceed liabilities by \$2,582,993. Current assets decreased due to a decrease in cash of approximately \$10,000 but the locker room improvements lead to an increase in capital assets of \$211,000. The increase in liabilities of \$69,323 was due to Other Post Employment Benefit calculation, Compensated Absences obligation increase, and a grant received that was not spent in FY 14.

NET POSITION	Governmental Activities			
	2014	2013	\$ CHANGE	% CHANGE
Current Assets	1,801,024	1,810,647	(9,623)	-0.53%
Capital Assets, net	1,065,188	844,404	220,784	26.15%
Total Assets	2,866,212	2,655,051	211,161	7.95%
Current Liabilities	17,697	7,367	10,329	140.20%
Long Term Liabilities	265,522	206,528	58,994	28.56%
Total Liabilities	283,219	213,895	69,323	32.41%
Net Position:				
Investment in Capital Assets	1,065,188	844,404	220,785	26.15%
Unrestricted	1,517,805	1,596,752	(78,947)	-4.94%
Total Net Position	2,582,993	2,441,155	141,838	5.81%

Belfry School District No. 3*Management's Discussion and Analysis of Annual Audit Report*

June 30, 2014

CHANGES IN NET POSITION							
Revenues							
Program Revenues:							
Charges for Services	█	-	438	█	(438) █	-100.00%	
Operating Grants	█	137,590	148,813	█	(11,223) █	-7.54%	
General Revenues:							
District Levy	█	114,635	80,221	█	34,414	█	42.90%
State Equalization	█	323,369	313,623	█	9,746	█	3.11%
Other State Revenue	█	876,036	910,128	█	(34,092)	█	-3.75%
County	█	76,805	9,722	█	67,083	█	690.01%
Investment Earnings	█	9,151	10,317	█	(1,166)	█	-11.30%
Other	█	2,439	61,710	█	(59,271)	█	-96.05%
Total Revenues	█	1,540,024	1,534,972	█	5,052	█	0.33%
Program Expenses							
Instruction	█	721,922	709,226	█	(12,696)	█	-1.79%
Support	█	23,702	5,767	█	(17,935)	█	-311.00%
Media	█	42,239	36,367	█	(5,872)	█	-16.15%
Administration:	█	144,255	190,824	█	46,569	█	24.40%
O & M	█	208,620	223,254	█	14,634	█	6.56%
Transportation	█	38,391	50,134	█	11,743	█	23.42%
Extracurricular	█	65,904	43,550	█	(22,354)	█	-51.33%
School Food	█	104,295	105,531	█	1,236	█	1.17%
Loss on Asset	█	-	15,104	█	15,104	█	100.00%
OPEB Expense	█	48,148	192,592	█	144,444	█	75.00%
Total Expenses	█	1,397,476	1,572,349	█	174,873	█	11.12%
Change in Net Position	█	<u>142,548</u>	<u>(37,377)</u>	█		█	

Analysis of Financial Information

The following analysis is provided to help the reader understand the major operation of the school district, where the resources come from, where the resources are used for, and trends, decisions and events that are expended to affect the district's financial situation in the future.

The change in Current Assets reflects a decrease in cash. The change in Capital Assets reflects the addition of the Locker Room Remodel.

The change in current liabilities reflects a REAP grant received but not yet expended at the end of FY14. The change in long term liabilities includes the calculation for Other Post Employment Benefits and an increase in Compensated Absence obligation.

Revenues were overall stable with an increase of .33% over FY13.

Belfry School District No. 3

Management's Discussion and Analysis of Annual Audit Report

June 30, 2014

Expenses were 11.12% less than FY 13 due, for the most part, to one year's worth of OPEB liability being accounted for this year instead of the multiple years accounted for in FY13.

What Does the School Do?

Belfry School's main purpose is to educate children; therefore, its costs revolve around instruction and supporting the instruction of students, transporting children to and from school, providing breakfast and lunch to these students along with funding some extra-curricular activities.

Where Do the Resources Come From?

The majority of Belfry School's revenue comes from State Oil and Gas Revenue and state aid. Belfry School participates in the Title I Part A grant program that is funded based upon the free and reduced lunch census as well as the 21st Century Learning Center Competitive grant. The District is continually researching, applying for, and utilizing various grants to help support and expand the programs it is able to offer.

Capital Assets

Capital Assets – The district's investment in capital assets as of June 30, 2014, totaled \$1,819,729 including \$17,175 Construction in Progress for a concrete slab adjoining the vo-ag shop. This investment in capital assets includes machinery and equipment, buildings & improvements, and land. The following schedule presents capital asset balances net of depreciation for the fiscal year ended June 30, 2014:

Machinery and Equipment	\$ 140,248
Buildings and Improvements	\$ 906,331
Land and Construction In Progress	<u>\$ 18,609</u>
TOTAL	\$1,065,188

Debt Administration

At June 30, 2014, the District had \$265,522 in outstanding long-term debt. A summary of the District's outstanding long-term debt for the year ended June 30, 2013 is presented below:

Compensated Absences	\$ 24,782
Other Post Employment Benefits	<u>\$240,740</u>
TOTAL	\$265,522

The Future of the District

Belfry is anticipating an increase in Average Number Belonging (ANB) for FY 15 after remaining relatively level from FY 13 to FY 14. We are currently in our first year of a three year athletic co-op with Fromberg and expect an increase in some expenses related to athletics. We continue to promote our successful AYP status and hope to see a continued increase in ANB.

Belfry School District No. 3

Management's Discussion and Analysis of Annual Audit Report

June 30, 2014

Contact for Additional Information

If you have questions about this report or need additional information, contact the District Clerk or Superintendent at Belfry School District #3, PO Box 210, Belfry, Montana, 59008, (406) 664-3319.

Tripp & **A**ssociates
1645 Ave. D, Suite E
Billings, Montana 59102

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Belfry School District No. 3
Carbon County
Belfry, MT 59008

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Belfry School District No. 3 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Belfry School District No. 3 as of June 30, 2014, and the respective changes in financial position 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 on pages 3 through 8; Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual on page 30, and Schedule of Funding for Other Post-Employment Benefits Other than Pensions on page 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United

States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Belfry School District No. 3's basic financial statement. The Schedule of Combining Funds, Schedule of Reported Enrollment and Schedule of Revenues, Expenditures and Fund Balances – Extracurricular Funds are presented for purposes of additional analysis and are not a required part to the basic financial statements.

The Schedule of Combining Funds, Schedule of Reported Enrollment and Schedule of Revenues, Expenditures and Fund Balances – Extracurricular Funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Combining Funds, Schedule of Reported Enrollment, and Schedule of Revenues, Expenditures and Fund Balances – Extracurricular Funds are fairly stated in all material respects **in relation to** the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014, on our consideration of Belfry School District No. 3's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing Belfry School District No. 3's internal control over financial reporting and compliance.

Tripp & Associates

Billings, Montana
December 19, 2014

Belfry School District No. 3
Carbon County
Belfry, Montana 59008

STATEMENT OF NET POSITION
as of June 30, 2014

	<u>Governmental Activities</u> 2014
ASSETS:	
Current Assets:	
Cash & Investments	\$ 1,759,244
Taxes Receivable	13,699
Due From Other Governments	<u>28,080</u>
Total Current Assets	1,801,024
Non-Current Assets:	
Land/Construction in Progress	18,609
Other Capital Assets (Net)	<u>1,046,579</u>
Total Non-Current Assets	<u>1,065,188</u>
Total Assets	2,866,212
LIABILITIES:	
Current Liabilities:	
Advances of Fed. Grants from the State of MT	10,617
Compensated Absences	<u>7,080</u>
Total Current Liabilities	17,697
Non-Current Liabilities:	
Compensated Absences	24,782
OPEB Liability	<u>240,740</u>
Total Non-Current Liabilities	<u>265,522</u>
Total Liabilities	283,219
NET POSITION:	
Investment in Capital Assets	1,065,188
Restricted	367,277
Unrestricted	<u>1,150,528</u>
Total Net Position	<u>\$ 2,582,993</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Belfry School District No. 3
 Carbon County
 Belfry, Montana 59008

STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2014

Functions/Programs	Expenses	-----Program Revenues----- Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Position
GOVERNMENTAL OPERATIONS:				
Instruction	\$ 721,922	\$ -	\$ 97,905	\$ (624,017)
Support	23,702	-	-	(23,702)
Media	42,239	-	-	(42,239)
Administration	144,255	-	-	(144,255)
O & M	208,620	-	-	(208,620)
Transportation	38,391	-	22,072	(16,319)
Extracurricular	65,904	-	-	(65,904)
School Food	104,295	-	17,613	(86,682)
Other Current Charges	710	-	-	(710)
Other Post-Employment Benefits	48,148	-	-	(48,148)
Total Governmental Activities	1,398,187	-	137,590	(1,260,596)
GENERAL REVENUES:				
District Levy				114,635
State Equalization				323,369
Other State Revenue				876,036
County				76,805
Investment Earnings				9,151
Other				2,439
Total General Revenues				1,402,434
CHANGE IN NET POSITION				141,838
NET POSITION:				
Beginning of the Year				2,441,155
End of the Year				\$ 2,582,993

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Belfry School District No. 3
 Carbon County
 Belfry, Montana 59008

BALANCE SHEET
 GOVERNMENTAL FUNDS
 as of June 30, 2014

	-----MAJOR-----			Other	Total
	General Fund	Bus Depr Fund	Miscellaneous Fund	Government Funds	
ASSETS:					
Cash and Investments	\$ 1,347,633	\$ 272,744	\$ 439	\$ 138,427	\$ 1,759,244
Taxes Receivable	9,716	1,215	-	2,768	13,699
Due From Other Governments	-	-	28,080	-	28,080
Total Assets	<u>1,357,349</u>	<u>273,960</u>	<u>28,519</u>	<u>141,196</u>	<u>1,801,024</u>
LIABILITIES:					
Advances of Federal Grants	-	-	10,617	-	10,617
Total Liabilities	-	-	10,617	-	10,617
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenue - Property Taxes	9,716	1,215	-	2,768	13,699
FUND BALANCES:					
Restricted:					
Instruction	-	-	10,444	20,426	30,870
Transportation	-	-	-	55,102	55,102
Capital Acquisitions	-	272,744	-	83	272,827
Committed - Instruction:				62,814	62,814
Assigned :					
Instruction			7,458		7,458
Food Services	-	-	-	2	2
Unassigned	<u>1,347,633</u>	-	-	-	<u>1,347,633</u>
Total Fund Balances	<u>1,347,633</u>	<u>272,744</u>	<u>17,902</u>	<u>138,427</u>	<u>1,776,707</u>
Total Liabilities, Deferred Inflows & Fund Bal.	<u>\$ 1,357,349</u>	<u>\$ 273,960</u>	<u>\$ 28,519</u>	<u>\$ 141,196</u>	<u>\$ 1,801,024</u>

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

Total fund balances - Governmental Funds \$ 1,776,707

Capital Assets used in governmental activities are not financial resources
 and therefore are not reported in the governmental funds.

Costs of Assets 1,819,728
 Less Accumulated Depreciation (754,540) 1,065,188

Less liabilities not reported in the governmental funds

Compensated Absences (31,862)
 Other Post-Employment Benefits (240,740) (272,602)

Deferred Inflows of Resources due to Property Tax Collections Receivable 13,699

Net Position - Governmental Activities 2,582,993

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Belfry School District No. 3
 Carbon County
 Belfry, Montana 59008

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2014

	-----MAJOR-----			Other	Total
	General Fund	Bus Depr Fund	Miscellaneous Fund	Government Funds	Governmental Funds
REVENUES:					
District Levies	\$ 68,699	\$ 36,359	\$ -	\$ 10,002	\$ 115,060
Interest	6,927	1,299	151	775	9,151
Other	1,399	-	1,040	-	2,439
County	-	-	-	87,937	87,937
State	1,184,914	-	1,584	44,689	1,231,187
Federal	-	-	77,063	17,613	94,676
Total Revenues	1,261,939	37,658	79,837	161,015	1,540,450
EXPENDITURES:					
Instructional Services	512,494	-	79,863	96,706	689,063
Instructional Support Services	21,787	-	-	-	21,787
Educational Media Services	37,249	-	869	4,121	42,239
General Administrative Services	123,894	-	-	16,061	139,955
Operation & Maintenance Services	181,884	-	-	15,025	196,909
Transportation Services	-	-	-	28,856	28,856
Extracurricular	58,082	-	-	5,078	63,160
School Food Services	81,005	-	-	23,655	104,659
Other Current Charges	-	-	-	710	710
Total Current Expenditures	1,016,395	-	80,732	190,212	1,287,339
Capital Outlay	174,208	-	95,501	-	269,709
Total Expenditures	1,190,603	-	176,233	190,212	1,557,047
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	71,336	37,658	(96,395)	(29,196)	(16,597)
FUND BALANCES:					
Beginning of the Year	1,276,297	235,086	114,298	167,623	1,793,305
End of the Year	\$ 1,347,633	\$ 272,744	\$ 17,902	\$ 138,427	\$ 1,776,707

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Belfry School District No. 3
Carbon County
Belfry, Montana 59008

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Total Net Change in Fund Balances - Governmental Funds	\$	(16,597)
Amounts reported for governmental activities in the statement of activities are different because:		
Revenues reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds:		
Increase (decrease) in Taxes Receivable		(426)
Expenses in the statement of activities that do not require the use of current financial resources are not included in the governmental funds:		
Depreciation Expense	(48,924)	
Other Post-Employment Benefits (Increase) Decrease	(48,148)	
(Increase) decrease in Compensated Absence Liability	<u>(13,776)</u>	(110,848)
Expenditures reported in the governmental funds not included in the Statement of Activities		
Capital Outlays		<u>269,709</u>
Change in net position reported on the Statement of Activities - governmental activities	\$	<u><u>141,838</u></u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Belfry School District No. 3
 Carbon County
 Belfry, Montana 59008

STATEMENT OF FIDUCIARY NET POSITION &
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 As of June 30, 2014

	<u>Private Purpose Trust Funds</u>
ASSETS:	
Cash, Cash Equivalents and Investments	\$ 12,493
Total Assets	<u>12,493</u>
LIABILITIES:	
Total Liabilities	-
NET POSITION:	
Held in Trust for Student Activities	<u>12,493</u>
Total Net Position	<u>\$ 12,493</u>

CHANGES IN FIDUCIARY NET POSITION

ADDITIONS:	
Revenue from Student Activities	<u>20,028</u>
Total Additions	20,028
DEDUCTIONS:	
Expenses of Student Activities	<u>16,421</u>
Total Deductions	16,421
CHANGE IN NET POSITION:	3,607
Net Position, Beginning of the Year	<u>8,885</u>
Net Position, Ending of the Year	<u>\$ 12,493</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Board of Trustees
Belfry School District No. 3
Carbon County
Belfry, MT 59008

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Belfry School District No. 3 (the "District") have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana, which conforms to generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A) REPORTING ENTITY

The District is a political subdivision of the Montana Department of Education governed by a Board of Trustees (the Board) elected by the public. The Board has the authority to make decisions, appoint administrators and managers, and significantly influence operations. The statements reflect all funds and accounts directly under the control of the District.

The District consists of a K-12 district which provides education for kindergarten through twelfth grade.

The criteria for including organizations as component units within the District's reporting entity is set forth in Section 2100 of the GASB "Codification of Government Accounting and Financial Reporting Standards." The basic criteria include appointing a voting majority of an organization's governing body, as well as the District's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the District. Based on those criteria the District has no component units.

B) MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The measurement focus establishes the basis of accounting. The basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of advances, the presentation of expenses versus expenditures, the recording of capital assets, the recognition of depreciation and the recording of long-term liabilities. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the Government-wide financial statements and the governmental fund financial statements.

Government-Wide Financial Statements

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements report financial information for the District as a whole except for the fiduciary funds. The trust funds are reported as private purpose trust funds in the fiduciary fund financial statements.

The government-wide financial statements and fiduciary fund statements report using the economic resources measurement focus and the accrual basis of accounting generally including the elimination of internal service activity between or within funds. Revenues are recognized when earned and expenses are recognized when the related liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met. Net Position is used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased Net Position. Depreciation is charged as an expense against current operations and accumulated depreciation is reported on the Statement of Net Position.

The Statement of Activities reports the expenses of a given function offset by program revenues directly connected with the functional program. Expenses which are not directly related to a function, indirect expenses, are not charges to a function. Program revenues include (1) charges for services such as school lunch fees and facility rental fees and (2) operating grants that are restricted to a particular functional program. Property taxes, state equalization payments, and other revenue sources not properly included with program revenue are reported as general revenues.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Fund Financial Statements

Fund financial statements provide information on the districts major governmental funds and a combined column for all other non-major funds and student activity fiduciary funds. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the district-wide statements.

Governmental Funds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay current liabilities. The District considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenues from federal, state and other grants designated for payment of specific district expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as advances until earned. Expenditures are recognized when the liability is incurred, except for claims, compensated absences and interest on long-term debt which are recorded when normally expected to be liquidated with expendable available financial resources. Payment of long-term debt principal is reported as expenditures when paid. Capital asset purchases are recorded as functional expenditures and depreciation is not recognized.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenues from property taxes are recognized in the period for which the taxes are levied. Revenues from grants, entitlements and donations are recognized when all eligibility requirements imposed by the provider have been satisfied. Eligibility requirements include timing requirements, which specify whether resources are required to be used for the year when use is first permitted, matching requirements and expenditure requirements in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized.

GASB Statement No. 34 requires that the general fund be reported as a major fund. GASB Statement No. 54 requires that funds with similar restrictions to the General fund be combined in the General fund. The Flexibility is combined with the General fund. All other governmental funds that exceed 10% of total governmental fund assets, liabilities, revenues, or expenditures are reported as major funds. The District reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

For reporting purposes, the Flexibility fund is combined with the General fund due to the availability of these funds is similar to the General fund. The Supplementary Information section of this report includes schedules of combined funds with details of each combined fund.

Bus Depreciation Fund – This special revenue fund is used to account for the revenues raised by property taxes levied and expenditures approved for the purchase of new yellow school buses. Deposits made to the fund are limited by depreciation percentages of current busses owned by the district.

Miscellaneous Fund – This special revenue fund is used to account for miscellaneous federal and state grants received by the District and various other local miscellaneous funds.

Fiduciary Funds

Private Purpose Trust Funds – The Trust Funds account for the receipt and disbursement of monies from student activity organizations. These organizations exist with the explicit approval of and are subject to revocation by the District's Board of Trustees. This accounting reflects the District's trust relationship with the student activity organizations.

Agency Funds – The Agency Funds generally are used to account for assets that the District holds on behalf of others as their agent in the payroll and claims clearing funds. Cash is held for warrants which were written but have not been paid by the County Treasurer. Agency funds do not report a measurement focus as they do not report operations.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

C) CASH AND INVESTMENTS

Montana Code Annotated (MCA) allows school districts to invest public money not necessary for immediate use in United States government treasury bills, notes, bonds; certain United States treasury obligations; United States government security money market fund if investments consist of those listed above; time or savings deposits with a bank, savings and loan association, or credit union which is FDIC, FSLIC, or NCUA insured and are located in the state; or in repurchase agreements as authorized by MCA, or Montana Board of Investments Short Term Investment Pool (STIP). Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. The District's cash includes amounts in demand deposits, as well as short-term investments as authorized by State statutes.

The District does not have a formal investment policy that places further restrictions on the nature of types of investments that may be purchased other than the State statute. Investments are recorded at fair market value.

The District considers cash on hand, demand accounts, savings, money markets, repurchase agreements, CD's, STIP, and short-term investments with original maturities of three months or less when purchased, to be cash equivalents. The Extracurricular fund's cash is held separately by the District, not at the county, and is covered by FDIC.

D) ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E) PROPERTY TAXES

Property taxes are collected by the Carbon County Treasurer who credits to the District funds their respective share of the collections. The tax levies are collectible in two installments, which become delinquent after November 30 and May 31. Property taxes are liens upon the property being taxed. After a period of three years, the County may begin foreclosure proceedings and sell the property at auction. The District receives its share of the sale proceeds of any such auction.

F) INVENTORIES

Inventory at year end was not material so all inventory was included as expenditures at the time of purchase.

G) CAPITAL ASSETS

The District considers capital assets to be those resulting from expenditures which have an initial, individual cost of more than \$5,000 and have an estimated useful life in excess of one year. These assets are reported in the government-wide Statement of Net Position, but are not reported in the Balance Sheet – Governmental Funds. Capital assets are recorded at cost, or estimated historical cost if actual historical cost is not available, and updated for additions and retirements during the year. Donated capital assets are recorded at their estimated fair value as of the date received. The District capitalizes the value of its infrastructure dating back to 1925. The District uses the straight-line depreciation method. Improvements are capitalized but the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during construction is not capitalized. The useful lives of these assets have been estimated as follows:

Buildings	10 - 100 years
Machinery and Equipment	5 – 20 years

H) COMPENSATED ABSENCES

District employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. District employees earn vacation leave at the rate of 15 days per year during the first 10 years of

NOTES TO THE FINANCIAL STATEMENTS (Continued)

employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave at the current rate of pay. The District reports compensated absences on the Termination Payment Method. District employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of unused sick leave. However, upon termination, only 25% of accumulated sick leave is paid. Therefore, only 25% of the accumulated sick leave is included in the accrual. The liability incurred because of unused vacation and sick leave accumulated by employees is reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the Statement of Activities. The amount expected to be paid within one year is \$7,080 and it is generally paid out of the General fund. The accrued liability for sick and vacation leave at June 30, 2014 was \$31,862.

I) INTERFUND TRANSACTIONS

Interfund transactions between governmental funds are reflected as transfers. Loans are reported as receivables and payables as appropriate, and are referred to as either "due to/from other funds" and are subject to elimination upon consolidation of funds. Advances between funds, as reported in the fund financial statements, are offset by Nonspendable fund balance in the General fund and as committed or assigned fund balance in other governmental funds as appropriate.

J) ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of an applicable appropriation, is utilized for budgetary control purposes. Encumbrances are not the equivalent of expenditures, and accordingly, amounts assigned for encumbrances at the governmental fund level indicate that portion of the fund balance segregated for expenditure upon vendor performance.

NOTE 2. CASH AND INVESTMENTS

Cash resources of the District are held in the county investment pool which is managed by the Carbon County Treasurer. They are combined with cash resources of other governmental entities within Carbon County to form a pool of cash, cash equivalents and investments. The County investment pool is not subject to regulatory oversight. Deposits of pooled cash consists primarily of Checking, Savings, Repurchase Agreements, Money Markets and CDs, and are carried at fair value. Investments consist primarily of US Government Securities and STIP and are carried at fair value. At June 30, 2014 the carrying amount of District deposits and investments held in the County investment pool was \$1,813,848. This includes \$54,604 in agency funds.

Custodial Credit Risk – Deposits: Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's may not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The State of Montana (the State) statutes require that school district funds be deposited in banks located in the State and that all deposit balances in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits be collateralized in accordance with State statutes.

Repurchase agreements and CD's held by the County are exposed to custodial credit risk in that they are uninsured, unregistered and are not in the District's name. The District's deposit policy for custodial credit risk requires compliance with the laws of the State

Custodial Credit Risk – Investments: Custodial credit risk for investments is the risk that, in the event of a financial institution failure, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require all investments (other than federal or state government instruments) to be collateralized in accordance with State statutes.

The District holds its cash, cash equivalents and investments in the Carbon County investment pool. Information regarding collateral and security for cash and investments held in excess of FDIC coverage is not available to the District. However, State statute requires that United State government securities or agencies be held as collateral to secure deposits of public funds in excess of Federal Deposit Insurance Corporation (FDIC) insurance. The external investment pool is audited as part of Carbon County's financial statements. The county

NOTES TO THE FINANCIAL STATEMENTS (Continued)

investment pool is not registered with or monitored by the Securities and Exchange Commission (SEC). The County provides monthly statements of fair values to the District. Information regarding investment risk, collateral and security for Carbon County investment pool's deposits and investments is available from the Carbon County Treasurer's office, PO Box 828, Red Lodge, MT 59068.

The District does not own specific identifiable investment securities in the pool. Therefore, the District's portion of the pool is not subject to categorization. Carrying values approximate fair values for investments as of June 30, 2014.

NOTE 3. NET POSITION/FUND BALANCES

A) NET POSITION

The government-wide fund financial statements utilize a Net Position presentation. Net Position is categorized as invested in Net Investment in Capital Assets, Restricted and Unrestricted.

Investment in Capital Assets – This category reports the portion of Net Position containing capital assets, including infrastructure, as one component of Net Position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category. The District has no outstanding debts against its capital assets.

Restricted Net Position – This category reports the portion of Net Position that is subject to constraints either by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2014, restricted Net Position for governmental activities totaled \$358,799 of which \$348,355 was restricted by enabling legislation.

Unrestricted Net Position – This category reports the portion of Net Position that is not restricted for any project or other purpose. Outstanding liabilities attributable to these assets reduce the balance of this category.

When both restricted and unrestricted resources are available for use, it is the District's policy to use the restricted funds first.

B) FUND BALANCE

Fund Statement – Fund Balances

In the fund financial statements, governmental funds report fund balance as Nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent.

Non-spendable – Amounts that cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact i.e., inventory or endowment corpus. The district has no non-spendable fund balance.

Restricted – Amounts that can be spent only for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation.

Committed – Amounts that can be used only for specific purposes determined through a motion approved by the Board to establish, modify and rescind; and do not lapse at year end.

Assigned – Amounts intended for specific purposes by the District Clerk and/or Superintendent who have been delegated authority by the Board to assign such amounts. This fund balance classification also reflects any funds assigned for capital projects.

Unassigned – All amounts not included in other spendable classifications.

When expenditures are incurred for which committed, assigned or unassigned amounts could be used, it is the District's policy to first spend committed, then assigned and unassigned resources last.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

C) FUND BALANCE CLASSIFICATIONS

Restricted Fund Balance

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Transportation	\$ 55,102	Transportation – Enabling Legislation - Levy
Bus Depreciation	272,744	Capital Purchases – Enabling Legislation - Levy
Retirement	20,426	Retirement – Enabling Legislation - County Levy
Building Reserve	83	Capital Projects – Enabling Legislation – Levy
Miscellaneous	<u>10,444</u>	Instruction – State & Federal Grants
Total Restricted	\$ 358,799	

Committed Fund Balance

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Tuition	\$ 25,363	Instruction
Adult Education	29,765	Instruction
Driver’s Education	359	Instruction
Lease Rental	486	Operations & Maintenance
Technology	6,643	Instruction
Building	<u>198</u>	Operations & Maintenance
Total Committed	\$ 62,814	

Assigned Fund Balance

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Miscellaneous	\$ 7,458	Instruction
School Food	<u>2</u>	School Food Services
Total Assigned	\$ 7,460	

Unassigned Fund Balance

<u>Fund</u>	<u>Amount</u>
General	\$ 171,981
Flexibility	<u>1,175,653</u>
Total Unassigned	\$1,347,633

Total District Fund Balance \$1,776,707

D) MATERIAL CHANGES IN FUND BALANCE CLASSIFICATIONS

The District reviewed its GASB 54 interpretations and determined that the previously reported fund balance classifications were in need of revision. The fund balances reported above reflect current District classifications. The major changes involved changing most fund balances from Assigned to either Restricted or Committed.

E) STATEMENT OF NET POSITION VS. BALANCE SHEET – GOVERNMENTAL FUNDS

The difference of \$8,477 between restricted fund balance on the Balance Sheet - Governmental Funds and restricted net position on the Statement of Net Position represents the deferred inflows of resources due to taxes receivable in the restricted funds. This difference is attributable to the difference in accounting basis of these two statements.

NOTE 4. TAXES / RECEIVABLES

A) MILL LEVIES

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts. The assessed value of the roll as of January 1, 2013, upon which the levy for the 2014 fiscal year was based, was \$2,318,895 for the district. The tax rates assessed for the year ended June 30, 2014 to finance District operations were as follows:

<u>Fund</u>	<u>Mills</u>
General	29.87
Transportation	4.11
Bus Depreciation	<u>16.33</u>
Total	<u>50.31</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

B) TAXES RECEIVABLE

<u>Fund</u>	<u>Total</u>
General	\$ 9,716
Transportation	921
Bus Depreciation	1,215
Building Reserve	<u>1,847</u>
Total	<u>\$13,699</u>

C) DUE FROM OTHER GOVERNMENTS

<u>Fund</u>	<u>Amount</u>	<u>Due From / Reason</u>
Miscellaneous	<u>\$28,080</u>	Fed Gov't – 21 st Century

NOTE 5. CAPITAL ASSETS

The value and changes to the District's capital assets as of June 30, 2014 are as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Removals</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2014</u>
COST Non-Depreciable:					
Land	\$ 1,434	\$ 0	\$ 0	\$ 0	\$ 1,434
CIP	<u>5,645</u>	<u>17,175</u>	<u>0</u>	<u>(5,645)</u>	<u>17,175</u>
	\$ 7,079	\$ 17,175	\$ 0	\$(5,645)	\$ 18,609
COST Depreciable:					
Buildings & Imp.	\$1,205,073	\$252,533	\$ 0	\$ 5,645	\$1,463,251
Major Equipment	<u>337,868</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>337,868</u>
Total Depreciable COST	<u>\$1,542,941</u>	<u>\$252,533</u>	<u>0</u>	<u>5,645</u>	<u>1,801,119</u>
Total COST	<u>\$1,550,020</u>	<u>\$269,708</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$1,819,728</u>
ACCUMULATED DEPRECIATION:					
Buildings & Imp.	\$(528,179)	\$(28,742)	\$ 0	\$ 0	\$(556,921)
Major Equipment	<u>(177,437)</u>	<u>(20,182)</u>	<u>0</u>	<u>0</u>	<u>(197,619)</u>
Total Depreciation	<u>\$(705,616)</u>	<u>\$(48,924)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$(754,540)</u>

Depreciation was charged to the District's programs as follows:

Instructional	\$23,988
Support	1,915
School Administration	2,409
Operation & Maintenance	9,113
Transportation	8,325
School Food	2,744
Extracurricular	<u>430</u>
Total Current Year Depreciation	<u>\$48,924</u>

NOTE 6. RISK MANAGEMENT

The District is exposed to various types of risk of loss, including: a) damage to and loss of property and contents; b) employee torts; c) professional liability, i.e. errors and omissions; d) environmental damage; e) workers' compensation, i.e. employee injuries and f) medical insurance costs of employees. Several methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and contents damage, employee torts, professional liabilities, and employee medical insurance. The district has joined with other districts throughout the state into an interlocal common risk pool to insure workers compensation for all participating districts in a self- insurance pool. The Workers Compensation Risk Retention Program (WCRRP) is managed by a board of directors elected annually. Members are responsible for fully funding the WCRRP through the payment of

NOTES TO THE FINANCIAL STATEMENTS (Continued)

annual premiums accessed. There is no other liability to the district other than timely payments of premiums. The district can withdraw from the WCRRP with 60 days' notice. Information regarding the WCRRP may be obtained by contacting WCRRP at 1 S. Montana Ave., Helena, MT, 59601.

Levels of insurance have not changed materially from the prior year and settlements have not exceeded insurance coverage limits during the current or each of the two previous years.

NOTE 7. CURRENT LIABILITIES

A) DEFERRED INFLOWS OF RESOURCES

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
General	\$9,716	Taxes Receivable
Transportation	921	Taxes Receivable
Bus Depreciation	1,215	Taxes Receivable
Building Reserve	<u>1,847</u>	Taxes Receivable
District Total	<u>\$13,699</u>	

B) ADVANCES FROM FEDERAL GRANTS

The District's advances represent federal grant monies received but not spent by year end. As of June 30, 2014, the District held the following federal grant advances:

<u>Fund</u>	<u>Amount</u>	<u>Source/Grant Name</u>
Miscellaneous	<u>\$10,617</u>	Federal Government SRS - REAP

NOTE 8. EMPLOYEE RETIREMENT PLANS

The District participates in two state-wide, cost-sharing multiple employer defined benefit retirement plans which cover all District employees, except certain substitute teachers and part-time, non-teaching employees. The Teachers' Retirement System (TRS) covers teaching employees, including administrators and aides. The Public Employee Retirement System (PERS) covers nonteaching employees. The plans are established under State law and are administered by the State of Montana.

Teachers' Retirement System (TRS)

The TRS is a state wide retirement plan established in 1937 and governed by Title 19, chapter 20 of the Montana Code Annotated providing retirement services to teachers or professional staff of any public elementary or secondary school, colleges of technology or unit of the university system. The TRS is a mandatory multiple-employer, cost-sharing plan administered by the Teachers' Retirement Board. Members' rights become vested after five years of service.

Benefits

TRS offers retirement, disability and death benefits to plan members and their beneficiaries. Benefit eligibility, benefit amounts, and contributions required by state law are based on the date the employee became a TRS member. Tier I – Employees who became members before July 1, 2013. Tier II – Employees who became members after July 1, 2013.

Tier I – Retirement benefit eligibility is age 60 with at least five years of service; or 25 years of service regardless of age. Actuarial reduced benefits may be taken after age 50 with at least five years of service. Service retirement is based on the highest 3 consecutive highest salaries.

Tier II – Retirement benefit eligibility is age 60 with at least five years of service; age 55 with 30 years of service. A professional retirement option applies to Tier II members age 60 with 30 years of service. Actuarial reduced benefits may be taken after age 55 with at least five years of service. Service retirement is based on the highest 5 consecutive salaries.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Retirement benefits are calculated as shown below:

The Service Retirement is based on *Years of Service x Average Final Compensation x 1.6667%*

The Professional Retirement is based on *Years of Service x Average Final Compensation x 1.85%*

The Guaranteed Annual Benefit Adjustment (GABA) provides an annual benefit increase set in the fall of each year by the TRS board of .5% to 1.5%. A benefit recipient, who has been receiving a benefit for at least 36 months prior to January 1 each year, will receive a GABA with payment of the January benefit.

Contributions

Beginning July 1, 2013 a required supplemental contribution, which will vary from 0% to 1% based on the funded ratio of the TRS pension became effective for Tier I members. A supplemental contribution may be required from Tier II members after January 1, 2023. For fiscal year 2013, Tier I member normal contributions are 7.15% and supplemental contributions are 1% for total Tier I member contributions of 8.15%. Tier II normal contributions are 8.15% which does not contain a supplemental contribution element. Employer contributions are based on total payroll reported to TRS. These are not matching contributions allocated to individual members, but contributions to the trust fund. The TRS employer rate was increased from 7.47% to 8.47%. A new requirement for working retirees is that the employer is required to make contributions to TRS of 9.85% for them and the State supplemental rate is 2.49%.

In fiscal year 2014, the District contributed \$23,195 to TRS as an excess reserves assessment.

Actuarial Information

An actuarial valuation of the retirement system is performed annually. The purpose of the valuation is to determine the financial position of the fund, the normal cost, and the unfunded actuarial accrued liability based on present and prospective assets and liabilities of the system. If employee and employer contribution rates are sufficient to amortize any unfunded liability over 30 years or less, the system is actuarially sound and does not have a shortfall. According to TRS publications as of July 1, 2013, TRS does not have a shortfall and is actuarially sound.

Montana Public Employees' Retirement System (PERS)

PERS is a state-wide retirement plan established in 1945 and governed by Title 19, chapter 2 & 3 of the Montana Code Annotated (MCA) providing retirement services to substantially all public employees. Within 12 months of their hire date, employees must choose between the Defined Benefit Retirement Plan (DBRP) and the Defined Contribution Retirement Plan (DCRP). The default plan is the DBRP. The PERS is a mandatory plan except for those employed less than one half time. It is a multiple-employer, cost-sharing plan administered by the Public Employees' Retirement Division (PERD).

The PERS Defined Benefit Retirement Plan (DBRP) offers service retirement, early retirement, disability and survivorship benefits to plan members and their beneficiaries. Members' rights become vested after five years of service. The plan allows for a Guaranteed Annual Benefit Adjustment (GABA) that provides for an annual benefit increase each January that could range from 0% to 1.5% depending upon the funding status of the plan.

The service retirement benefit eligibility is age 65 with at least five years of service credit or age 70 regardless of service. Actuarial reduced benefits may be taken with age 55 with at least 5 years of service. Monthly retirement benefits are calculated as: *Membership Service Factor* times *Highest Average Compensation* times *Service Credit*. This formula is multiplied by an Early Retirement Factor to determine the early retirement benefit.

The PERS Defined Contribution Retirement Plan (DCRP) consists of three components; member contributions, other contributions and employer contributions. Each component has different vesting criteria. Members are fully vested when they have earned five years of membership service. Member contributions and earnings are fully vested immediately. Other contributions i.e., 403(b) or 457(b) rollover contributions are fully vested immediately. Employer contributions are fully vested after five years of membership service. Employer contributions are forfeited if the employee dies or if service is terminated prior to attaining five years of membership service. Both the employee and the employer make contributions to the plan at the same rates as the DBRP.

Contribution rates for either plan above are required and determined by State law. Effective, July 1, 2013, the PERS rates for all employees was changed to 7.9%. The basic PERS rate for school district employers is 6.8%.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Effective July 1, 2013 school district employers are required to contribute an additional employer contribution of 1.10% for total employer contributions of 7.9%. The PERS local government employer rate is 6.8% plus an additional employer contribution of \$1.37% for total employer contributions of 8.17%. The PERS rate paid by State is .37% for school districts.

Both Plans

Both plans issue publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained from the following:

Montana Teachers Retirement System	Montana Public Employees Retirement System
P.O. Box 200139	P.O. Box 200131
1500 Sixth Avenue	1712 Ninth Avenue
Helena, MT 59620-0139	Helena, MT 59620-0131
Phone: 406-444-3134	Phone: 406-444-3154
www.trs.doa.state.mt.us	www.state.mt.us/doa/perb/prb.htm

State contributions to PERS and TRS totaled \$509 and \$10,747 respectively and have been included in the Retirement Fund revenues and expenditures.

The amounts contributed to the plans during the years ended June 30, 2012, 2013 and 2014 were equal to the required contribution for each year. The amounts contributed by the State, District and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
TRS	\$58,241	\$68,801	\$50,842
PERS	<u>11,736</u>	<u>22,918</u>	<u>22,105</u>
Total	<u>\$69,977</u>	<u>\$91,719</u>	<u>\$72,947</u>

NOTE 9. LONG TERM DEBT OBLIGATIONS

A) CHANGES IN LONG TERM DEBT

Governmental Activities:	Balance			Balance
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>
Compensated Absences	\$ 18,086	\$13,776	\$ 0	\$ 31,862
OPEB Liability	<u>192,592</u>	<u>48,148</u>	<u>0</u>	<u>240,740</u>
Total	<u>\$210,678</u>	<u>\$61,924</u>	<u>\$ 0</u>	<u>\$272,602</u>

NOTE 10. SPECIAL EDUCATION COOPERATIVE

The District is a member of the Yellowstone — West/Carbon County Special Services Cooperative, a Special Education Cooperative. The financial records of the Cooperative are prepared and maintained by the Cooperative Clerk. The financial records of the Cooperative are separate from those of the District, and the financial statements of the Cooperative are not included in the Districts' financial statements. The Cooperative's financial statements are audited separately from those of the District. All revenue received, including Federal, State, or other types of grant payments, and the financial support provided by each of the Cooperative's members are deposited into the Cooperative's funds, which are maintained in the custody of the Carbon County Treasurer. The Superintendent of Public Instruction may directly deposit to the Cooperative the State and Federal portion of any participating member District's budgeted costs for contracted special education services. All fixed assets of the Cooperative are included in the Cooperative's financial statements.

A Joint Board of Directors governs the Cooperative. The Joint Board has the power to set policies, enter into contracts, review the performance of the Cooperative annually, review the financial management of the Cooperative annually, and set and approve the annual fiscal budget of the Cooperative.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 11. OTHER POST EMPLOYMENT BENEFITS (OPEB) OTHER THAN PENSIONS

Plan Description – In accordance with MCA (2-18-704) the District allows employees who are at least age 50 with at least 5 years of service to remain on the District’s health insurance plan after retiring from the district as long as they pay the same premium as active employees. Since retirees are usually older than the average age of the active participants, they receive a benefit of lower insurance rates. This benefit is referred to as the “OPEB liability.” The District has less than 100 plan members and elected to use the “Alternative Measurement Method” to calculate its OPEB liability. The OPEB plan does not provide a stand-alone financial report. The District pays 80% of active employees’ health insurance premium which is \$714 for a single member. The implicit subsidy is \$571 per member and \$1,142 per member and spouse. The required schedule of funding progress is reported in the Required Supplementary Section of this report which is immediately following the notes to the financial statements.

Funding Policy - The District pays OPEB liabilities on a “pay-as-you-go” basis. The District’s OPEB liability is amortized on a level dollar basis annually until the Actuarial Accrued Liability (AAL) is reached. A trust fund for future liabilities has not been established. Therefore, the District’s OPEB liability will continue to grow until it reaches the Actuarial Accrued Liability (AAL) shown below.

Funding status and progress - As of June 30, 2014 the funded status of the plan was as follows:

	<u>Alternative Measurement Method</u>
Actuarial Accrued Liability (AAL)	\$324,367
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	324,367
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$652,726
UAAL as a percentage of covered payroll	50%
Date of latest AAL calculation	June 30, 2013

Annual OPEB Cost and Net OPEB Obligation – The district’s annual Other Post-Employment Benefit (OPEB) cost (expense) is calculated based on the Annual Required Contribution (ARC) of the employer, an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed (30) years. The following table shows the components of the district’s annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the district’s net OPEB obligation.

The following table shows the components of the district’s annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the district’s net OPEB obligation.

	<u>Alternative Measurement Method</u>
Annual Required Contribution (ARC)	\$48,148
Interest on net OPEB obligation	0
Adjustment to ARC	<u>0</u>
Annual OPEB cost (expense)	48,148
Contribution made	<u>0</u>
Increase in net OPEB obligation	48,148
Net OPEB obligation - beginning of year	<u>192,592</u>
Net OPEB obligation - end of year	<u>\$240,740</u>

Actuarial Methods and Assumptions - The following actuarial methods and assumptions were used:

Actuarial Cost Method	<u>Alternative Measurement Method</u>
Average age of retirement (based on historical data)	62.5
Discount rate (average anticipated rate)	3.5%
Average Salary Increase	3.5%

NOTES TO THE FINANCIAL STATEMENTS (continued)

Health care cost rate trend

<u>Year</u>	<u>% Increase</u>
2015	9.50%
2016	9.00%
2017	8.50%
2018	8.00%
2019	7.50%
2020	7.00%
2021	6.50%
2022	6.00%
2023 and after	5.00%

Actuarial calculations reflect a long-term perspective and consistent with that perspective, the actuarial method and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and actuarial value of assets. The district has no actuarial value of assets because the plan is not funded.

The District’s Annual Required Contribution (ARC) for the current and preceding two fiscal years is illustrated below. The ARC is a misleading term, since no cash contribution is actually required. No interest has been applied to the Net OPEB obligation.

<u>Fiscal Year</u> <u>Ending June 30:</u>	<u>Annual Required</u> <u>Contribution (ARC)</u>	<u>ARC Adjustment</u> <u>Adjustment</u>	<u>Percent of ARC</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2012*	\$ 0	\$ 0	0%	\$ 0
2013	48,148	144,444	0%	192,592
2014	48,148	0	0%	240,740

*Belfry School District calculated the OPEB liability for the first time on June 30, 2013.

The required supplementary information section of this report presents multiple years fund information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the AAL for benefits. The projection of benefits are based on the types of benefits provided under the substantive plan at the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point, and if applicable, the projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the patterns of cash shares between the employer and plan members in the future.

NOTE 12. ENCUMBRANCES

In compliance with GASB 54, the District’s encumbrances are no longer illustrated as separate balances on the governmental fund statements. Instead, they are included in each fund’s “Assigned” balance classification. Encumbrances of \$7,458 were reported in the Miscellaneous Fund which is a non-budgeted fund because they were obligated to meet a federal grant requirement.

NOTE 13. SUBSEQUENT REPORTABLE EVENTS

Since June 30, 2014, the District completed a drain, ceiling and lighting project. Bids were awarded to Precision Plumbing, Neil Drywall, and Faith Electric for \$5,156, \$4,790, and \$4,500 respectively. This project has been completed as of the date of this audit report and these vendors have been paid in full for their services.

Belfry School District No. 3
 Carbon County
 Belfry, Montana 59008

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 (Budget and Actual)
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
 for the Fiscal Year Ended June 30, 2014

	General Fund		Bus Depr Fund	
	Original & Final		Original & Final	
	Budget	Actual	Budget	Actual
REVENUES:				
District Levies	\$ 69,273	\$ 68,699	\$ 37,870	\$ 36,359
Interest Earnings	2,274	1,531	-	1,299
Other Local & District Sources	31,720	1,376	-	-
State Sources	<u>798,905</u>	<u>884,914</u>	<u>-</u>	<u>-</u>
Total Revenues	902,172	956,521	37,870	37,658
EXPENDITURES:				
Instructional Services		449,474	-	-
Instructional Support Services		21,787	-	-
Educational Media Services		37,249	-	-
General Administrative Services		123,894	-	-
Operation & Maintenance Services		167,537	-	-
Extracurricular		58,082	-	-
School Food Services		<u>81,005</u>	<u>-</u>	<u>-</u>
Total Current Expenditures		939,028	-	-
Capital Outlay	<u>-</u>	<u>-</u>	<u>272,956</u>	<u>-</u>
Total Expenditures	939,042	939,028	272,956	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
		17,494		37,658
FUND BALANCES:				
BEGINNING FISCAL YEAR FUND BALANCES		<u>154,487</u>		<u>235,086</u>
ENDING FISCAL YEAR FUND BALANCES		<u>\$ 171,981</u>		<u>\$ 272,744</u>

The accompanying NOTES TO REQUIRED SUPPLEMENTAL INFORMATION are an integral part of this statement.

NOTES TO THE BUDGET AND ACTUAL SCHEDULE

NOTE 1. BUDGETS

Budgets are adopted on a basis consistent with the State of Montana budget laws which are consistent with generally accepted accounting principles (GAAP). Annual appropriated budgets are adopted for the General fund; budgeted special revenue funds including (Transportation, Bus Depreciation, Tuition, Retirement, Adult Education, Technology and Flexibility), Debt Service fund, and budgeted capital project funds (Building Reserve). All annual appropriations lapse at the end of the fiscal year, unless the District elects to encumber supplies and personal property ordered but not received at year end.

General Budget Policies:

The District's funds are either budgeted or nonbudgeted in accordance with State statutes. Budgeted funds are those for which a legal budget must be adopted to have expenditures from such funds and are noted above. All other funds are nonbudgeted, meaning a legal budget is not required in order to spend the cash balance of such a fund. The Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual, has been prepared on the modified accrual basis of accounting and contains financial information for only the major budgeted Special Revenue funds. The major special revenue fund, Miscellaneous, is not included in the schedule because it is not a budgeted fund. The original budget was not amended so the original budget and the final budget are the same.

Budget Operation:

The District operates within the budget requirements for school districts as specified by State law. The financial report reflects the following budgetary standards:

- (1) Before the fourth Monday in July, the County Superintendent estimates the revenue required for each fund.
- (2) By the first Monday in August, the County Assessor transmits a statement of the assessed valuation and taxable valuation of all property in the District's borders.
- (3) Before the later of the first Thursday in September or within 30 calendar days of the receipt of the Certified Taxable Valuations from the County Assessor, the Board of Trustees must meet to legally adopt the final budget. The final budget for the general fund is fund total only.
- (4) Once adopted, the budget can be amended by subsequent Board action. An increase of the total budget of a given fund requires the adoption of an amended budget in accordance with State statutes.
- (5) According to State statutes, the expenditures of a budgeted fund may not legally exceed the adopted budget.
- (6) At the end of a fiscal year, unencumbered appropriations lapse unless specifically obligated by the District.

NOTE 2. STATE PORTION OF TRS AND PERS

The State portion of TRS and PERS totaling \$10,747 and \$509 respectively is included in the Retirement Fund's revenues and expenditures reported on the District's financial statements. These expenditures are exempt from budget constraints.

Board of Trustees
 Belfry School District No. 3
 Carbon County
 Belfry, MT 59008

SCHEDULE OF OTHER POST-EMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
 For the Fiscal Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial AAL Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
2012*	\$0	\$ 0	\$ 0	0%	\$	%
2013	0	324,367	324,367	0%	670,751	48%
2014	0	324,367	324,367	0%	652,726	50%

*Belfry School District calculated the OPEB liability for the first time on June 30, 2013.

The purpose of the above table is to provide information that serves as a surrogate for the funding progress of the Other Post-Employment Benefit plan.

Belfry School District No. 3
 Carbon County
 Belfry, Montana 59008

SCHEDULE OF COMBINED FUNDS
 BALANCE SHEET - COMBINED FUNDS
 as of June 30, 2014

	General Fund	Flexibility Fund	Total Combined Funds
ASSETS:			
Cash and Investments	\$ 171,981	\$ 1,175,653	\$ 1,347,633
Taxes Receivable	9,716	-	9,716
Due From Other Governments	-	-	-
Total Assets	<u>181,697</u>	<u>1,175,653</u>	<u>1,357,349</u>
LIABILITIES:			
Advances of Federal Grants	-	-	-
Total Liabilities	-	-	-
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	<u>9,716</u>	-	<u>9,716</u>
TOTAL DEF INFLOWS OF RESOURCES	9,716	-	9,716
Restricted:			
Instruction	-	-	-
Transportation	-	-	-
Capital Acquisitions	-	-	-
Committed - Instruction	-	-	-
Assigned:			
Instruction	-	-	-
Food Services	-	-	-
Unassigned	<u>171,981</u>	<u>1,175,653</u>	<u>1,347,633</u>
Total Fund Balances	<u>171,981</u>	<u>1,175,653</u>	<u>1,347,633</u>
Total Liabilities, Deferred Inflows & Fund Bal.	<u>\$ 181,697</u>	<u>\$ 1,175,653</u>	<u>\$ 1,357,349</u>

Belfry School District No. 3
 Carbon County
 Belfry, Montana 59008

SCHEDULE OF COMBINED FUNDS
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - COMBINED FI
 For the Year Ended June 30, 2014

	General Fund	Flexibility Fund	Total Combined Funds
REVENUES:			
District Levies	\$ 68,699	\$ -	\$ 68,699
Interest	1,531	5,395	6,927
Other	1,376	22	1,399
State	<u>884,914</u>	<u>300,000</u>	<u>1,184,914</u>
Total Revenues	956,521	305,418	1,261,939
EXPENDITURES:			
Instructional Services	450,036	62,458	512,494
Instructional Support Services	21,787	-	21,787
Educational Media Services	37,249	-	37,249
General Administrative Services	123,894	-	123,894
Operation & Maintenance Services	167,537	14,347	181,884
Extracurricular	58,082	-	58,082
School Food Services	<u>81,005</u>	<u>-</u>	<u>81,005</u>
Total Current Expenditures	939,590	76,805	1,016,395
Capital Outlay	<u>-</u>	<u>174,208</u>	<u>174,208</u>
Total Expenditures	939,590	251,013	1,190,603
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	16,931	54,405	71,336
FUND BALANCES:			
Beginning of the Year	<u>155,049</u>	<u>1,121,248</u>	<u>1,276,297</u>
End of the Year	<u>\$ 171,981</u>	<u>\$ 1,175,653</u>	<u>\$ 1,347,633</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Belfry School District No. 3
 Carbon County
 Belfry, Montana 59008

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 (Budget and Actual)
 BUDGETED COMBINED FUNDS
 for the Fiscal Year Ended June 30, 2014

	General Fund		Flexibility Fund	
	Original & Final		Original & Final	
	Budget	Actual	Budget	Actual
REVENUES:				
District Levies	\$ 69,273	\$ 68,699	\$ -	\$ -
Interest Earnings	2,274	1,531	4,500	5,395
Other Local & District Sources	31,720	1,376	-	22
State Sources	<u>798,905</u>	<u>884,914</u>	<u>100,000</u>	<u>300,000</u>
Total Revenues	902,172	956,521	104,500	305,418
EXPENDITURES:				
Instructional Services		450,036	1,010,748	62,458
Instructional Support Services		21,787	-	-
Educational Media Services		37,249	-	-
General Administrative Services		123,894	-	-
Operation & Maintenance Services		167,537	15,000	14,347
Extracurricular		58,082	-	-
School Food Services	-	<u>81,005</u>	-	-
Total Current Expenditures	939,042	939,590	1,025,748	76,805
Capital Outlay		-	<u>200,000</u>	<u>174,208</u>
Total Expenditures		939,590	1,225,748	251,013
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
		16,931		54,405
FUND BALANCES:				
BEGINNING FISCAL YEAR FUND BALANCES		<u>155,049</u>		<u>1,121,248</u>
ENDING FISCAL YEAR FUND BALANCES		<u>\$ 171,981</u>		<u>\$ 1,175,653</u>

The accompanying NOTES TO REQUIRED SUPPLEMENTAL INFORMATION are an integral part of this statement.

Belfry School District No. 3

Carbon County
Belfry, MT 59008

SCHEDULE OF REPORTED ENROLLMENT
Fiscal Year Ended June 30, 2014

	Reported Enrollment	Per Audit	Difference
FALL ENROLLMENT			
OCTOBER, 2013			
Kindergarten:	5	5	0
Grades 1 - 6:	18	18	0
Junior High:	<u>3</u>	<u>3</u>	<u>0</u>
Total Elementary:	<u>26</u>	<u>26</u>	<u>0</u>
High School:	<u>8</u>	<u>8</u>	<u>0</u>
Total High School:	<u>8</u>	<u>8</u>	<u>0</u>
WINTER ENROLLMENT			
DECEMBER, 2013			
Kindergarten:	6	6	0
Grades 1 - 6:	20	20	0
Junior High:	<u>4</u>	<u>4</u>	<u>0</u>
Total Elementary:	<u>30</u>	<u>30</u>	<u>0</u>
High School:	<u>8</u>	<u>8</u>	<u>0</u>
Total High School:	<u>8</u>	<u>8</u>	<u>0</u>
SPRING ENROLLMENT			
FEBRUARY, 2014			
Kindergarten:	5	5	0
Grades 1 - 6:	19	19	0
Junior High:	<u>5</u>	<u>5</u>	<u>0</u>
Total Elementary:	<u>29</u>	<u>29</u>	<u>0</u>
High School:	<u>8</u>	<u>8</u>	<u>0</u>
Total High School:	<u>8</u>	<u>8</u>	<u>0</u>

BELFRY K-12 SCHOOL DISTRICT
 END OF YEAR REVENUES & EXPENSES
 STUDENT ACTIVITY FUND
 June 30, 2014

	BALANCE July 1, 2013	REVENUES	EXPENSES	BALANCE June 30, 2014
ANNUAL STAFF	\$933	\$260	\$761	\$432
ATHLETICS/ACTIVITY	387	10,052	8,805	1,634
BAND	148	0	0	148
BOOTS & BUTTERFLIES	576	1,234	355	1,454
CHEERLEADING	288	0	0	288
DRAMA CLUB	62	0	0	62
FCCLA	803	0	0	803
FFA	4,317	5,833	4,810	5,340
HONOR SOCIETY	19	0	0	19
JR HIGH & HS ACTIVITY	379	3,096	1,972	1,502
LIBRARY FUND	156	0	0	156
MU ALPHA THETA	12	0	0	12
SCIENCE	500	0	166	334
SKIING	258	0	0	258
STUDENT COUNCIL	48	0	0	48
SUBTOTAL	<u>\$8,885</u>	<u>\$20,476</u>	<u>\$16,869</u>	<u>\$12,493</u>
LESS TRANSFERS		448	448	
TOTAL	<u>\$8,885</u>	<u>\$20,028</u>	<u>\$16,421</u>	<u>\$12,493</u>

Tripp & Associates
1645 Ave. D, Suite E
Billings, Montana 59102

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

Board of Trustees
Belfry School District No. 3
Carbon County
Belfry, MT 59008

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Belfry School District No. 3 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Belfry School District No. 3's basic financial statements, and have issued our report thereon dated December 19, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered Belfry School District No. 3's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Belfry School District No. 3's internal control. Accordingly, we do not express an opinion on the effectiveness of Belfry School District No. 3's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses; item 2, 2014.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be significant deficiencies; items 1 & 3, 2014.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Belfry School District No. 3's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Belfry School District No. 3's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Belfry School District No. 3's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Tripp & Associates

Tripp & **A**ssociates
Billings, Montana
December 19, 2014



Belfry Public Schools
 School District No. 3
 Box 210 • 200 Wisconsin Street
 Belfry, Montana 59008
 www.belfrybats.org



Jason Olson, Principal
Beth Pulse, District Clerk
Cheryl Brown, Secretary

Phone: (406) 664-3319
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Email: jolson@belfry.k12.mt.us

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

FINDING NUMBER 2 – EXPENDITURE DOCUMENTATION – 2013 (Repeat finding since 2012):

This is not a finding for fiscal year 2014

FINDING NUMBER 3 – PAYROLL – 2013:

This is not a finding for fiscal year 2014

FINDING NUMBER 1 – SEGREGATION OF DUTIES – 2014 (Repeat finding since 2011):

Criteria: Segregation of duties is essential for proper internal controls.

Condition: The District does not have sufficient segregation of duties. This situation was not mitigated by Board or Superintendent involvement.

Context: The District has one employee assigned to the accounting function. The District is not providing proper oversight. The minutes do not show board involvement in budget to actuals.

Effect: Internal control is not optimal. Possibility of misappropriation of assets.

Cause: The small staff of the District does not allow for ideal segregation of duties. The Board and Superintendent have not taken a proactive stance in regards to supervising the accounting function.

Recommendation: We recommend the Board and Principal take a more active role in the oversight of accounting activities so that compensating controls exist and that the District’s accounting activities are closely monitored.

Auditee response: The Board and Superintendent will take an active role in the oversight of accounting activities so that compensating controls exist and that the District’s accounting activities are closely monitored.

SCHEDULE OF FINDINGS AND RESPONSES (Continued)

FINDING NUMBER 3 – PAYROLL – 2014:

Criteria: District policy states that all wages are to be approved.

Condition: Wages of \$5,050 were not reported to TRS. Stipends of \$2,900 and other wages of \$13,013 were paid without a contract or formal agreement with the Board.

Context: Stipend wages of \$5,050 were not reported on TRS monthly reports. Athletic Director and 21st Century teacher were paid without having formal agreements with the Board.

Possible Effect: Non-compliance with District payroll policies.

Cause: Formal agreements have not been made for these items in the past. Practice has not been established.

Recommendation: We recommend that payroll wages are only paid according to contracts and board agreements.

Auditee response: The clerk will reconcile monthly payroll and TRS reports. Contracts and all wages will be approved by the Board.