

**BLUE CREEK SCHOOL DISTRICT NO. 3**

**YELLOWSTONE COUNTY  
BILLINGS, MONTANA**

**FINANCIAL AND COMPLIANCE REPORT**

**Fiscal year Ended June 30, 2014**

**Strom & Associates, P. C.**

**PO BOX 1980  
Billings, Montana 59103**

Blue Creek School District No. 3  
Yellowstone County  
Billings, MT 59101

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Blue Creek School District No. 3  
Yellowstone County  
Billings, MT 59101

ORGANIZATION

BOARD OF TRUSTEES

Leslie Weldon	Chair
Malie Kopplin	Vice Chair
Joan Noddings	Trustee
Aimee Rust	Trustee
Steve Wittak	Trustee

OFFICIALS

Cathi Rude	Administrator
Roger Heimbigner	District Clerk
Maxell Lenington	County Superintendent
Scott Twito	County Attorney

**Blue Creek School**  
**SCHOOL DISTRICT No. 3**

**Roger Heimbigner, Business Manager**

3652 Blue Creek Road  
Billings, Montana 59106  
(406) 259-0653  
(406) 259-9378 Fax



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the district's financial performance provides an overview of the government's financial activities for the year ended June 30, 2014. Please read it in conjunction with our financial statements.

**FINANCIAL HIGHLIGHTS**

- ◇ Blue Creek School District's assets exceeded its liabilities by \$1,114,052 (net position). This amount is classified as invested in capital assets, net of related debt, restricted or unrestricted net position. Total net position decreased by \$40,166 as a result of this year's operations.
- ◇ Capital assets, net of related debt, decreased \$16,817 over the prior year.
- ◇ Fund balance in the general fund decreased \$10,613 to \$112,747 in 2014.
- ◇ General fund budgetary basis expenditures were increased as budget for 2012-13 was \$1,066,576 and budget for 13-14 was \$1,076,160. Increases in salary were the main reason for the increased budget. ANB decreased by 3 students in the 2013-14 school year which reduced funding from the state which was offset by legislative increases to budget authority. Property taxes increased by 3.69 mills in all funds. Tuition mills increased by 1.79 for students attending out of district which accounted for about half the increase. Enrollment continues to stay relatively constant so General Fund budget increases at the rate of the legislative funding.
- ◇ Building Fund and Building Reserve Fund continues to have adequate balances to maintain capital improvements that are needed.

**USING THIS AUDIT REPORT**

This audit report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the government as a whole and present a longer-term view of the finances. For governmental activities, fund statements tell how these services were financed in the short term, as well as, what remains for future spending. Fund financial statements also report the government's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which the government acts solely as a trustee or agent for the benefit of those outside of the government.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

**Government-wide financial statements** One of the most important questions asked about the government's finances is, "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities (pages 9 and 10) report information about the district as a whole and about our activities in 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 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 statements report the net position and changes in them. You can think of net position—the difference between assets and liabilities—as one way to measure the district's financial health, or financial position. Over time, increases or decreases in net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the property tax base, economy, enrollment and changes in the State's funding of educational costs to assess the overall health.

**Fund financial statements** The fund financial statements) provide detailed information about the most significant funds—not the government as a whole. Some funds are required to be established by State law. Also, the governing body establishes many other funds to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other money. We utilize the following funds:

**Governmental funds**—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 all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations (pages 10 and 12, respectively).

**Fiduciary funds**—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds use the accrual basis of accounting. We exclude these activities from the other financial statements because we cannot use these assets to finance our operations. We are responsible for ensuring that the assets reported in these funds are used for their intended purposes.

#### THE GOVERNMENT AS A WHOLE

The following net position and changes in net position schedules provide summaries of the district's activities:

<b>NET POSITION</b>	<b>Governmental Activities</b>			
	<u>2014</u>	<u>2013</u>	<u>\$</u> <u>CHANGE</u>	<u>%</u> <u>CHANGE</u>
Current Assets	526,944	539,538	(12,594)	-2.33%
Capital Assets, net	<u>718,308</u>	<u>735,125</u>	<u>(16,817)</u>	<u>-2.29%</u>
Total Assets	<u>1,245,252</u>	<u>1,274,663</u>	<u>(29,411)</u>	<u>-2.31%</u>
Current Liabilities	62,238	66,228	(3,990)	-6.02%
Long Term Liabilities	<u>68,962</u>	<u>54,217</u>	<u>14,745</u>	<u>27.20%</u>
Total Liabilities	131,200	120,445	10,755	8.93%
Net Position:				
Invested in Capital Assets				
Net of Related Debt	718,308	735,125	(16,817)	-2.29%
Restricted	323,973	372,388	(48,415)	-13.00%
Unrestricted	<u>71,771</u>	<u>46,705</u>	<u>25,066</u>	<u>53.67%</u>
Total Net Position	<u>1,114,052</u>	<u>1,154,218</u>	<u>(40,166)</u>	<u>-3.48%</u>

## CHANGES IN NET POSITION

<b>Revenues</b>	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>% Change</u>
<b>Program Revenues:</b>				
Charges for Services	45,819	47,263	(1,444)	-3.06%
Operating Grants	171,052	81,486	89,566	109.92%
<b>General Revenues:</b>				
District Levy	375,258	362,436	12,711	3.54%
State Equalization	480,641	475,975	4,666	0.98%
Other State Revenue	219,779	327,720	(107,941)	-32.94%
County	144,379	88,473	55,906	63.19%
OPEB	0	21,259	(21,259)	-100.00%
Investment Earnings	2,658	900	1,758	195.29%
Other	<u>5,104</u>	<u>1,864</u>	<u>3,240</u>	<u>173.84%</u>
<b>Total Revenues</b>	<b>1,414,744</b>	<b>1,484,140</b>	<b>(70,381)</b>	<b>-4.74%</b>
<b>Program Expenses</b>				
Instruction	1,019,461	885,796	133,665	15.09%
Support	791	592	199	33.61%
Media	67,403	68,335	(932)	-1.36%
Administration:	154,725	143,822	10,903	7.58%
O & M	121,002	125,494	(4,492)	-3.58%
Transportation	28,784	23,788	4,996	21.00%
Extracurricular	6,575	5,108	(1,467)	-28.71%
School Food	68,169	77,150	(8,981)	-11.64%
Extracurricular	7,097	6,365	732	11.50%
Other Current Charges	607	2,819	(2,212)	-78.47%
Other Post Employment Benefits	11,877	11,877	11,877	0.00%
Depreciation-unallocated	<u>16,816</u>	<u>12,320</u>	<u>4,496</u>	<u>36.49%</u>
<b>Total Expenses</b>	<b><u>1,484,855</u></b>	<b><u>1,346,481</u></b>	<b><u>138,374</u></b>	<b><u>10.28%</u></b>
<b>Change in Net Position</b>	<b><u>(40,166)</u></b>	<b><u>60,895</u></b>	<b><u>(101,061)</u></b>	

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In our case, net position decreased \$101,061.

Current assets decreased \$12,594 because of an decrease in the cash reserve position and investment in capital projects. Long-term liabilities increased \$14,745 mainly due to the increased liability of teacher payouts if they were to leave the district.

Instructional expenses increased by \$133,665 due mainly to increased staffing.

## FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the major (most significant) funds. To be reported as a major fund, total assets, liabilities, revenues, or expenditures of an individual fund must be at least 10 percent of the corresponding element total (assets, liabilities, etc.) for all funds. The General fund is always reported as a major fund.

General fund - fund balance decreased by \$10,613.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets:**

The District's capital assets, net of accumulated depreciation, as of June 30, 2014 totaled \$718,308. Depreciation reduced the capital asset line for this past year.

### **Debt Administration:**

Currently there are no capital leases outstanding in the District. The remaining liabilities of the district are compensated absences and termination benefits. There are no outstanding bonds.

## **THE GOVERNMENT'S FUTURE**

The District continues to be reliant on the State to determine funding levels for the general fund from year to year. The elementary general fund is operating at 87% of the maximum cap for a district our size Caps are determined by enrollment and the District appears to be relatively constant from year to year. The funding entitlements for basic and per ANB entitlement will slightly increase for the 2014-15 school years making it possible to sustain the present level of education for the next year. Enrollment will continue to be a key factor in determining budget levels as will legislative funding in the next session. Past history has shown that salary increases, which make up 81% of the budget, are increasing at a higher rate than inflationary factors built into the state formula.

The infrastructure of the District is a concern. The voters have been supportive of a bond issue but the bonding capacity isn't enough to meet their goal of enlarging the building to incorporate the 7<sup>th</sup>-8<sup>th</sup> grade students. Efforts have been made to raise additional funds but no large donors have come forward. It will be difficult to meet the needs of the students in grades K-8 without a change in how buildings are funded.

The taxable valuation increases slightly from year to year which shows steady growth in the size and worth of the school district. The District relies mainly on residential property with very few businesses within the boundaries.

With enrollment leveling off, facilities should be able to handle any increases that may happen over the next three years unless the incorporation of the 7<sup>th</sup> – 8<sup>th</sup> graders is realized.

STROM & ASSOCIATES, PC  
Certified Public Accountants  
P.O. Box 1980  
Billings, Montana 59103

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Blue Creek School District No. 3  
Yellowstone County  
Billings, MT 59101

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Blue Creek 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 School District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Blue Creek School District No. 3 as of June 30, 2014, 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 (pages 3 - 6) and the schedule of funding for other post-employment benefits other than pensions (pages 28) and budgetary comparison information (pages 29-31) 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 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Blue Creek School District No. 3's basic financial statements. The accompanying schedule of revenues, expenses and balances student activity funds (page 32) and schedule of reported enrollment (page 33) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedule of revenues, expenses and balances student activity funds and schedule of reported enrollment 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 accompanying schedule of revenues, expenses and balances student activity funds and schedule of reported enrollment are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2015 on our consideration of Blue Creek School District No. 3 internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Blue Creek School District No. 3 internal control over financial reporting and compliance.

*Strom & Associates, P.C.*

STROM & ASSOCIATES, PC  
Billings, Montana  
June 22, 2015

STATEMENT OF NET POSITION  
 as of June 30, 2014

	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 469,719	\$ 11,775	\$ 481,494
Taxes Receivable	54,866	-	54,866
Due From Other Governments	288	-	288
Deposits	2,072	-	2,072
Total Current Assets	<u>526,945</u>	<u>11,775</u>	<u>538,720</u>
Capital Assets:			
Land	126,370	-	126,370
Net Depreciable Assets	591,938	-	591,938
Total Noncurrent Assets	<u>718,308</u>	<u>-</u>	<u>718,308</u>
Total Assets	<u>\$ 1,245,253</u>	<u>\$ 11,775</u>	<u>\$ 1,257,028</u>
<b>LIABILITIES:</b>			
Current Liabilities			
Other Current Liabilities	\$ 53,751	\$ -	\$ 53,751
Current Portions Compensated Absences	8,487	-	8,487
Total Current Liabilities	<u>62,238</u>	<u>-</u>	<u>62,238</u>
Noncurrent Liabilities:			
Long-Term Obligations	17,965	-	17,965
Compensated Absences	50,997	-	50,997
Total Noncurrent Liabilities	<u>68,962</u>	<u>-</u>	<u>68,962</u>
Total Liabilities	<u>131,200</u>	<u>-</u>	<u>131,200</u>
<b>NET POSITION:</b>			
Net investment in capital assets	718,308	-	718,308
Restricted	374,349	-	374,349
Unrestricted (Deficit)	21,396	11,775	33,171
Total Net Position	<u>1,114,053</u>	<u>11,775</u>	<u>1,125,828</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 1,245,253</u>	<u>\$ 11,775</u>	<u>\$ 1,257,028</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF ACTIVITIES  
 For the Fiscal Year Ended June 30, 2014

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charge for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
<b>GOVERNMENT OPERATIONS</b>						
Instructional Services	\$ 1,019,460	\$ 1,031	\$ 141,838	\$ (876,591)		\$ (876,591)
Support Services	791	-	500	(291)		(291)
Educational Media Services	67,404	-	-	(67,404)		(67,404)
General Administrative Services	154,725	-	-	(154,725)		(154,725)
Operation & Maintenance Services	121,001	-	-	(121,001)		(121,001)
Transportation Services	28,785	-	8,800	(19,985)		(19,985)
School Food Services	68,169	44,788	19,914	(3,467)		(3,467)
Extracurricular	7,096	-	-	(7,096)		(7,096)
Other Current Charges	607	-	-	(607)		(607)
Unallocated Depreciation Expense *	16,816	-	-	(16,816)		(16,816)
<b>Total Governmental Activities</b>	<u>1,484,854</u>	<u>45,819</u>	<u>171,052</u>	<u>(1,267,983)</u>		<u>(1,267,983)</u>
<b>BUSINESS-TYPE ACTIVITIES</b>						
Day Care	\$ 6,619	\$ 8,230	\$ -		\$ 1,611	1,611
<b>Total Business-type Activities</b>	<u>6,619</u>	<u>8,230</u>	<u>-</u>		<u>1,611</u>	<u>1,611</u>
<b>Total Primary Government</b>	<u>\$ 1,491,473</u>	<u>\$ 54,049</u>	<u>\$ 171,052</u>	<u>\$ (1,267,983)</u>	<u>\$ 1,611</u>	<u>\$ (1,266,372)</u>
<b>GENERAL REVENUES</b>						
District Levies				375,257	-	375,257
State Equalization				480,641	-	480,641
Other State Revenues				219,779	-	219,779
County				144,379	-	144,379
Interest				2,658	-	2,658
Other				5,104	-	5,104
<b>Total General Revenues</b>				<u>1,227,818</u>	<u>-</u>	<u>1,227,818</u>
<b>Change in Net Position</b>				<u>(40,165)</u>	<u>1,611</u>	<u>(38,554)</u>
<b>Net Position</b>						
Beginning of the Year				<u>1,154,218</u>	<u>10,164</u>	<u>1,164,382</u>
End of the Year				<u>\$ 1,114,053</u>	<u>\$ 11,775</u>	<u>\$ 1,125,828</u>

\* Excludes depreciation included in direct expenses of the various functions

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 as of June 30, 2014

	MAJOR					Other Governmental Funds	Total Governmental Funds
	General	Tuition	Retirement	Technology	Building		
<b>ASSETS:</b>							
Current Assets:							
Cash and Cash Equivalents	\$ 112,747	\$ 3,376	\$ 90,783	\$ 53,162	\$ 67,952	\$ 141,699	\$ 469,719
Taxes Receivable	36,473	9,855	-	-	-	8,538	54,866
Due From Other Governments	-	-	-	-	-	288	288
Deposits	-	-	-	-	-	2,072	2,072
<b>Total Assets</b>	<b>\$ 149,220</b>	<b>\$ 13,231</b>	<b>\$ 90,783</b>	<b>\$ 53,162</b>	<b>\$ 67,952</b>	<b>\$ 152,597</b>	<b>\$ 526,945</b>
<b>LIABILITIES:</b>							
Current Liabilities							
Other Current Liabilities	-	53,751	-	-	-	-	53,751
<b>Total Liabilities</b>	<b>-</b>	<b>53,751</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>53,751</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Unavailable Property Taxes Receivable	36,473	9,855	-	-	-	8,538	54,866
<b>Total Deferred Inflows of resources</b>	<b>36,473</b>	<b>9,855</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,538</b>	<b>54,866</b>
<b>FUND BALANCE:</b>							
Fund Balances:							
Restricted	-	-	90,783	53,162	67,952	144,059	355,956
Unassigned:	112,747	(50,375)	-	-	-	-	62,372
<b>Total Fund Balance</b>	<b>112,747</b>	<b>(50,375)</b>	<b>90,783</b>	<b>53,162</b>	<b>67,952</b>	<b>144,059</b>	<b>418,328</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 149,220</b>	<b>\$ 13,231</b>	<b>\$ 90,783</b>	<b>\$ 53,162</b>	<b>\$ 67,952</b>	<b>\$ 152,597</b>	<b>\$ 526,945</b>

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above		\$ 418,328
Governmental Capital Assets		718,308
Long-term Liabilities		
Long-Term Obligations		(17,965)
Compensated Absences		(59,484)
Unavailable Property Taxes Receivable		54,866
<b>Net Position of Governmental Activities</b>		<b>\$ 1,114,053</b>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

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

	MAJOR						Total Governmental Funds
	General	Tuition	Retirement	Technology	Building	Other Governmental Funds	
<b>REVENUES:</b>							
District Levies	\$ 266,706	\$ 67,545	\$ -	\$ -	\$ -	\$ 33,147	\$ 367,398
Interest	899	-	-	600	600	559	2,658
Charges for Services	-	-	-	-	-	45,819	45,819
Other	1,830	-	-	-	3,000	274	5,104
County	-	-	144,379	-	-	4,400	148,779
State	791,406	-	-	2,338	-	14,620	808,364
Federal	-	-	-	-	-	58,708	58,708
Total Revenues	<u>1,060,841</u>	<u>67,545</u>	<u>144,379</u>	<u>2,938</u>	<u>3,600</u>	<u>157,527</u>	<u>1,436,830</u>
<b>EXPENDITURES:</b>							
Current							
Instructional Services	758,840	60,651	123,534	-	-	63,046	1,006,071
Support Services	250	-	-	-	-	500	750
Educational Media Services	62,094	-	5,310	-	-	-	67,404
General Administrative Services	138,713	-	8,905	-	-	-	147,618
Operation & Maintenance Services	105,125	-	4,589	-	-	-	121,926
Transportation Services	-	-	1,104	-	3,719	8,493	28,785
School Food Services	-	-	3,714	-	-	27,681	68,976
Extracurricular	6,432	-	1,271	-	-	(607)	7,096
Other Current Charges	-	-	-	-	-	607	607
Total Expenditures	<u>1,071,454</u>	<u>60,651</u>	<u>148,427</u>	<u>-</u>	<u>3,719</u>	<u>164,982</u>	<u>1,449,233</u>
NET CHANGES IN FUND BALANCES	(10,613)	6,894	(4,048)	2,938	(119)	(7,455)	(12,403)
<b>FUND BALANCE:</b>							
Beginning of the Year	123,360	(57,269)	94,831	50,224	68,071	151,514	430,731
End of the Year	<u>\$ 112,747</u>	<u>\$ (50,375)</u>	<u>\$ 90,783</u>	<u>\$ 53,162</u>	<u>\$ 67,952</u>	<u>\$ 144,059</u>	<u>\$ 418,328</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Blue Creek School District No. 3  
Yellowstone County  
Billings, Montana 59101

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

Net Changes in Fund Balance		\$	(12,403)
Revenues on the Statement of Activity not included in governmental funds statement:			
Increase (decrease) in taxes receivable			7,859
Expenses on the Statement of Activity not included in the governmental funds statement:			
Depreciation Expense	(16,816)		
(Increase) decrease in Other Post Employment Benefits	(3,593)		
(Increase) decrease in compensated absence liability	<u>(15,212)</u>		<u>(35,621)</u>
Change in net position reported on the Statement of Activity		\$	<u>(40,165)</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Blue Creek School District No. 3  
Yellowstone County  
Billings, Montana 59101

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
as of June 30, 2014

	<u>MAJOR</u>
	<u>Daycare/Preschool</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 11,775
Total Assets	<u>\$ 11,775</u>
NET POSITION:	
Unrestricted (Deficit)	<u>11,775</u>
Total Net Position	<u>11,775</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 11,775</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Blue Creek School District No. 3  
 Yellowstone County  
 Billings, Montana 59101

STATEMENT OF REVENUES, EXPENSES, AND  
 PROPRIETARY FUNDS  
 For the Fiscal Year Ended June 30, 2014

	<u>MAJOR</u>
	<u>Daycare/Preschool</u>
OPERATING REVENUES:	
Charges for Services	8,230
Total Operating Revenues	<u>8,230</u>
OPERATING EXPENSES:	
Personal services	6,619
Total Operating Expense	<u>6,619</u>
OPERATING INCOME (LOSS)	<u>1,611</u>
CHANGE IN NET POSITION	<u>1,611</u>
NET POSITION:	
Beginning of the Year	10,164
End of the Year	<u>\$ 11,775</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Blue Creek School District No. 3  
 Yellowstone County  
 Billings, MT 59101

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 For the Year Ended June 30, 2014

Business-type Activities - Enterprise Funds

	<u>MAJOR</u>
	<u>Daycare/Preschool</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Customers	\$ 8,230
Payments to Employees	<u>(6,619)</u>
Net Cash Provided (Used) by Operating Activities	<u>1,611</u>
Net Increase (Decrease) In Cash and Cash Equivalents	1,611
BALANCE:	
Beginning of the Year	<u>10,164</u>
End of the Year	<u>\$ 11,775</u>

RECONCILIATION OF OPERATING INCOME (LOSS)  
 TO NET CASH PROVIDED (USED) BY OPERATING  
 ACTIVITIES:

Operating Income (Loss)	\$ <u>1,611</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,611</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 as of June 30, 2014

	Private Purpose	
	Trust Funds	Agency Funds
<b>ASSETS:</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 6,325	\$ 45,057
Total Assets	<u>6,325</u>	<u>45,057</u>
<b>LIABILITIES:</b>		
Current Liabilities		
Warrants Payable	-	41,986
Other Current Liabilities	-	3,071
Total Liabilities	<u>-</u>	<u>45,057</u>
<b>NET POSITION:</b>		
Restricted for Student Activities	<u>6,325</u>	
Total Net Position	<u>\$ 6,325</u>	

STATEMENT OF CHANGES IN FIDUCIARY NET  
 FIDUCIARY FUNDS  
 For the Fiscal Year Ended June 30, 2014

	Private Purpose
	Trust Funds
<b>ADDITIONS:</b>	
Revenues from Student Activities	\$ 16,962
Total Additions	<u>16,962</u>
<b>DEDUCTIONS:</b>	
Expenses of Student Activities	<u>20,838</u>
Total Deductions	<u>20,838</u>
CHANGE IN NET POSITION	(3,876)
<b>NET POSITION:</b>	
Beginning of the Year	<u>10,201</u>
End of the Year	<u>\$ 6,325</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

BLUE CREEK SCHOOL DISTRICT NO. 3

NOTES TO THE FINANCIAL STATEMENTS  
Fiscal Year-Ended June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of Blue Creek School District No. 3 (School 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 School District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

During fiscal year 2014 the School District adopted the following:

- GASB Statement No. 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The amendment revised existing guidance for financial report of pension systems for state and local government. The statement is applicable for fiscal year 2014. This statement affects the applicable retirement plan administration at the State level and did not have any effect on the School District.
- GASB Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees. The statement is applicable for fiscal year 2014. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The School District has not extend any financial guarantees to other parties. This statement has no effect on the financial statements.

The following are a listing of GASB statements which have been issued and the School District assessment of effects to the financial statements.

- GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. This statement revises and establishes new financial reporting requirement that provide employees with pension benefits. The statement is effective for fiscal year 2015. This statement will require the School District to expand its pension foot note disclosures. The School District plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.
- GASB Statement No. 69 – Government Combinations and Disposals of Government Operations. The statement is applicable for fiscal year 2015. The statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The School District is not merging with another School District or ceasing to exist. This statement has no effect on the financial statements.
- GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. This statement amends paragraph 137 of statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The School District plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.

The School District consists of one legal entity, an elementary district which provides education for kindergarten through eighth grade. The board of trustees is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations.

The Blue Creek School District No. 3 was incorporated under the laws of the State of Montana and as required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Blue Creek School District No. 3 (the primary government) and any component units. The criteria for including organizations as component units within the School District's reporting entity is set forth in Section 2100 of the Governmental Accounting Standards Board's (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 School 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 School District. Based on those criteria the School District has no component units.

1. b. BASIS OF PRESENTATION AND ACCOUNTING

1. b. 1 GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements include the statement of net position and the statement of activities. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds (primary government). Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

BLUE CREEK SCHOOL DISTRICT NO. 3

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

The government-wide financial statements report using the economic resource measurement focus and the accrual basis of accounting generally including the elimination of internal activity between or within funds. Revenues are recorded when earned and expenses are recorded when a 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.

Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

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:

- Charges for services such as school lunch fees and facility rental fees.
- Operating grants that are restricted to a particular functional program.

Property taxes, investment earnings, state equalization payments, and other revenue sources not properly included with program revenue are reported as general revenues.

1. b. 2 FUND ACCOUNTING

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. The student activity fund and endowment fund are displayed as fiduciary funds. Since the resources in the fiduciary funds cannot be used for School District operations, they are not included in the entity-wide statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balance are included on the balance sheet. Operating statement of these funds present net increases and decreases in current assets. Revenues are recorded when they are both measurable and available. Available means collectible within the current period anything collected after June 30 are generally not material. Unavailable income are recorded in governmental funds for delinquent taxes. Expenditures are recorded when the related fund liability is incurred except for compensated absence payments which are recognized when due.

Revenues from local sources consist primarily of property taxes. Property tax revenue and revenues received from the State of Montana are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. Cost reimbursement grant funds are considered to be both measurable and available to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received and the expenditure has not been incurred they are recorded as unearned grant revenues because the revenues are available. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary, trust and agency fund financial statements report using the economic resources measurement focus and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the day care fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

GASB Statement No. 34 requires the general fund be reported as a major fund. Other individual governmental and enterprise funds should be reported in separate columns as major funds based on these criteria:

- Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category or type (that is, total governmental or total enterprise funds), and

BLUE CREEK SCHOOL DISTRICT NO. 3

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

- Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that government officials believe is particularly important to financial statement users may be reported as a major fund.

The School District reports the following major governmental funds:

- General Fund – The General Fund is the general operating fund of the School District and accounts for all revenues and expenditures of the School 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.
- Retirement Fund – This fund is used to account for financing the employer's contribution to the Teachers' Retirement System (TRS), the Public Employees' Retirement System (PERS), Unemployment Compensation, Social Security and Medicare benefits for School District employees. County wide levies to this fund are to be based upon projected salaries for the fiscal year.
- Tuition Fund – This fund is used to account for the accumulation of funds set aside for District students to attend other School District's. Blue Creek School District seventh and eighth grade students attend Billings School District No. 2 because of space limitations at Blue Creek School District.
- Technology Fund – This fund is used to account for the accumulation of funds set aside for the District to purchase, rent, repair, and maintain technological equipment and to provide technical training for district personnel.
- Building Fund – This fund is used to account for funds received building related projects. The current year funds were received from insurance proceeds from flooding. The use of the funds is limited to general repair and maintenance of the School District's buildings.

1. b. 3 OTHER FUND TYPES

Private-Purpose Trust Funds – Accounts for the receipt and disbursement of monies from student activity organizations, as well as any donated scholarship funds. These organizations exist with the explicit approval of and are subject to revocation by the School District's Board of Trustees. This accounting reflects the School District's trust relationship with the student activity organizations and any scholarship commitments.

Agency Funds – Account for assets that the School District holds on behalf of others as their agent in the payroll and claims clearing funds and employee payroll tax withholdings. Cash is held for warrants which were written but have not been paid by the County Treasurer. A warrant is an order by which the drawer (the person with authority to make the order) commands the School District trustee to pay a particular sum of money to a payee (person or entity) from funds in the School District treasury which are or may become available.

1. c. ASSETS, LIABILITIES AND NET POSITION (FUND BALANCE)

1. c. 1 CASH AND INVESTMENTS

Cash includes amounts in demand deposits, as well as short-term investments as authorized by State statutes. Montana Code Annotated (MCA) allows Montana local governments 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. Investments are recorded at fair market value.

Information regarding the collateral and security for cash is not available to the School 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 Yellowstone County County's financial statements. This investment pool is not registered with or monitored by the Securities and Exchange Commission (SEC).

BLUE CREEK SCHOOL DISTRICT NO. 3

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

For purposes of the statement of cash flows, the School District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

1. c. 2 TAXES

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

Property taxes are collected by the County Treasurer who credits to the School 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 School District receives its share of the sale proceeds of any such auction.

Taxes that become delinquent are charged interest at the rate of 5/6 of 1% per month plus a penalty of 2%. After a period of three years, the County may begin foreclosure proceedings and sell real property at auction. In the case of personal property, the property may be seized and sold after the taxes become delinquent.

1. c. 3 INVENTORIES

Materials, supplies and food inventory at year end was not material. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

1. c. 4 CAPITAL ASSETS

The School District's property, plant and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Historical cost was established at the initial booking of the capital assets by determining actual costs or estimating using standard costing procedures. The School District considers capital assets to be items in excess of \$5,000 with a useful life in excess of one year. The costs of normal maintenance and repair are not capitalized. Land and construction in progress are not depreciated. Depreciation on the other capital assets is provided over their estimated useful lives on the straight-line method. The useful lives of these assets have been estimated as follows:

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings	20 – 80 years
Machinery and Equipment	5 – 8 years

1.c. 5 DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable, is reported only in the governmental funds balance sheet. The governmental funds report unavailable from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

1.c. 6 VACATION AND SICK LEAVE

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

Certified School District employees shall accrue 8 days of sick leave each year. Unused sick leave will be accruable to 40 days after which it is paid out at year end at \$98 per day.

BLUE CREEK SCHOOL DISTRICT NO. 3

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

Liabilities incurred because of unused vacation and sick leave accumulated by employees are 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 \$8,487 and it is generally paid out of the general fund.

1.c. 7 NET POSITION AND FUND BALANCE

Statement of Net Position include the following:

- Net Investment in Capital Assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of these capital assets.
- Restricted – The component of net position that is either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – The difference between the assets and liabilities that is not reported in the other element of net position.

Governmental fund financial statements include the following fund balances:

- Restricted – Includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Unassigned – Amounts that are available for any purpose; these amounts are reported only in the general fund or funds that have negative fund balances.

As of June 30, 2014, fund balance components other than unassigned fund balance consist of the following:

<u>Purpose</u>	<u>Restricted</u>
Instructional - Regular	\$ 18,166
Student Transportation	15,228
School Food	24,788
Third Party Grantor Restrictions	41,814
Employer Retirement Benefits	97,673
Future Technology	53,162
Future Capital Costs	94,867
Debt Service	10,258
Total	<u>\$ 355,956</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District considers restricted funds to have been spent first.

1. d. OTHER

1. d. 1 USE OF 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 and the disclosure of 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.

1.d. 2 COUNTY PROVIDED SERVICES

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

BLUE CREEK SCHOOL DISTRICT NO. 3

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2014, the summary of cash, cash equivalents for governmental and business-type activities, and fiduciary funds is as follows:

<u>Account Type</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 469,719	\$ 11,775	\$ 51,382	\$ 532,876

The carrying amount of cash on hand, deposits and investments at June 30, 2014, is as follows:

	<u>Amount</u>
Demand Accounts	\$ 6,326
County Investment Pool	526,550
Total	<u>\$ 532,876</u>

Cash resources of the School District are held and managed by the Yellowstone County Treasurer pursuant to State Law. They are combined with cash resources of other governmental entities within Yellowstone County to form a pool of cash and cash equivalents. Investments of pooled cash consist primarily of U.S. government securities and repurchase agreements and are carried at fair value. The School District's exposure to credit risk is not available to the School District. Risk in the event of loss is unclear in state law, but appears to be the liability of the Yellowstone County government. Because of the custodial involvement of the Yellowstone County government, and the commingling of cash in County deposits in the name of the Yellowstone County Treasurer, full risk classifications according to GASB 40 are available in the Yellowstone County's annual report. There is no known maturity and credit rating of the Yellowstone County Investment Pool.

Custodial credit risk-deposits: The cash of the extracurricular funds is held separately by the School District, not at Yellowstone County and the deposits may be subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2014, the deposits in the extracurricular fund were covered by FDIC insurance.

NOTE 3. TAXES RECEIVABLE

The School District is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The assessed value of the roll as of January 1, 2013, upon which the levy for the 2014 fiscal year was based, was \$4,264,362. The tax rates assessed for the year ended June 30, 2014 to finance School District operations and applicable taxes receivable were as follows:

<u>Elementary Fund</u>	<u>Mill Levies</u>	<u>Taxes Receivable</u>
General*	63.93	\$ 36,473
Transportation	3.54	2,270
Tuition*	16.22	9,855
Adult Education	4.43	2,318
Debt Service	.00	187
Building Reserve	.00	3,763
Total	<u>88.12</u>	<u>\$ 54,866</u>

\* Denotes Major Funds

NOTE 4. DUE FROM OTHER GOVERNMENTS

<u>Elementary Fund</u>	<u>Amount</u>	<u>Due From</u>	<u>Reason</u>
School Food Services	\$ 288	State of MT	Matching payment

BLUE CREEK SCHOOL DISTRICT NO. 3

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

NOTE 5. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

5. a. At June 30, 2014, the schedule of changes in general capital assets follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2014</u>
<u>Non-depreciable:</u>			
Land	\$ 126,370	\$ 0	\$ 126,370
<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2014</u>
<u>Depreciable:</u>			
Buildings	\$ 853,123	\$ 0	\$ 853,123
Machinery and equipment	30,477	0	30,477
Total Depreciable	<u>\$ 883,600</u>	<u>\$ 0</u>	<u>\$ 883,600</u>
<u>Accumulated Depreciation:</u>			
Buildings	\$ (267,053)	\$ (12,565)	\$ (279,618)
Machinery and equipment	(7,794)	(4,250)	(12,044)
Total Depreciation	<u>\$ (274,847)</u>	<u>\$ (16,815)</u>	<u>\$ (291,662)</u>
Net Depreciable Assets	<u>608,753</u>	<u>(16,815)</u>	<u>591,938</u>
Net General Capital Assets	<u>\$ 735,123</u>	<u>\$ (16,815)</u>	<u>\$ 718,308</u>

5. b. General capital asset depreciation expense was charged to governmental functions as follows:

<u>Function</u>	<u>Amount</u>
Unallocated	\$ 16,815

NOTE 6. CHANGES IN LONG-TERM DEBT

6. a. At June 30, 2014, the schedule of changes in general long-term debt follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>New Debt</u> <u>and Other</u> <u>Additions</u>	<u>Principal</u> <u>Payments</u> <u>and Other</u> <u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due within</u> <u>One Year</u>
<u>Other Liabilities:</u>					
Compensated Absences	\$ 44,273	\$ 15,211	\$ 0	\$ 59,484	\$ 8,487
Other Post-Employment Benefits (OPEB)	14,372	3,593	0	17,965	0
Total Governmental Activities - Long-Term Debt:	<u>\$ 58,645</u>	<u>\$ 18,804</u>	<u>\$ 0</u>	<u>\$ 77,449</u>	<u>\$ 8,487</u>

NOTE 7. DEFERRED INFLOWS OF RESOURCES

7. a. PROPERTY TAXES

<u>Elementary Fund</u>	<u>Amount</u>	<u>Reason</u>
General*	\$ 36,473	Taxes Receivable
Transportation	2,270	Taxes Receivable
Tuition	9,855	Taxes Receivable
Adult Education	2,318	Taxes Receivable
Debt Service	187	Taxes Receivable
Building Reserve	3,763	Taxes Receivable
Total	<u>\$ 54,866</u>	

\* Denotes Major Funds

BLUE CREEK SCHOOL DISTRICT NO. 3

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

NOTE 8. DEFICIT FUND BALANCES

<u>Elementary Fund</u>	<u>Amount</u>	<u>How to Correct</u>
Tuition *	<u>\$ (50,375)</u>	The school district is billed by Billings School District #2 after fiscal year end. Taxes are levied in the subsequent year to cover the deficit fund balance.
* Denotes Major Funds		

NOTE 9. OTHER POST EMPLOYMENT BENEFITS

Plan Description - The School District provides the same health care plan to all of its members. The implicit subsidy is \$856 per member and spouse. The School District had fewer than 100 plan participants and thus qualified to use an Alternative Measurement Method instead of an actuarial valuation to determine the OPEB liability. Valuations involve estimates of the reported amounts and assumptions about the probability of events far into the future and estimated amounts are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for the plan are based on types of benefits provided under the current plan. The valuation assumed that 10% of plan participants would elect to continue coverage after retirement.

Funding Policy - The government pays OPEB liabilities on a pay as you go basis. The trust fund for future liabilities has not been established. Funding status and progress as of July 1, 2014 was as follows:

Actuarial Accrued Liability (AAL)	\$ 26,423
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>26,423</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 790,244
UAAL as a percentage of covered payroll	3%

Annual OPEB Cost and Net OPEB Obligations - The government's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), 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 government's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the government's net OPEB obligation for the valuation performed at July 1, 2013.

Annual Required Contribution (ARC)	\$ 3,593
Interest on net OPEB obligation	0
Adjustment to ARC	<u>0</u>
Annual OPEB cost (expense)	3,593
Contribution made	<u>0</u>
Increase in net OPEB obligation	3,593
Net OPEB obligation - beginning of year	<u>14,372</u>
Net OPEB obligation - end of year	<u>\$ 17,965</u>

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

Actuarial Cost Method	Unit Credit Cost Method
Average age of retirement (based on historical data)	65
Discount rate (average anticipated rate)	4.0%
Average Salary Increase	3.0%
Health care cost rate trend	
Year	% Increase
2015 and after	3.0%

BLUE CREEK SCHOOL DISTRICT NO. 3

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

NOTE 10. RISK MANAGEMENT

The School 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 School District has joined with other School Districts throughout the state into an interlocal common risk pool to insure workers compensation for all participating School Districts in a self-insurance pool. The Workers Compensation Risk Retention Program is managed by a board of directors elected annually. Members are responsible for fully funding the Workers Compensation Risk Retention Program through the payment of annual premiums accessed. There is no other liability to the School District other than timely payments of premiums. The School District can withdraw from the Workers Compensation Risk Retention Program with 60 days' notice at any time. The School District has no coverage for potential losses from environmental damages.

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 11. EMPLOYEE RETIREMENT SYSTEM

The School District participates in two state-wide, cost-sharing multiple employer defined benefit retirement plans which cover all School 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.

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:

Teachers Retirement System  
P.O. Box 200139  
1500 Sixth Avenue  
Helena, MT 59620-0139  
Phone: 406-444-3134  
[www.trs.doa.state.mt.us](http://www.trs.doa.state.mt.us)

Public Employees Retirement System  
P.O. Box 200131  
1712 Ninth Avenue  
Helena, MT 59620-0131  
Phone: 406-444-3154  
[www.state.mt.us/doa/perb/prb.htm](http://www.state.mt.us/doa/perb/prb.htm)

The PERS defined benefit contribution rates for employees was 7.9%. The PERS rate for the State was set at .37%. For the defined contribution plan the rates are the same except only 4.19% of the employer amount is added to the employee account. Employees who elect the defined contribution plan are in control of their investments and the retirement is based upon the cash in their fund. The PERS rate for employers was 7.8%. The TRS rates for employees was 8.15% and the State was set at 2.49%. The TRS rate for employers was 8.47%. The State's contribution to the retirement system qualifies as an on-behalf payment and has not been reported in the School District's financial statements.

Contribution rates for both plans are required and determined by State law. 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, School 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	\$ 107,929	\$ 112,829	\$ 132,723
PERS	<u>15,029</u>	<u>16,074</u>	<u>18,084</u>
Total	<u>\$ 122,958</u>	<u>\$ 128,903</u>	<u>\$ 150,807</u>

BLUE CREEK SCHOOL DISTRICT NO. 3

NOTES TO THE FINANCIAL STATEMENTS (continued)

Fiscal Year-Ended June 30, 2014

NOTE 12. COOPERATIVE

12. a. SPECIAL EDUCATION

The Blue Creek School District No. 3 is a member of the Yellowstone West/Carbon County Special Education 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 Blue Creek School District No. 3, and the financial statements of the Cooperative are not included in the School Districts' financial statements. The Cooperative's financial statements are audited separately from those of the School 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 Yellowstone County Treasurer. The Superintendent of Public Instruction may directly deposit to the Cooperative the State and Federal portion of any participating member School District's budgeted costs for contracted special education services. All capital 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.

NOTE 13. CONTINGENCIES

The government participates in various federal grant programs, the principal of which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the government's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the government anticipates such amounts, if any, will be immaterial.

NOTE 14. TRANSPORTATION

The School District has an agreement with the Billings School District No. 2 for its seventh and eighth grade student transportation needs. The Billings School District No. 2 provides buses, drivers, and maintenance of the buses for the seventh and eighth grade student transportation needs.

This agreement is done annually since the Blue Creek seventh and eighth graders attend Billings School District No. 2. Charges include per mile fees with adjustments for fuel and mileage changes. Transportation fees paid to Billings School District No. 2 in fiscal year 2014 were \$6,150.

BLUE CREEK SCHOOL DISTRICT NO. 3

SCHEDULE OF FUNDING PROGRESS  
 Other Post-Employment Benefits Other Than Pensions (OPEB)  
 Fiscal Year-Ended June 30, 2014

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a) / c</u>
7/1/2012	\$ -	\$ 26,423	\$ 26,423	0%	\$ 790,244	3%

This schedule is based on the actuarial values as of July 1, 2012. Information for prior years is not available.

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

	General			Tuition		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>REVENUES:</b>						
District Levies	\$ 272,649	\$ 272,649	\$ 266,706	\$ 69,169	\$ 69,169	\$ 67,545
Interest	900	900	899	-	-	-
Other	716	716	1,830	-	-	-
County	-	-	-	-	-	-
State	791,406	791,406	791,406	-	-	-
<b>Total Revenues</b>	<u>1,065,671</u>	<u>1,065,671</u>	<u>1,060,841</u>	<u>69,169</u>	<u>69,169</u>	<u>67,545</u>
<b>EXPENDITURES:</b>						
Current						
Instructional Services			754,378			60,651
Support Services			250			-
Educational Media Services			62,094			-
General Administrative Services			138,713			-
Operation & Maintenance Services			105,125			-
Transportation Services			-			-
Retirement & Insurance Services			-			-
School Food Services			-			-
Extracurricular			6,432			-
<b>Total Expenditures</b>	<u>1,076,160</u>	<u>1,076,160</u>	<u>1,066,992</u>	<u>73,701</u>	<u>73,701</u>	<u>60,651</u>
<b>NET CHANGES IN FUND BALANCES</b>	(10,489)	(10,489)	(6,151)	(4,532)	(4,532)	6,894
<b>FUND BALANCE:</b>						
Beginning of the Year			118,898			(57,269)
End of the Year			<u>\$ 112,747</u>			<u>\$ (50,375)</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

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

	Retirement			Technology		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>REVENUES:</b>						
District Levies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-	-	600
Other	-	-	-	-	-	-
County	144,379	144,379	144,379	-	-	-
State	-	-	-	2,338	2,338	2,338
<b>Total Revenues</b>	<b>144,379</b>	<b>144,379</b>	<b>144,379</b>	<b>2,338</b>	<b>2,338</b>	<b>2,938</b>
<b>EXPENDITURES:</b>						
<b>Current</b>						
Instructional Services	174,449	174,449	123,534	-	-	-
Support Services	-	-	-	-	-	-
Educational Media Services	5,310	5,310	5,310	-	-	-
General Administrative Services	8,905	8,905	8,905	-	-	-
Operation & Maintenance Services	4,589	4,589	4,589	-	-	-
Transportation Services	1,104	1,104	1,104	-	-	-
Retirement & Insurance Services	3,714	3,714	3,714	-	-	-
School Food Services	1,271	1,271	1,271	-	-	-
Extracurricular	-	-	-	-	-	-
<b>Total Expenditures</b>	<b>199,342</b>	<b>199,342</b>	<b>148,427</b>	<b>52,562</b>	<b>52,562</b>	<b>-</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>(54,963)</b>	<b>(54,963)</b>	<b>(4,048)</b>	<b>(50,224)</b>	<b>(50,224)</b>	<b>2,938</b>
<b>FUND BALANCE:</b>						
Beginning of the Year			94,831			50,224
End of the Year			<u>\$ 90,783</u>			<u>\$ 53,162</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

BLUE CREEK SCHOOL DISTRICT NO. 3

NOTES TO THE BUDGET AND ACTUAL SCHEDULE  
Fiscal Year-Ended June 30, 2014

NOTE 1. BUDGETS

1. a. 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, Tuition, Retirement, Adult Education, Technology), debt service fund, and budgeted capital project funds (Building Reserve). All annual appropriations lapse at fiscal year-end, unless the School District elects to encumber supplies and personal property ordered but not received at year end.

1. a. 1 GENERAL BUDGET POLICIES:

The School District's funds are either budgeted or non-budgeted in accordance with State statutes. Budgeted funds are those of which a legal budget must be adopted to have expenditures from such funds and are noted above. All other funds are non-budgeted, 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 vs. Actual, has been prepared on the modified accrual basis of accounting and contains financial information for only the major general and special revenue fund budgeted funds. The major fund building is not included in the schedule because it is not a special revenue fund and is a non-budgeted fund.

1. a. 2 BUDGET OPERATION:

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

- By the second Monday in July, the County Assessor transmits a statement of the assessed valuation and taxable valuation of all property in the School District's borders.
- Before the fourth Monday in July, the County Superintendent estimates the revenue required for each fund.
- Before the fourth Monday in August, the Board of Trustees must meet to legally adopt the final budget. The final budget for the general fund is fund total only.
- 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.
- According to State statutes, the expenditures of a budgeted fund may not legally exceed the adopted budget.
- At the end of a fiscal year, unencumbered appropriations lapse unless specifically obligated by the School District.

NOTE 2. BUDGET AMENDMENT

The original budget was not amended so the original budget and the final budget are the same.

Blue Creek School District No. 3  
 Schedule of Revenues, Expenses and Balances  
 Student Activity Funds  
 Fiscal Year-Ended June 30, 2014

Activity Account Name	Beginning Balance <u>7/1/2013</u>	Revenues	Expenses	Ending Balance <u>6/30/2014</u>
6TH GRADE	1,584	1,922	3,120	386
EXXON	1,750	500	-	2,250
GENERAL	5,752	8,983	12,479	2,256
LIBRARY	157	1,544	1,698	3
ORCHESTRA	<u>958</u>	<u>6,130</u>	<u>5,658</u>	<u>1,430</u>
<b>Total</b>	<u><u>10,201</u></u>	<u><u>19,079</u></u>	<u><u>22,955</u></u>	<u><u>6,325</u></u>

BLUE CREEK SCHOOL DISTRICT NO. 3

SCHEDULE OF REPORTED ENROLLMENT  
Fiscal Year-Ended June 30, 2014

FALL ENROLLMENT - OCTOBER, 2013

Elementary			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	30	30	0
Grade 1 - 6	<u>168</u>	<u>168</u>	<u>0</u>
Total	<u>198</u>	<u>198</u>	<u>0</u>
Part-time Students			
Less than 181 hours	0	0	0
Less than 359 hours	0	0	0
Less than 539 hours	0	0	0
Less than 719 hours	<u>0</u>	<u>0</u>	<u>0</u>
Total Part-time	<u>0</u>	<u>0</u>	<u>0</u>
19 year olds	<u>0</u>	<u>0</u>	<u>0</u>

WINTER ENROLLMENT - DECEMBER, 2013

Elementary			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	30	30	0
Grade 1 - 6	<u>167</u>	<u>167</u>	<u>0</u>
Total	<u>197</u>	<u>197</u>	<u>0</u>
Part-time Students			
Less than 181 hours	0	0	0
Less than 359 hours	0	0	0
Less than 539 hours	0	0	0
Less than 719 hours	<u>0</u>	<u>0</u>	<u>0</u>
Total Part-time	<u>0</u>	<u>0</u>	<u>0</u>
19 year olds	<u>0</u>	<u>0</u>	<u>0</u>

SPRING ENROLLMENT - FEBRUARY, 2014

Elementary			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	32	32	0
Grade 1 - 6	<u>171</u>	<u>171</u>	<u>0</u>
Total	<u>203</u>	<u>203</u>	<u>0</u>
Part-time Students			
Less than 181 hours	0	0	0
Less than 359 hours	0	0	0
Less than 539 hours	0	0	0
Less than 719 hours	<u>0</u>	<u>0</u>	<u>0</u>
Total Part-time	<u>0</u>	<u>0</u>	<u>0</u>
19 year olds	<u>0</u>	<u>0</u>	<u>0</u>

STROM & ASSOCIATES, PC  
Certified Public Accountants  
P.O. Box 1980  
Billings, Montana 59103

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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  
Blue Creek School District No. 3  
Yellowstone County  
Billings, MT 59101

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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Blue Creek 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 Blue Creek School District No. 3's basic financial statements and have issued our report thereon dated June 22, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Blue Creek 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies as items 2014-001.

**Compliance and Other Matters**

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

**Blue Creek School District No. 3's Response to Findings**

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District'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 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.

*Strom & Associates, P.C.*

STROM & ASSOCIATES, PC  
Billings, Montana  
June 22, 2015

BLUE CREEK SCHOOL DISTRICT NO. 3

SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year-Ended June 30, 2014

There were no findings or recommendations in the prior audit report and the following were noted for the fiscal year ended June 30, 2014.

Finding Number 1 - Student Activity Cash Receipting:

Criteria: Montana Association of School Business Officials (MASBO) Student Activity Fund Accounting handbook requires all monies received for student activities to have a receipt written for each amount collected by the Student Activities Custodian.

Condition: The receipt book was only used for cash collections from individuals and not all money collected for student activities.

Context: Receipts were written for \$1,257 of cash collections rather than the entire \$15,807 of revenues.

Effect: The effect was a lack of documentation for revenue received for student activities.

Cause: This was caused by not following the guidance of the MASBO handbook due to an element of the schools internal control system being bypassed.

Recommend: We recommend the District implement the MASBO's student activities handbook policies for Student Activities.

Also, we recommend receipts are issued for all monies received including checks and concession sales. Receipts must include the following information: Date of receipt issued, payer (sponsor or student paying money to fund custodian), amount received, purpose, and the designated fund/funds to which the money are to be deposited. The total of the receipts should total to the amounts written on deposit slips.

Auditee Response: Blue Creek schools will develop procedures to capture receipts/records as needed following policies set forth in the MASBO's student activities handbook