

**SUPERIOR PUBLIC SCHOOLS
DISTRICT NUMBER 3, MINERAL COUNTY
SUPERIOR, MONTANA**

**FINANCIAL AND
COMPLIANCE
REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2014**

DONALD NOLAN DAVIES
Certified Public Accountant

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**SUPERIOR PUBLIC SCHOOLS
DISTRICT NO. 3, MINERAL COUNTY
SUPERIOR, MONTANA**

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**SUPERIOR PUBLIC SCHOOLS
DISTRICT NO. 3, MINERAL COUNTY
SUPERIOR, MONTANA**

ORGANIZATION

JUNE 30, 2014

BOARD OF TRUSTEES

Michelle Parkin	Chair
Darin Haskins	Vice Chair
Guy Gould	Trustee
Kate DiGiando	Trustee
Richard Milender	Trustee

OFFICIALS

Scott Kinney	District Superintendent
Merry C. Mueller	Clerk of the Board
Marcia Boris	County Attorney
Mary Yarnall	County Superintendent of Schools

SUPERIOR PUBLIC SCHOOLS

DISTRICT No. 3

Post Office Box 400
Superior, Montana 59872

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Fax (406) 822-4396 • Fax (406) 822-3601 • Fax (406) 822-3601

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

This management's discussion and analysis provides an overview of the School's financial activities for the fiscal year ended June 30, 2014. Please read it along with the School's financial statements which begin on page 12.

FINANCIAL HIGHLIGHTS

The School's financial operations in 2014 grew due to increased mental health program, retirement, and payroll costs and a one time payment to the State. Net position decreased by \$211,000 while total revenues increased by \$80,000 and total expenses increased by \$291,000. As mandated by the Montana legislature, the District made a one-time payment to the Teachers Retirement System of \$60,000 to help bring the system back to an actuarially sound basis.

USING THIS ANNUAL REPORT

This annual report consists of financial statements for the School as a whole with more detailed information for certain School funds. The Statement of Net Position and the Statement of Activities (pages 12 and 13) provide information about the activities of the School as a whole and present a long-term view of the School's finances (they include capital assets and long-term liabilities).

The fund financial statements present a short-term view of the School's activities (they include only current assets expected to be collected in the very near future and liabilities expected to be paid in the very near future). They present detailed information about the School's general fund and certain other funds. There is also summarized financial information about the student activity trust fund for which the School acts as trustee.

THE SCHOOL AS A WHOLE

One important question asked about the School's finances is, "Is the School better or worse off as a result the year's activities?" The information in the government-wide financial statements helps answer this question. These statements include all assets, deferred inflows of resources, liabilities, and deferred outflows of resources using the accrual basis of accounting (and report depreciation on capital assets), which is similar to the basis of accounting used by most private-sector companies.

The change in net position (the difference between total assets, deferred inflows and outflows of resources, and total liabilities) over time is one indicator of whether the School's financial health

is improving or deteriorating. However, you need to consider other nonfinancial factors in making an assessment of the School's health, such as changes in enrollment, changes in the State's funding of educational costs, changes in the economy, changes in the School's tax base, etc. to assess the overall health of the School.

Changes in the School's net assets (rounded to the nearest \$1,000) were as follows:

	2014	2013	Change	%
Current assets	\$1,024,000	\$1,243,000	(\$219,000)	(18)%
Capital assets - net	3,445,000	3,448,000	(3,000)	0%
Total assets	4,469,000	4,691,000	4,469,000	95%
Current liabilities	66,000	72,000	(6,000)	(8)%
Non-current liabilities	148,000	153,000	(5,000)	(3)%
Total liabilities	214,000	225,000	(11,000)	(5)%
Net position	\$4,255,000	\$4,466,000	\$4,480,000	

Net position consist of:

Net investment in capital assets ..	\$3,445,000	\$3,448,000	(\$3,000)	0%
Restricted	566,000	794,000	(228,000)	(29)%
Unrestricted	244,000	224,000	20,000	9%
Net position	\$4,255,000	\$4,466,000	(\$211,000)	

The decrease in restricted net position was the result of a variety of activity. Legislative changes resulted in a one time payment to the Teacher's Retirement System resulted in a decrease in the restricted net position. The District purchased computer equipment for the classrooms and purchased two buses. The investment in capital assets remained stable as the bus purchases and other additions mostly offset depreciation expense.

Changes in the School's program revenues (rounded to the nearest \$1,000) were as follows:

	2014	2013	Change	%
Program revenues:				
Federal program revenue	\$300,000	\$341,000	(\$41,000)	(12)%
State funding	486,000	385,000	101,000	26%
County transportation funding	47,000	44,000	3,000	7%
Sale of meals and other fees	36,000	33,000	3,000	9%
Total program revenue	\$869,000	\$803,000	\$66,000	8%

The District expanded its Comprehensive School Community Treatment (CSCT) program to better meet the mental health needs of the students. In 2013, the District participated in the 21st Century Grant program, a federal program, however the program was not continued in 2014.

Changes in the School's general revenues (rounded to the nearest \$1,000) were as follows:

General revenues:	2014	2013	Change	%
District property taxes	\$1,111,000	\$1,161,000	(\$50,000)	(4)%
County property taxes	362,000	306,000	56,000	18%
State revenue	1,669,000	1,699,000	(30,000)	(2)%
Gain on sale of capital assets	26,000		26,000	100%
Investment earnings	9,000	6,000	3,000	50%
Other	12,000	3,000	9,000	300%
Total general revenue	3,189,000	3,175,000	14,000	0%
Total program revenue	869,000	803,000	66,000	8%
Total revenue	<u>\$4,058,000</u>	<u>\$3,978,000</u>	<u>\$80,000</u>	2%

District property taxes decreased due to the School paying off their general obligation bonds and did not required any more taxes revenues for debt service. Even through the high school enrollment stabilized, the calculation of the certain state revenues were based on a three year rolling average which results in a decrease in state revenues.

Changes in expenses (rounded to the nearest \$1,000) were as follows:

Expenses:	2014	2013	Change	%
Instruction:				
Regular programs	\$1,717,000	\$1,516,000	\$201,000	13%
Other programs	570,000	575,000	(5,000)	(1)%
Instructional support	518,000	350,000	168,000	48%
Administration	462,000	569,000	(107,000)	(19)%
Operation and maintenance	368,000	358,000	10,000	3%
Student transportation	214,000	179,000	35,000	20%
School food	174,000	164,000	10,000	6%
Extracurricular	122,000	136,000	(14,000)	(10)%
Interest expense		4,000	(4,000)	(100)%
Unallocated depreciation	124,000	127,000	(3,000)	(2)%
Total expenses	4,269,000	3,978,000	291,000	7%
Less program revenue	869,000	803,000	66,000	8%
Net expenses	3,400,000	3,175,000	225,000	7%
Less general revenues	3,189,000	3,175,000	14,000	0%
Change in net position	<u>(\$211,000)</u>	<u>\$0</u>	<u>(\$211,000)</u>	??

Overall expenses increased 7% due to the requirement payment to the Montana Teachers Retirement System, the purchase of computers, and the expanded CSCT mental health program. 2013 administration expense was more due to a one time payment of accrued benefits.

CAPITAL ASSET AND DEBT ADMINISTRATION

Purchases included new equipment and vehicles, including two school bus, and projects to improve the school grounds. Details of the changes in capital assets are shown in Note 4 on page 23 and details of the changes in long-term debt are shown in Note 5 on page 24.

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the most significant of the School's funds. Generally accepted accounting principles (GAAP) requires the School to provide certain detailed information for its "major" funds.

Major funds are defined as the general fund and other funds where either the assets, liabilities, deferred inflow/outflows of resources, revenues, or expenditures exceed 10% of total governmental fund amounts. In 2014, the bus depreciation, transportation, and miscellaneous programs funds exceeded one or more of the four 10% thresholds.

The governmental funds financial statements provide a short-term view of the School's operations. They are reported using an accounting method called modified accrual accounting which measures amounts using only cash and other short-term assets and liabilities (receivables and payables) that will soon be converted to cash or will soon be paid with cash.

As shown on page 16, governmental fund balances decreased \$192,000 in 2014 as compared to a decrease of \$211,000 change in the government-wide net position. The difference is explained on page 17. The general fund remained stable in 2014.

GAAP requires the School to present, as supplemental information, the budget to actual comparisons for the general fund and all budgeted special revenue funds. This information is included on page 28 and 29 for the general and other budgeted special revenue funds. The miscellaneous programs fund is an unbudgeted special revenue fund.

THE FUTURE OF THE DISTRICT

In 2013 we received a \$23,000 grant from the Montana State Department of Natural Resources and Conservation (DNRC) and hired McKinstry to analyze all our buildings for energy efficiency. Over the course of three months, engineers from McKinstry poured over all three of our buildings and conducted energy efficiency and structural safety audits. Subsequently, the team found the junior high building (a repurposed grocery store build in 1960) was grossly deficient with poor ambient air quality, exceptionally poor heat retention and complete lack of air turnover, especially in the shop area. Water issues have caused the west end of the building to settle disproportionately causing significant heat leaking between the roof and the top of the outer walls. The heating systems (circa 1954) are fed by diesel pumps up into the ceiling and there is concern of heating oil dripping on/in the kiln area causing potential fire danger. The building has also experienced roof leaks as the membrane style roof that was installed in 1992 is cracked and failing.

In February of 2014 the prevailing winter brought the junior high building issues to light. Consequently our junior high building is 55 years old and the original hearing system is failing. Additionally, after winter flooding issues the building tested positive for black mold in a crawl space and the west wall is sinking.

Heavy rains and hail from the winter of 2014-15 proved continued roof leaks and the sewer backed up twice. The heating system failed in the shop and has been replaced with a free standing system. Elementary building is 30 years old and in need of a new roof.

In April of 2014, the school applied for and was granted the Community Eligibility Provision under the National School Lunch Program which allow the School to offer free lunch and breakfast to all K-12 students for 2014-15. This program has helped stabilize our food service funding and benefits parents \$684 per child/year. The School will continue to offer free lunch and breakfast to all K-12 students for the 2015-16 school year.

In June 2014 we ran a \$3.99 million dollar bond to the Public to again decommission the junior high and build a new junior high annex that was designed to wrap around the high school enabling the District to save costs by utilizing an exiting structure that would return significant cost savings by utilizing a bio-mass heat plant and re-engineering air handling to provide healthier air to junior high and high schools staff and students. Included in this proposal was a plan for building a new industrial technology center with both woods and metal shops as well as a computer lab. The levy failed by 21 votes.

Also in June 2014, we applied for a \$470,704 grant from the Montana Department of Commerce to retrofit the high school with cost efficiency measures including but not limited to updated heating controls units, piping, new valves, warm air heat recovery, and fresh air return for energy efficiency savings of approximately \$35,000 per year. Our grant request ranked 19th out of 53 in the competitive grant process and we received initial confirmation that our grant would be funded as the State had the cash on hand to fund the first nineteen grant requests.

In November of 2014, the Board again requested the \$3.99 bond levy from the Public and this second vote fail by 111. By May of 2015, we learned on the last day of the legislative session that political brinkmanship killed the DOC grant program and all of the funding requests that accompanied it. With a lack of legislative support in Helena for funding of school infrastructure projects, we continue to search for grant funding to maintain standards of quality for staff and student health and safety in the junior high.

In July of 2014, Superior and Alberton schools together received a 5 year grant totaling \$111,006 per year to offer 21st Century Learning Center after-school and summer classes to increase student engagement and augment classroom learning in our schools.

Spring 2015 enrollment count is 270 K-12, down 22 students from the spring of 2014 count. The enrollment declining from 2013-14 to 2014-15 mostly in 2013-14 10th grade which was down 12 students and kindergarten students down 9. Our ANB average fell from 318 in 2014 to 287 in 2015. The District is fortunate that the levy request made by the Mineral Community Hospital passed in the spring 2015 as it could have affected the jobs of 78 employees who have 38 students in our District.

The District may also be the beneficiary of an activities co-op with Alberton Schools for the upcoming school year. Early estimates by both Activities' Directors place the saving per year of up to roughly \$50,000 per year accounting for cost efficiencies in transportation and coaching salaries while dramatically increasing participation opportunities for students. Other ancillary benefits include the elimination of late practice and the elimination of multiple trips out of District.

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Superior Public Schools
District No. 3, Mineral County
Superior, Montana

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Superior Public Schools, District No. 3, Mineral County, Superior, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School'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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Audit Opinion

In my 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 Superior Public Schools, District No. 3, Mineral County, Superior, Montana, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 2 through 6 and the schedule of revenues, and expenditures - budget and actual - general, bus depreciation, and transportation funds on pages 28 and 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplemental information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during the audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures applied do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

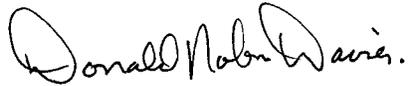
My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Superior Public School's basic financial statements. The schedule of school district enrollment on page 31 and the schedule of revenues, expenditures, and changes in fund balance by student activity on pages 32 and 33 are supplementary information required by the State of Montana. These schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 U.S. generally accepted auditing standards.

In my opinion, the schedule of school district enrollment and the schedule of revenues, expenditures and changes in fund balances by student activity are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other supplemental information listed in the accompanying table of contents, and appearing on pages 34 and 35, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, I have also issued my report dated June 17, 2015 on my consideration of Superior Public School's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering Superior Public School's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Donald Robin Davis." The signature is written in a cursive style with a large initial 'D'.

June 17, 2015

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**SUPERIOR PUBLIC SCHOOLS
DISTRICT NO. 3, MINERAL COUNTY
SUPERIOR, MONTANA
STATEMENT OF NET POSITION
JUNE 30, 2014**

	2014
ASSETS:	
Current Assets:	
Cash and Investments	\$847,141
Property Taxes Receivable	64,910
Protested Property Taxes Receivable	111,541
Total Current Assets	1,023,592
Capital Assets	5,888,675
Less Accumulated Depreciation	(2,443,604)
Capital Assets - Net	3,445,071
Total Assets	4,468,663
LIABILITIES:	
Current Liabilities:	
Current Portion of Compensated Absences	66,225
Total Current Liabilities	66,225
Long-term Debt:	
Compensated Absences	147,404
Total Long-term Debt	147,404
Total Liabilities	213,629
Net Position	
Net Investment in Capital Assets	3,445,071
Restricted	565,494
Unrestricted	244,469
Total Net Position	\$4,255,034

See Notes to Financial Statements

**SUPERIOR PUBLIC SCHOOLS
DISTRICT NO. 3, MINERAL COUNTY
SUPERIOR, MONTANA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

	Expenses	– Program Revenue – Charges for		Operating Grants	Net (Expense) 2014
GOVERNMENTAL OPERATIONS					
Instruction:					
Regular Programs	\$1,716,625				(\$1,716,625)
Other Programs	569,670	\$2,740		\$281,412	(285,518)
Instructional Support	518,292	362,482		4,683	(151,127)
Administration:					
Schools	202,549				(202,549)
General	161,400				(161,400)
Financial	98,341				(98,341)
Operation and Maintenance	368,443				(368,443)
Extracurricular	122,204				(122,204)
Student Transportation	213,765			82,235	(131,530)
School Food	173,501	33,243		102,440	(37,818)
Unallocated Depreciation	124,375				(124,375)
Totals	<u>\$4,269,165</u>	<u>\$398,465</u>		<u>\$470,770</u>	<u>(3,399,930)</u>
GENERAL REVENUES					
District Property Taxes					1,110,706
State Equalization					1,405,541
Other State Revenue					263,514
County Property Taxes					362,161
Investment Earnings					9,293
Gain on Sale of Capital Assets					26,000
Other					11,990
Total General Revenues					<u>3,189,205</u>
CHANGE IN NET POSITION					(210,725)
NET POSITION					
Beginning of Year					4,465,759
End of the Year					<u>\$4,255,034</u>

See Notes to Financial Statements

**SUPERIOR PUBLIC SCHOOLS
DISTRICT NO. 3, MINERAL COUNTY
SUPERIOR, MONTANA**

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014**

	----- Major Funds -----					
	General Fund	Bus Depreciation Fund	Transpor- tation Fund	Miscel- laneous Programs Fund	Other Govern- mental Funds	Total
ASSETS:						
Cash and Investments	\$272,429	\$121,390	\$37,019	\$85,109	\$331,194	\$847,141
Property Taxes Receivable ...	45,180	5,500	8,905		5,325	64,910
Protested Property Taxes Receivable	72,189	8,409	15,548		15,395	111,541
Total Assets	\$389,798	\$135,299	\$61,472	\$85,109	\$351,914	\$1,023,592
DEFERRED INFLOWS OF RESOURCES:						
Deferred Tax Revenue	\$117,369	\$13,909	\$24,453		\$20,720	\$176,451
Total Deferred Inflows	117,369	13,909	24,453		20,720	176,451
FUND BALANCE:						
Restricted		121,390	37,019	\$85,106	262,897	506,412
Assigned					68,300	68,300
Unassigned	272,429					272,429
Total Fund Balance	272,429	121,390	37,019	85,106	331,197	847,141
Total Deferred Inflows of Resources, and Fund Balance	\$389,798	\$135,299	\$61,472	\$85,106	\$351,917	\$1,023,592

See Notes to Financial Statements

**SUPERIOR PUBLIC SCHOOLS
DISTRICT NO. 3, MINERAL COUNTY
SUPERIOR, MONTANA**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE GOVERNMENT-WIDE
STATEMENT OF NET POSITION**

JUNE 30, 2014

Total fund balance reported in the governmental funds statement	\$847,141
Add capital assets not reported in the governmental funds statement	5,888,675
Less accumulated depreciation	(2,443,604)
Less liabilities not reported in the governmental funds statement:	
Compensated absences	(213,629)
Deferred revenues for property taxes which are recognized as revenue in the governmental-wide statements	<u>176,451</u>
Net position	<u><u>\$4,255,034</u></u>

See Notes to Financial Statements

**SUPERIOR PUBLIC SCHOOLS
DISTRICT NO. 3, MINERAL COUNTY
SUPERIOR, MONTANA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

----- MAJOR FUNDS -----						
	General Fund	Bus Depreciation Fund	Transpor- tation Fund	Miscel- laneous Programs Fund	Other Governmental Funds	Total
REVENUES:						
District Property Taxes	\$799,123	\$98,256	\$156,686		\$83,481	\$1,137,546
County Revenues			47,169		362,161	409,330
State Revenues:						
State Equalization	1,469,373					1,469,373
Other	214,559		52,741	\$370,485	7,804	645,589
On Behalf of Payments - Retirement Plans					40,582	40,582
Federal Revenues				197,154	102,440	299,594
School Food					33,243	33,243
Interest and Other	3,891	1,311	396	4,969	13,456	24,023
Total Revenues	2,486,946	99,567	256,992	572,608	643,167	4,059,280
EXPENDITURES:						
Instruction:						
Regular Programs	1,328,551			1,311	398,108	1,727,970
Other Programs	310,074			197,325	62,271	569,670
Instructional Support:	105,159			360,896	52,237	518,292
Administration	315,692		84,972		61,626	462,290
Operation and Maintenance .	278,790		31,652		50,366	360,808
Transportation			119,193		7,575	126,768
Food Services	24,608				147,773	172,381
Extracurricular	111,488			42	10,674	122,204
Capital Outlay	12,897	185,314	34,182		4,500	236,893
Total Expenditures	2,487,259	185,314	269,999	559,574	795,130	4,297,276
Excess (Deficiency) of Revenues over Expenditures:	(313)	(85,747)	(13,007)	13,034	(151,963)	(237,996)
Other Sources (Uses):						
Proceeds from Sale of Capital Assets					46,000	46,000
CHANGE IN FUND BALANCE .	(313)	(85,747)	(13,007)	13,034	(105,963)	(191,996)
FUND BALANCE:						
Beginning of the year	272,742	207,137	50,026	72,072	437,160	1,039,137
End of the year	\$272,429	\$121,390	\$37,019	\$85,106	\$331,197	\$847,141

See Notes to Financial Statements

**SUPERIOR PUBLIC SCHOOLS
DISTRICT NO. 3, MINERAL COUNTY
SUPERIOR, MONTANA**

**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

Change in fund balances as reported on the governmental funds statement . . .	(\$191,996)
Expenses on the governmental-wide statement not included in the governmental funds statement:	
Depreciation expense	(220,127)
(Increase) Decrease in compensated absences payable	11,345
Expenditures on the governmental funds statement not included on the governmental-wide statement:	
Capital outlay	236,893
Increase (Decrease) in property taxes receivable not reflected in revenue in the governmental funds statement	(26,840)
Net book value of disposed capital assets not included in the governmental funds statement	<u>(20,000)</u>
Change in net position on the governmental-wide statement of activity	<u><u>(\$210,725)</u></u>

See Notes to Financial Statements

**SUPERIOR PUBLIC SCHOOLS
DISTRICT NO. 3, MINERAL COUNTY
SUPERIOR, MONTANA**

**STATEMENT OF FIDUCIARY NET POSITION AND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	Student Activity Fund
<hr/>	
FIDUCIARY NET POSITION	
ASSETS:	
Cash	\$112,039
NET POSITION HELD IN TRUST:	
Student Activities	<u>\$112,039</u>
<hr/>	
CHANGE IN FIDUCIARY NET POSITION	
ADDITIONS:	
Student Activities Revenues	\$71,860
DEDUCTIONS:	
Expenses of Student Activities	<u>74,370</u>
CHANGE IN NET POSITION	(2,510)
NET POSITION:	
Beginning of the Year	<u>114,549</u>
End of the Year	<u>\$112,039</u>

See Notes to Financial Statements

**SUPERIOR PUBLIC SCHOOLS
DISTRICT NO. 3, MINERAL COUNTY
SUPERIOR, MONTANA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

All operations of the School are controlled by a Board of Trustees, elected in school-wide elections, and responsible for all of the School's activities. The financial statements include all of the School's operations controlled by the Board of Trustees. Based on the criteria for determining the reporting entity (separate legal entity and fiscal or financial dependency on other governments), the School is considered to be an independent reporting entity and has no component units.

B. Basis of Presentation and Basis of Accounting

Government-wide Statements - The statement of net position and the statement of activities show information about the overall financial position and activities of the School with the exception of the student activity fund. The student activity fund, which accounts for the extracurricular activities of the School's students, is reported as a private-purpose trust fund in the fund financial statements section. Interfund receivables and payables are eliminated.

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

The statement of activities present a comparison between direct expenses and program revenues for each function of the School's governmental activities. Direct expenses are those that are specifically associated with a program or function. The School does not charge indirect expenses to programs or functions. Program revenues include fees for services (primarily school food charges and Medicaid fees) and grants and contributions that are restricted to a particular program. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues. Generally, the School applies restricted resources to expenses incurred before using unrestricted resources when both types are available.

Fund Financial Statements - These statements provide information about the School's funds, including separate statements for the School's fiduciary fund (the student activity fund). The emphasis of fund financial statements is on major governmental funds. Each major fund is displayed in a separate column. All of the remaining funds are aggregated and reported in a single column as other governmental funds.

Generally accepted accounting principles require that the general fund be reported as a major fund and that all other governmental funds whose assets, liabilities, revenues, or expenditures that exceed 10% or more of the total of those amounts for all governmental funds also be reported as major funds. Accordingly, the School reports the following major governmental funds:

Superior Public Schools 2014 - Notes to Financial Statements (continued)

General fund - the School's primary operating fund which accounts for all financial resources of the School except those required to be accounted for in other funds.

Bus depreciation fund - to accumulate tax revenues to purchase school buses.

Transportation fund - to account for student transportation costs.

Miscellaneous programs fund - to account for federal and state grants and other miscellaneous revenues not accounted for in other funds.

Except for the fiduciary fund, which is reported using the economic resources measurement focus and the accrual basis of accounting, these funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected soon after year-end are recognized as revenue. Most property taxes receivable are delinquent at June 30 and amounts collected soon after year-end are not significant. Deferred property tax revenues are recorded as deferred inflows of resources in the governmental funds for these receivables.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and payments for compensated absences which are recognized as expenditures when paid. General capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

C. Cash and Investments

State law restricts investment of school funds to insured savings or time deposits, repurchase agreements, direct obligations of the United States, and the State of Montana's Short-term Investment Pool (STIP). Except for the extracurricular trust funds, all cash and investments are held by the County Treasurer. Investments are stated at cost which approximates estimated fair value.

D. Property Taxes

Most property taxes are levied in August, based on assessments as of the prior January 1. Real property taxes are billed in October and are payable 50% on November 30 and 50% on May 31. Property taxes are maintained and collected by the County Treasurer.

Property taxes receivable at June 30 consist primarily of delinquent property taxes from prior year levies and protested property taxes receivable and are offset by deferred tax revenue in the fund financial statements. The School does not record an allowance for uncollectible taxes because it is considered to be immaterial.

E. Inventories and Prepaid Expenses

Inventories are considered to be immaterial and are not recorded. Expenditures made in the current year for costs attributable to future years are recorded as prepaid expenditures. These expenditures are recognized when used (consumption method.)

F. Capital Assets

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

Land improvements	20 years
Building and improvements	7 - 50 years
School buses and other vehicles	8 years
Equipment	5 - 25 years

G. Compensated Absences

Compensated absences for vacation and sick leave are recorded as expenditures in the governmental funds when taken. Vacation and personal leave, within certain limitations, may be payable on termination.

Classified employees (non-teaching employees) earn vacation pay based on their length of service with the School from 15 to 24 days annually and may accumulate a maximum of two years vacation leave. Sick leave is accumulated for classified employees at the rate of 12 working days each year of service. Part-time classified employees are entitled to prorated benefits upon fulfillment of the qualifying period of time. Classified employees are eligible for compensation at one fourth of the accumulated sick leave amount on termination.

Certified employees (teachers) earn 3 days of personal leave annually. Upon termination, a maximum of 10 days may be paid at the daily rate of the base salary of the current salary schedule. Certified employees also earn 15 days of sick leave annually and may accumulate a maximum of 125 days. Upon termination, they are paid for one third of the unused accumulated sick leave at the same daily rate described above.

H. Deferred Tax Revenue

Deferred Tax revenue in the governmental fund financial statements consists of property taxes receivable, as discussed above.

2. CASH AND INVESTMENTS

The extracurricular fund cash balances are deposited in interest-bearing checking and saving accounts covered by FDIC insurance. The School participates in the Mineral County Treasurer's investment program. All of the School's funds, except for student extracurricular cash, are pooled and invested in the County's investment pool. These pooled investments are recorded at cost. Interest earnings from the pooled investments are allocated to the School based on month-end balances and are distributed monthly. Funds are withdrawn from the investment program as needed to pay warrants.

Superior Public Schools 2014 - Notes to Financial Statements (continued)

It is not practical for the School to determine the market risk, investment risk, insurance coverage, or collateral for its share of the County's investments. Information about the County Treasurer's investment program can be obtained from the Mineral County annual report.

3. PROTESTED PROPERTY TAXES RECEIVABLE

Certain public utility taxpayers have protested the assessed valuations of their property and paid a portion of their property taxes (\$111,541) under protest. Public utility property is centrally assessed by the Montana Department of Revenue and the protest is handled on a state-wide basis. No decisions have been made on the merits of these protests, consequently, the School has not provided an allowance for possible uncollectible amounts.

4. CAPITAL ASSETS

Changes in capital assets were as follows:

	Balance June 30, 2013	Additions	Deletions	Other Changes	Balance June 30, 2014
Cost:					
Land	\$101,887				\$101,887
Land Improvements	194,148			\$30,882	225,030
Buildings and Improvements ..	4,418,782	\$4,500			4,423,282
Vehicles and School Buses ..	752,394	185,314	(\$133,422)		804,286
Equipment	304,178	30,012			334,190
Construction-in-Progress	13,815	17,067		(30,882)	0
Total	\$5,785,204	\$236,893	(\$133,422)	\$0	\$5,888,675
Accumulated Depreciation:					
Land Improvements	(\$119,178)	(\$10,579)			(\$129,757)
Buildings and Improvements ..	(1,768,001)	(99,987)			(1,867,988)
Vehicles and School Buses ..	(328,578)	(88,100)	\$113,422		(303,256)
Equipment	(121,142)	(21,461)			(142,603)
Total	(2,336,899)	(220,127)	113,422	0	(2,443,604)
Net Capital Assets	\$3,448,305	\$16,766	(\$20,000)	\$0	\$3,445,071

Depreciation expense was allocated to functions in the government-wide financial statements as follows:

Transportation	\$86,997
Operation and Maintenance	7,635
School Food	1,120
Unallocated, primarily building depreciation	124,375
Total depreciation expense	\$220,127

Superior Public Schools 2014 - Notes to Financial Statements (continued)

5. LONG TERM DEBT

Changes in long-term debt were as follows:

	Balance June 30, 2013	Principal Payments	Other Changes	Balance June 30, 2014	Due Within One Year
Compensated Absences	\$224,974		(\$11,345)	\$213,629	\$147,404

Compensated absence payments can be made by the compensated absences fund or by the affected fund, usually the general fund. Vacation pay is classified as compensated absences due within one year, accrued sick leave is classified as non-current.

6. TRANSFERS

The District transferred \$75,755, the remaining balance of the debt service account, to the building reserve fund as allowed by MCA section 20-9-443.

7. GOVERNMENTAL FUND BALANCE REPORTING

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, requires classifying fund balances into specifically defined classifications. Committed and assigned funds must be so designated by the School Board. There were no committed funds or non-spendable funds at June 30, 2014.

Restricted fund balances are reported in the aggregate on the face of the balance sheet. Of the total, the amount that is restricted due to external requirements is \$85,106. The remainder of \$421,306 is restricted by state law. The School spends restricted amounts first. When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts are available, the School spends committed first, then assigned, and lastly, unassigned funds.

Restricted fund balances consist of the following:

Restricted for expenditures related to:	
Transportation	\$158,409
Operation and Maintenance	93,270
Retirement	99,687
Instruction	85,106
School Food	89
Technology	32,164
Tuition	21,377
Traffic Education	649
Compensated Absences	7,528
Adult Education	8,133
Total Restricted Fund Balance	<u><u>\$506,412</u></u>

Superior Public Schools 2014 - Notes to Financial Statements (continued)

Assigned fund balances consist of the following:

Assigned for Capital Projects	<u>\$68,300</u>
-------------------------------------	-----------------

Unassigned fund balances consist of the following:

General Fund	<u>\$272,429</u>
--------------------	------------------

Total governmental fund balance as shown on the Balance Sheet - Governmental Funds	<u>\$847,141</u>
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8. GOVERNMENT-WIDE RESTRICTED NET POSITION

Restricted Net Position - are resources that were received by the School with an understanding between the School and the provider that the funds would be used for specific purposes. The School classifies the net position of these funds as restricted net position. These funds and their net position at June 30, 2014 are as follows:

Debt Service	\$7,984
Bus Depreciation	135,299
Retirement	99,687
Transportation	61,472
Instruction	85,106
Technology	41,444
Tuition	21,377
Building Reserve	93,270
School Food	89
Traffic Education	649
Compensated Absences	7,528
Adult Education	11,589
Total	<u>\$565,494</u>

Generally, the School applies restricted resources first to expenses when both restricted and unrestricted net position are available.

9. ESTIMATED RETIREE HEALTH CARE COSTS

The District performed an evaluation of estimated retiree health care costs and determined that the estimated liability was not significant. Therefore they have elected not to report any liability.

10. RETIREMENT PLANS

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

Superior Public Schools 2014 - Notes to Financial Statements (continued)

Contribution rates for both plans are required and determined by State law. The contribution rates for MPERS were increased in 2014 by 1% for employers from 6.8% to 7.8% and for employees hired before July 1, 2011 from 6.9% to 7.9%. There were no changes in the contribution rates for the State and employees hired after July 1, 2011.

The contribution rates for MTRS were increased in 2014 by 1% for employers from 7.47% to 8.47% and for employees from 7.15% to 8.15%. There were no changes in the State contribution rates. The contribution rates, expressed as a percentage of covered payroll, were as follows:

	Employer	Employee	State	Total
MTRS	8.47%	8.15%	2.49%	19.11%
MPERS	7.80%	7.90%	0.37%	16.07%

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

	2012	2013	2014
MTRS	\$258,506	\$293,309	\$335,197
MPERS	55,628	58,435	77,580
Total	<u>\$314,134</u>	<u>\$351,744</u>	<u>\$412,777</u>

The State's contributions to the plans in 2014 were \$38,796 for MTRS and \$1,786 for MPERS and were recorded as revenue and expenditures in the special revenue funds.

Contribution in 2014 for MTRS included a one time payment of \$59,940 made in March 2014. Montana House Bill 377 approved in the 2013 Legislative session contained a provision requiring school district to remit excess reserves in retirement funds to MTRS.

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

Montana Teachers Retirement System
P.O. Box 200139
1500 East Sixth Avenue
Helena, Montana 59620-0139
Telephone (406) 444-3134

Montana Public Employees Retirement System
P.O. Box 200131
100 North Park Ave. Suite 200
Helena, Montana 59620-0131
Telephone (406) 444-3154

11. RISK MANAGEMENT

The School faces a number of risks including loss or damage to property, general and legal liability, workers compensation, and employee medical insurance. Commercial insurance policies are purchased for loss or damage to property, general liability, and legal liability.

Superior Public Schools 2014 - Notes to Financial Statements (continued)

The School participates in two statewide public risk pools, the Montana Schools Group Workers Compensation Risk Retention Program (WCRRP) for workers compensation coverage, and the Montana Schools Unemployment Insurance Program (MSUIP) for unemployment insurance. All school district participants are jointly and severally liable for the liabilities of these public risk pool. Audited financial statements are available from WCRRP and MSUIP at P.O. Box 7029, 863 Great Northern Boulevard, Suite 201, Helena, Montana 59604 or by telephone at 1-877-667-7392.

**SUPERIOR PUBLIC SCHOOLS
DISTRICT NO. 3, MINERAL COUNTY
SUPERIOR, MONTANA**

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL AND BUS DEPRECIATION FUNDS**

FOR THE YEAR ENDED JUNE 30, 2014

	--- General Fund ---			--- Bus Depreciation Fund ---		
	Original and Final Budget	Actual	Variance	Original and Final Budget	Actual	Variance
REVENUES						
District Property Taxes	\$823,166	\$799,123	(\$24,043)	\$100,831	\$98,256	(\$2,575)
State Payments:						
Equalization	1,469,373	1,469,373				
Other	214,559	214,559				
Interest Income	1,773	3,891	2,118		1,311	1,311
Other						
Total Revenues	2,508,871	2,486,946	(21,925)	100,831	99,567	(1,264)
EXPENDITURES						
Current Operations:						
Instruction:						
Regular Programs		1,328,201				
Other Programs		310,074				
Instruction Support		105,159				
Administration:						
Schools		148,720				
General		100,962				
Financial		66,010				
Operation and Maintenance		278,790				
Transportation						
Extracurricular		111,488				
School Food		24,608				
Capital Outlay		12,897			185,314	
Total Expenditures	\$2,508,871	2,486,909	\$21,962	\$302,045	185,314	\$116,731
Excess (Deficiency) of Revenue Over Expenditures, and Encumbrances		37			(85,747)	
Change in Encumbrances		(350)				
Excess (Deficiency) of Revenues Over Expenditures		(\$313)			(\$85,747)	

See Notes to Budget and Actual Schedule

**SUPERIOR PUBLIC SCHOOLS
DISTRICT NO. 3, MINERAL COUNTY
SUPERIOR, MONTANA**

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - TRANSPORTATION FUND**

FOR THE YEAR ENDED JUNE 30, 2014

-----Transportation Fund-----			
	Original and Final Budget	Actual	Variance
REVENUES			
District Property Taxes	\$163,571	\$156,686	(\$6,885)
County Payments	44,377	47,169	2,792
State Payments:			
Equalization			
Other	62,052	52,741	(9,311)
Interest Income		396	396
Other			
Total Revenues	270,000	256,992	(13,008)
EXPENDITURES			
Current Operations:			
Instruction:			
Regular Programs			
Other Programs			
Instruction Support			
Administration:			
Schools		31,648	
General		39,967	
Financial		13,357	
Operation and Maintenance		31,652	
Transportation		119,193	
Extracurricular			
School Food			
Capital Outlay		34,182	
Total Expenditures	\$270,000	269,999	\$1
Excess (Deficiency) of Revenues over Expenditures		(13,007)	

SUPERIOR PUBLIC SCHOOLS
DISTRICT NO. 3, MINERAL COUNTY
SUPERIOR, MONTANA

NOTES TO BUDGET AND ACTUAL SCHEDULE

FOR THE YEAR ENDED JUNE 30, 2014

State law requires the School to prepare budgets for certain funds - generally funds supported by property tax revenues. Budgets are prepared on the modified accrual basis. Budgeted fund expenditures are limited by State law to the total budgeted amount which may be amended as defined by State law. In 2014, the District had no budget amendments.

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

State law permits the inclusion of obligations (encumbrances) for construction-in-progress and the purchase of personal property as expenditures for budget purposes. There were no general fund encumbrances in 2014 and \$350 in 2013.

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

A budget is not required for the miscellaneous programs fund.

**SUPERIOR PUBLIC SCHOOLS
DISTRICT NO. 3, MINERAL COUNTY
SUPERIOR, MONTANA**

**SCHEDULE OF SCHOOL DISTRICT ENROLLMENT
FOR THE YEAR ENDED JUNE 30, 2014**

	Fall			Winter			Spring		
	School Records	Enrollment Report	Variance	School Records	Enrollment Report	Variance	School Records	Enrollment Report	Variance
Elementary School									
Kindergarten	32	32	0	31	31	0	32	32	0
Grades 1 - 6	128	128	0	130	130	0	132	132	0
Total Elementary	160	160	0	161	161	0	164	164	0
Middle School									
Grades 7 - 8	37	37	0	39	39	0	37	37	0
High School									
Grades 9 - 12	100	100	0	99	99	0	98	98	0
Total	297	297	0	299	299	0	299	299	0
Part Time Enrollment:									
Grades 9 - 12 enrolled 360 - 539 hrs				1	1	0			
19 year olds included	1	1	0	1	1	0	1	1	0

**SUPERIOR PUBLIC SCHOOLS
DISTRICT NO. 3, MINERAL COUNTY
SUPERIOR, MONTANA**

EXTRACURRICULAR FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE BY STUDENT ACTIVITY**

FOR THE YEAR ENDED JUNE 30, 2014

Student Activity	Balance June 30, 2013	Revenues	Expenditures	Transfers	Balance June 30, 2014
Art Club	\$133	\$150	(\$230)		\$53
Athletics	6,162	20,356	(25,416)		1,102
Book Fines	2,798	516	(45)		3,269
BPOA	1,474	6,403	(5,856)		2,021
Cheerleaders	204				204
Class of 2013	1	13			14
Class of 2014	529	1,006	(908)		627
Class of 2015	403		(136)		267
Class of 2016	200				200
Class of 2017	50				50
Class of 2018		965	(626)		339
Drama	3,409	340	(139)		3,610
Elementary Yearbook	2,292		(1,407)		885
Elementary Activity	6,022	200			6,222
Elementary Fund Raiser	1,434				1,434
Elementary Music	170				170
Elementary Playground	3,724				3,724
Elementary Pop Machine	154	650	(791)		13
Elementary Student Council	835				835
FHA	998		(224)		774
Fundraiser Extraordinary	709	800	(500)		1,009
General Fund	924	1,835	(1,232)		1,527
Hospitality	231				231
I.A. Club	3,698	1,846	(1,966)		3,578
Sub-total	<u>\$36,554</u>	<u>\$35,080</u>	<u>(\$39,476)</u>	<u>\$0</u>	<u>\$32,158</u>

(Continued)

**SUPERIOR PUBLIC SCHOOLS
DISTRICT NO. 3, MINERAL COUNTY
SUPERIOR, MONTANA**

EXTRACURRICULAR FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE BY STUDENT ACTIVITY**

FOR THE YEAR ENDED JUNE 30, 2014

Student Activity	Balance June 30, 2013	Revenues	Expenditures	Transfers	Balance June 30, 2014
(Continued)					
Sub-total (from previous page)	\$36,554	\$35,080	(\$39,476)	\$0	\$32,158
Interest	1,218				1,218
Jr. High Student Council	655	437	(219)		873
Library	3,833	225	(2,073)		1,985
Music	2,612	1,740	(447)		3,905
Music Memorial Fund	1,640		(1,640)		0
National Honor Society	54				54
Outdoor School	1,500				1,500
Pep Club	454				454
Projects	14,277	10,440	(7,239)		17,478
S Club	697				697
Science Club	2,057				2,057
Senior Lock Up	3,204	100	(742)		2,562
Ski Club	3,138	1,362	(2,637)		1,863
Student Council	3,295	1,672	(1,847)		3,120
Student Recognition	987	1,483	(458)		2,012
Student Tech		227			227
Tourney Fund	2,726	6,291	(4,130)		4,887
Yearbook	4,454	2,292	(2,653)		4,093
Activity Checking	1,069	1,295	(1,295)		1,069
Scholarship Checking	15,678	9,216	(9,394)		15,500
Scholarship Savings	5,690		(60)		5,630
Scholarship Investments	8,757		(60)		8,697
Total	\$114,549	\$71,860	(\$74,370)	\$0	\$112,039

**SUPERIOR PUBLIC SCHOOLS
DISTRICT NO. 3, MINERAL COUNTY
SUPERIOR, MONTANA**

**SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014**

STUDENT ENROLLMENT

The fall enrollment of students attending Superior Public Schools is as follows:

	Year Ended June 30,							
	2007	2008	2009	2010	2011	2012	2013	2014
Grades 9 - 12	119	138	143	135	110	110	109	100
Grades 7 - 8	68	67	60	46	40	47	40	37
Kindergarten - Grade 6	169	155	143	136	136	133	143	160
Total	356	360	346	317	286	290	292	297
Change in Enrollment		4	(14)	(29)	(31)	4	2	5
Percentage change		1%	(4)%	(8)%	(10)%	1%	1%	2%

SCHOOL DISTRICT TAXABLE VALUATIONS

	Assessed Value	Taxable Value	As a % of Assessed Value
January 1, 2004	\$98,577,786	\$3,431,819	3.48%
January 1, 2005	\$104,826,514	\$3,590,996	3.43%
January 1, 2006	\$109,075,651	\$3,613,386	3.31%
January 1, 2007	\$116,305,900	\$3,770,691	3.24%
January 1, 2008	\$120,664,364	\$3,818,392	3.16%
January 1, 2009	\$135,152,779	\$3,948,901	2.92%
January 1, 2010	\$193,117,720*	\$4,091,498	2.12%
January 1, 2011	\$151,519,230	\$4,286,764	2.83%
January 1, 2012	\$157,186,296	\$4,366,576	2.78%
January 1, 2013	\$160,852,845	\$4,436,612	2.76%

* The assessed value at January 1, 2010 includes tax exempt property, primarily U.S. National Forests.

SCHOOL DISTRICT TAX LEVIES (in mills)

	Year Ended June 30,							
	2008	2009	2010	2011	2012	2013	2014	2015
General	163.95	175.26	182.04	175.18	177.66	186.11	185.55	180.01
Debt Service	44.58	44.17	42.43	41.19	41.39			
Transportation	27.27	36.16	39.16	42.63	41.33	36.42	36.87	49.92
Bus Depreciation ...	15.15	8.77	14.31	19.45	20.35	22.90	22.73	20.49
Adult Education	5.46	5.51	5.54	5.56	5.37	5.27	5.18	5.66
Technology	15.91	15.71	15.19	14.66	14.00	13.74	13.52	13.69
Total	<u>272.32</u>	<u>285.58</u>	<u>298.67</u>	<u>298.67</u>	<u>300.10</u>	<u>264.44</u>	<u>263.85</u>	<u>269.77</u>

MAXIMUM BONDED INDEBTEDNESS

State law permits a maximum bonded indebtedness for the school district of 100% of the School's taxable valuation at June 30, 2014 (\$4,436,612). However, for school districts that qualify for guaranteed tax base aid, the law permits maximum bonded indebtedness equal to 50% of the statewide taxable valuation per student (average number belonging).

Maximum bonded indebtedness under this exception is:

	Statewide Taxable Value Per Student	Average Number Belonging June 30, 2014	Percent Allowed	Maximum Bonded Indebtedness
Elementary	\$33,140	208	50%	\$3,446,560
High School	\$78,680	110	50%	<u>4,327,400</u>
Maximum Bonded Indebtedness Allowed				<u>\$7,773,960</u>

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Board of Trustees
Superior Public Schools
School District Number 3, Mineral County
Missoula, Montana

I have audited in accordance with U.S. generally accepted auditing standards 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 Superior Public Schools, District No. 3, Mineral County, Superior, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Superior Public School's basic financial statements, and have issued my report thereon dated June 17, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, I identified certain deficiencies in internal control that I 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 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. I consider item **2014-001** described below to be a material weakness.

A *significant deficiency* is a deficiency, or 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. I consider item **2014-002** described below to be a significant deficiency.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Superior Public School's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws,

regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion.

The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. Item **2014-003**, a compliance matter, is described below.

FINDING - MATERIAL WEAKNESS:

2014-001 Financial Reporting

Auditing standards require the auditor to determine whether Superior Public School's internal control system allows for the reliable reporting of financial data in accordance with generally accepted accounting principles (GAAP). The School does not have the expertise to prepare or to evaluate the auditor prepared financial statements to ensure proper preparation in accordance with GAAP.

It may not be cost effective for the School to retain and train personnel to evaluate or prepare GAAP financial statements. However, I recommend the District consider correcting this material weakness in their internal controls over financial statement preparation by hiring a qualified consultant to evaluate the auditor prepared financial statements. Management should be aware of and continue to evaluate the impact of this deficiency.

FINDING - SIGNIFICANT DEFICIENCY:

2014-002 Segregation of Accounting Duties

Ideal segregation of accounting duties is not always possible in an organization with a small staff as is the case with Superior Public Schools.

Accordingly, I recommend the Board continue to monitor the School's activities and transactions.

FINDING - COMPLIANCE MATTER:

2014-003 Debt Service Fund Transfer

The District transferred the remaining balance of \$75,755 in the debt service fund into the building fund. MCA 20-9-443 (1) requires when all bonds have been fully paid, all money remaining in the debt service fund be transferred to either the building reserve fund, the technology fund or the general fund. The District has corrected this by transferring the balance into the building reserve fund. This has been corrected for the audit report.

Accordingly, I recommend the Board ensure all transfers are made according to state law.

Prior Year Audit Findings

2013-01 - Financial Reporting - see comment above.

2013-02 - Segregation of Accounting Duties - Inherent weakness - see comment above.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result 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.

State law (MCA 2-7-515) states that the School's Board is required to respond to the Department of Administration concerning audit findings within 30 days after receipt of the final audit report.



June 17, 2015

