

SHERIDAN SCHOOL DISTRICT NO. 5  
MADISON COUNTY  
SHERIDAN, MONTANA 59749

TABLE OF CONTENTS

	Page No
TABLE OF CONTENTS	1
ORGANIZATION - BOARD OF TRUSTEES AND OFFICIALS	2
MANAGEMENT’S DISCUSSION AND ANALYSIS	3 - 7
INDEPENDENT AUDITOR’S REPORT	8 - 9
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position	10
Statement of Activities	11
Balance Sheet – Governmental Funds and a Reconciliation of the Balance Sheet Governmental Funds to the Statement of Net Position	12 - 13
Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds	14 - 15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	16
Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position	17
Notes to the Financial Statements	18 - 38
REQUIRED SUPPLEMENTAL INFORMATION:	
Schedule of Funding Progress – Other Post-Employment Benefits Other Than Pensions (OPEB)	39
Schedule of Proportionate Share of Net Pension Liability	40
Schedule of Contributions to Montana Retirement Systems	41
Notes to the Schedule of Proportionate Share of Net Pension Liability and Schedule of Contributions to Montana Retirement Systems	42 - 44
Schedule of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual) – All Budgeted Major Funds	45 - 47
Notes to the Budget and Actual Schedule	48 - 49
SUPPLEMENTAL SCHEDULES:	
Schedule of Revenues, Expenses, and Balances Expendable Trust – Student Activity Funds	50 - 51
Schedule of Reported Enrollment	52
INDEPENDENT AUDITOR’S REPORTS:	
Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	53 - 54
SCHEDULE OF FINDINGS AND RESPONSES	55

SHERIDAN SCHOOL DISTRICT NO. 5  
MADISON COUNTY  
SHERIDAN, MONTANA 59749

ORGANIZATION

BOARD OF TRUSTEES

William T.C. Wood	Chair
John Russ Hamilton	Vice Chair
Rhonda Boyd	Trustee
William Fabel	Trustee
Charles Gilman	Trustee
Kenra Horn	Trustee
Therese Sutton	Trustee

OFFICIALS

Michael S. Wetherbee	Superintendent
Rebecca Larsen	District Clerk
Pam Birkeland	County Superintendent
Chris Christensen	County Attorney

**SHERIDAN PUBLIC SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2017**

The Superintendent and Business Manager/Clerk of Sheridan Public Schools (the District) have provided this MD&A to give the reader of these statements an overview of the financial position and activities of the school district for the year covered by this audit report.

**FINANCIAL HIGHLIGHTS**

- General revenues accounted for \$2.6 million in revenue, or 80.5 percent of all fiscal year 2017 revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$.63 million or 19.4 percent of total fiscal year 2017 revenues.
- The District had approximately \$3.05 million in expenses related to governmental activities: of which \$.63 million of these expenses were offset by program specific charges for services or grants and contributions. General revenues of \$2.6 million were adequate to provide the remaining costs of these programs.
- Among major funds, the General Fund had \$1.96 million in fiscal year 2017 revenues, which primarily consisted of state aid and property taxes, and \$1.96 million in expenditures. The General Fund's fund balance excess of expenditures over revenues was \$7,063.
- The District's total debt decreased by \$200,000 during the current fiscal year. The key factor in this decrease was the principal payment against general obligation bonds.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services.

The government-wide financial statements can be found on pages 10-11 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. These reconciliations are on pages 14 and 17, respectively.

**SHERIDAN PUBLIC SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2017**

The basic governmental fund financial statements can be found on pages 12-16 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds.

The basic fiduciary fund financial statements can be found on page 18 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on page 18-38 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the District's budget process. The District adopts an annual expenditure budget for certain governmental funds as required by State law. A budgetary comparison statement has been provided for the General Fund and Bus Depreciation Fund-High School as required supplementary information. The District also presents the Schedule of Funding Progress for the Retiree Health Plan. The required supplementary information can be found on pages 39-49 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve, over time, as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$1,552,689 as of June 30, 2017.

By far the largest portion of the District's net position (57 percent) reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The Districts financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Changes in the District's net position (in thousands of dollars) were as follows:

	<u>6/30/2016</u>	<u>6/30/2017</u>	<u>CHANGE</u>	<u>% CHANGE</u>
Current Assets	\$ 1,214,858	\$ 1,352,665	\$ 137,807	11.34%
Capital Assets, net	<u>2,641,193</u>	<u>2,565,022</u>	<u>(76,171)</u>	<u>-2.88%</u>
Total Assets	3,856,051	3,917,687	61,636	1.60%
Deferred outflows of resources	<u>205,573</u>	<u>343,573</u>	<u>138,000</u>	<u>67.13%</u>
Current Liabilities	28,030	221,128	193,098	688.90%
Long Term Liabilities	<u>2,206,550</u>	<u>2,143,870</u>	<u>(62,680)</u>	<u>-2.84%</u>
Total Liabilities	2,234,580	2,364,998	130,418	5.84%
Deferred Inflows of Resources	<u>28,030</u>	<u>14,634</u>	<u>(13,396)</u>	<u>-47.79%</u>
Net Position:				
Net Investment in Capital Assets	1,737,967	2,355,022	617,055	35.50%
Restricted	58,583	980,145	921,562	1573.09%
Unrestricted	<u>410,000</u>	<u>(1,453,539)</u>	<u>(1,863,539)</u>	<u>-454.52%</u>
Total Net Position	2,206,550	1,881,628	(324,922)	-14.73%

**SHERIDAN PUBLIC SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2017**

The following is a significant current year transactions that has had an impact on the Statement of Net Position.

- The principal retirement of \$200,000 of debt. Current assets increased by \$137,807. Capital assets decreased by \$76,171 additions did not exceed depreciation for the current year (page 26).

**Changes in net position.** The District's total revenues for the fiscal year ended June 30, 2017, were \$3.14 million. The total cost of all programs and services was \$2.9 million. The following table presents a summary of the changes in net position (in thousands of dollars).

Revenues	<u>6/30/2016</u>	<u>6/30/2017</u>	<u>CHANGE</u>	<u>% CHANGE</u>
Program Revenues:				
Charges for Services	28,989	405,362	376,373	1298.33%
Operating Grants	510,712	223,151	(287,561)	-56.31%
General Revenues:				
District levies	1,177,534	1,205,022	27,488	2.33%
State Equalization	730,928	737,215	6,287	0.86%
Other State Revenues	463,137	346,579	(116,558)	-25.17%
County	220,564	267,440	46,876	21.25%
Interest	5,117	10,949	5,832	113.97%
Other	6,198	17,071	10,873	175.43%
Gain (loss) on Sale of Assets	<u>-</u>	<u>15,239</u>	<u>15,239</u>	<u>100.00%</u>
Total Revenues	3,143,179	3,228,028	84,849	2.70%
Program Expenses				
Instructional services	1,632,667	1,631,171	(1,496)	-0.09%
Support services	95,802	69,499	(26,303)	-27.46%
Educational media services	45,708	47,575	1,867	4.08%
General administrative services	339,750	373,867	34,117	10.04%
Operation & maintenance services	381,580	494,037	112,457	29.47%
Transportation services	175,799	187,958	12,159	6.92%
School food services	73,266	88,255	14,989	20.46%
Extracurricular	146,801	139,590	(7,211)	-4.91%
Debt service:				
Interest and other charges	<u>29,100</u>	<u>19,980</u>	<u>(9,120)</u>	<u>-31.34%</u>
Total Expenses	<u>2,920,473</u>	<u>3,051,932</u>	<u>131,459</u>	<u>4.50%</u>
Change in Net Position	222,706	176,096	(46,610)	

**SHERIDAN PUBLIC SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2017**

General revenues increased by \$84,849 primarily due to increase in revenue from county distribution and an increase in local taxes. Expenses increased by \$131,459 mostly due to an increase in operation and maintenance services.

**Government activities.** The following table presents the cost of the seven major District functional activities: instruction, support services - students and staff, support services - administration, operation and maintenance of plant services, student transportation services, non-educational services, and interest on long-term debt. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions (in thousands of dollars).

- The cost of all governmental activities this year was \$2.9 million.
- Federal and state governments and charges for services subsidized certain programs with grants and contributions and other local revenues of \$ .54 million.
- Net cost of governmental activities (\$2.36 million), was financed by general revenues, which are made up of primarily property taxes (\$1.2 million) federal and state and county aide (\$1.4 million). Investment earnings accounted for \$10,949 of funding.

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$1,207,921. Approximately \$899,024 of the fund balance is Restricted, while \$7,290 is Committed. The remaining fund balance of \$276,826 is Unassigned.

The major funds are defined as the general fund and other funds where the assets, liabilities, revenues, or expenditures exceed 10% of total governmental amounts.

As shown on page 13, the total governmental fund balances increased \$2,080 as compared to an increase of \$70,686 in government-wide net position. The difference is explained on page 14.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2017, the District had invested \$2,355,022 in capital assets, including school building, athletic facilities, buses and other vehicles, computers, and other equipment. Total depreciation expense for the year was \$156,398.

The following schedule presents capital asset balances net of depreciation for the fiscal year ended June 30, 2016.

	Amount
Land and improvements	\$ 22,000
Buildings and improvements	2,090,803
Vehicles, furniture and equipment	500,922
<b>Total</b>	<b>\$ 2,613,725</b>

Additional information on the District's capital assets can be found in on page 26 of this report.

**Debt Administration.** At year-end, the District had \$210,000 in general obligation bonds debt outstanding, the balance of which is due within one year.

**SHERIDAN PUBLIC SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2017**

State statutes currently limit the amount of general obligation debt a District may issue to 45% percent of its total taxable valuation. The current debt limitation for the District is \$3,629,349 which is more than the District's outstanding general obligation debt.

Additional information on the District's long-term debt can be found on page 27 of this report.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

Many factors were considered by the District's administration during the process of developing the fiscal year 2017-2018 budget. The primary factors were decreases in state funding for education, District's enrollment, increasing employee salary costs, which includes a retirement incentive agreement for certified personnel. The local economy was also considered.

These indicators were considered when adopting the budget for fiscal year 2017-2018. Budgeted expenditures in the General Fund were decreased by \$10,273 to \$1,963,832 in the fiscal year 2017-2018 due to changes in state funding. These funding changes resulted in an increased burden on local taxpayers, and the Board and Administration resolved to operate within the highest budget without a vote to offset the increase in non-voted levies. Future budget funding reports by both Montana School Board Association and Montana's Office of Public Instruction indicate reduced state income and slight to marginal increases in education funding. Sheridan Schools was able to maintain their current budgets.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

The financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Business Office, Sheridan School District No. 5, PO Box 586, Sheridan, MT 59749.



# STROM & ASSOCIATES, P.C.

*Certified Public Accountants*

3203 3<sup>rd</sup> Ave N. Suite 208  
PO Box 1980  
Billings, MT 59103

Phone: 406-252-2765  
E-mail: [audit@stromcpa.net](mailto:audit@stromcpa.net)

---

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Sheridan School District No. 5  
Madison County  
Sheridan, Montana 59749

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sheridan School District No. 5 (School District) as of and for the year ended June 30, 2017, 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 (GAAP); 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, each major fund, and the aggregate remaining fund information of the Sheridan School District No. 5 as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



## **Other Matters**

### **Required Supplementary Information (RSI)**

Accounting principles generally accepted in the United States of America requires that the management's discussion and analysis (pages 3-7), and the schedule of funding for other post-employment benefits other than pensions (page 39), and schedule of proportionate share of net pension liability and schedule of contributions to Montana retirement systems (pages 40-44), and budgetary comparison information (pages 45-49) 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 the Sheridan School District No. 5's basic financial statements. The accompanying schedule of revenues, expenses and balances of student activity funds (pages 50-51) and schedule of reported enrollment (page 52) 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 of 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 of 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 14, 2018 on our consideration of the Sheridan School District No. 5 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 the Sheridan School District No. 5 internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC  
Billings, Montana  
June 14, 2018

STATEMENT OF NET POSITION  
 June 30, 2017

	<u>Governmental Activities</u>
<b>ASSETS:</b>	
Current assets:	
Cash and cash equivalents	\$ 1,316,586
Taxes receivable	9,646
Due from other governments	<u>26,433</u>
Total current assets	<u>1,352,665</u>
Noncurrent assets:	
Capital assets:	
Land	23,500
Net depreciable assets	<u>2,541,522</u>
Total noncurrent assets	<u>2,565,022</u>
Total assets	<u>3,917,687</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
Employer pension plan activities	<u>343,573</u>
Total deferred outflows of resources	<u>343,573</u>
Total assets and deferred outflows of resources	<u>\$ 4,261,260</u>
<b>LIABILITIES:</b>	
Current liabilities:	
Current portions compensated absences	11,128
Current portion long-term capital obligations	<u>210,000</u>
Total current liabilities	<u>221,128</u>
Noncurrent liabilities:	
Compensated absences	86,203
Net pension accrual	1,931,010
Other postemployment benefits	<u>126,657</u>
Total noncurrent liabilities	<u>2,143,870</u>
Total liabilities	<u>2,364,998</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>	
Employer pension plan	<u>14,634</u>
Total deferred inflows of resources	<u>14,634</u>
<b>NET POSITION:</b>	
Net investment in capital assets	2,355,022
Restricted	980,145
Unrestricted (Deficit)	<u>(1,453,539)</u>
Total net position	<u>1,881,628</u>
Total liabilities, deferred inflows and net position	<u>\$ 4,261,260</u>

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

STATEMENT OF ACTIVITIES  
 For the year ended June 30, 2017

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
	Expenses	Charge for Services	Operating Grants and Contributions	Primary Government Governmental Activities
<b>GOVERNMENT OPERATIONS:</b>				
Instructional services	\$ 1,638,461	\$ 291,561	\$ 93,062	\$ (1,253,838)
Support services	69,499	69,311	-	(188)
Educational media services	47,575	11,578	1,930	(34,067)
General administrative services	373,867	-	7,877	(365,990)
Operation & maintenance services	494,037	-	44,010	(450,027)
Transportation services	187,958	6,829	33,635	(147,494)
School food services	88,255	26,083	42,637	(19,535)
Extracurricular	139,590	-	-	(139,590)
Debt service:				
Interest and other charges	19,980	-	-	(19,980)
Total Governmental Activities	<u>3,059,222</u>	<u>405,362</u>	<u>223,151</u>	<u>(2,430,709)</u>
<b>GENERAL REVENUES:</b>				
District levies				1,205,022
State Equalization				737,215
Other State Revenues				346,579
County				267,440
Interest				10,949
Other				17,071
Gain (loss) on Sale of Assets				<u>15,239</u>
Total General Revenues				<u>2,599,515</u>
Change in Net Position				168,806
<b>NET POSITION:</b>				
Beginning of the Year				1,679,394
Prior Period Adjustments				<u>33,428</u>
End of the Year				<u>\$ 1,881,628</u>

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

BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 June 30, 2017

	MAJOR			
	General	Bus Depreciation (Elem.)	Miscellaneous Programs (Elem.)	Debt Service (Elem.)
<b>ASSETS:</b>				
Current assets:				
Cash and cash equivalents	\$ 368,738	\$ 199,492	\$ -	\$ -
Taxes receivable	5,821	308	-	936
Due from other governments	-	-	24,333	-
Total assets	<u>374,559</u>	<u>199,800</u>	<u>24,333</u>	<u>936</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Total deferred outflows of resources	-	-	-	-
Total assets and deferred outflows of resources	<u>\$ 374,559</u>	<u>\$ 199,800</u>	<u>\$ 24,333</u>	<u>\$ 936</u>
<b>LIABILITIES:</b>				
Current liabilities:				
Cash overdraft	-	-	10,952	1,570
Total liabilities	-	-	<u>10,952</u>	<u>1,570</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Unavailable property taxes receivable	5,821	308	-	936
Total deferred inflows of resources	<u>5,821</u>	<u>308</u>	<u>-</u>	<u>936</u>
<b>FUND BALANCE (DEFICITS):</b>				
Restricted	-	199,492	13,381	-
Assigned	41,184	-	-	-
Unassigned	<u>327,554</u>	-	-	<u>(1,570)</u>
Total fund balance	<u>368,738</u>	<u>199,492</u>	<u>13,381</u>	<u>(1,570)</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 374,559</u>	<u>\$ 199,800</u>	<u>\$ 24,333</u>	<u>\$ 936</u>

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

BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 June 30, 2017

	<u>MAJOR</u>		
	Bus Depreciation (HS)	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>			
Current assets:			
Cash and cash equivalents	\$ 264,744	\$ 496,603	\$ 1,329,577
Taxes receivable	147	2,434	9,646
Due from other governments	-	2,100	26,433
Total assets	<u>264,891</u>	<u>501,137</u>	<u>1,365,656</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Total deferred outflows of resources	-	-	-
Total assets and deferred outflows of resources	<u>\$ 264,891</u>	<u>\$ 501,137</u>	<u>\$ 1,365,656</u>
<b>LIABILITIES:</b>			
Current liabilities:			
Cash overdraft	-	469	12,991
Total liabilities	<u>-</u>	<u>469</u>	<u>12,991</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Unavailable property taxes receivable	147	2,434	9,646
Total deferred inflows of resources	<u>147</u>	<u>2,434</u>	<u>9,646</u>
<b>FUND BALANCE (DEFICITS):</b>			
Restricted	264,744	498,703	976,320
Assigned	-	-	41,184
Unassigned	-	(469)	325,515
Total fund balance	<u>264,744</u>	<u>498,234</u>	<u>1,343,019</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 264,891</u>	<u>\$ 501,137</u>	<u>\$ 1,365,656</u>

RECONCILIATION TO THE STATEMENT OF NET POSI

Total fund balance reported above	\$ 1,343,019
Governmental Capital Assets	2,565,022
Employer pension plan activities	343,573
Long-term Liabilities	
Compensated Absences	(97,331)
Long-Term Capital Obligations	(210,000)
Net pension accrual	(1,931,010)
Other postemployment benefits	(126,657)
Employer pension plan	(14,634)
Unavailable property taxes receivable	<u>9,646</u>
Net Position of Governmental Activities	<u>\$ 1,881,628</u>

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 year ended June 30, 2017

	MAJOR			
	General	Bus Depreciation (Elem.)	Miscellaneous Programs (Elem.)	Debt Service (Elem.)
<b>REVENUES:</b>				
District levies	\$ 727,725	\$ 34,225	\$ -	\$ 103,859
Interest	3,141	1,527	8	353
Charges for services	-	-	-	-
Other	11,661	-	-	-
County	-	-	-	-
State	1,252,756	-	69,671	-
Federal	-	-	147,342	-
<b>Total revenues</b>	<u>1,995,283</u>	<u>35,752</u>	<u>217,021</u>	<u>104,212</u>
<b>EXPENDITURES:</b>				
Current:				
Instructional services	1,140,973	-	126,914	-
Support services	-	-	69,311	-
Educational media services	29,027	-	11,577	-
General administrative services	252,332	-	-	-
Operation & maintenance services	327,843	-	-	-
Transportation services	-	-	6,829	-
School food services	-	-	-	-
Extracurricular	128,593	-	-	-
Debt service:				
Principal	-	-	-	100,000
Interest and other charges	-	-	-	9,990
Capital outlay	16,674	-	-	-
<b>Total expenditures</b>	<u>1,895,442</u>	<u>-</u>	<u>214,631</u>	<u>109,990</u>
Excess (deficiency) of revenues over expenditures	<u>99,841</u>	<u>35,752</u>	<u>2,390</u>	<u>(5,778)</u>
<b>OTHER FINANCING SOURCES/USES:</b>				
Sale of capital assets	-	-	-	-
Fund transfers in	-	-	-	-
Fund transfers (out)	(41,000)	-	-	-
<b>Total other financial sources/uses</b>	<u>(41,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net changes in fund balances</b>	<b>58,841</b>	<b>35,752</b>	<b>2,390</b>	<b>(5,778)</b>
<b>FUND BALANCE:</b>				
Beginning of the year	308,897	163,740	11,011	4,208
Prior period adjustments	1,000	-	(20)	-
<b>End of the year</b>	<u>\$ 368,738</u>	<u>\$ 199,492</u>	<u>\$ 13,381</u>	<u>\$ (1,570)</u>

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 year ended June 30, 2017

	Bus Depreciation (HS)	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>			
District levies	\$ 20,874	\$ 315,630	\$ 1,202,313
Interest	2,134	3,786	10,949
Charges for services	-	26,561	26,561
Other	-	5,452	17,113
County	-	303,221	303,221
State	-	54,000	1,376,427
Federal	-	47,385	194,727
Total revenues	<u>23,008</u>	<u>756,035</u>	<u>3,131,311</u>
<b>EXPENDITURES:</b>			
Current:			
Instructional services	-	183,911	1,451,798
Support services	-	188	69,499
Educational media services	-	5,711	46,315
General administrative services	-	101,105	353,437
Operation & maintenance services	-	139,630	467,473
Transportation services	-	123,645	130,474
School food services	-	88,186	88,186
Extracurricular	-	10,997	139,590
Debt service:			
Principal	-	100,000	200,000
Interest and other charges	-	9,990	19,980
Capital outlay	-	26,554	43,228
Total expenditures	<u>-</u>	<u>789,917</u>	<u>3,009,980</u>
Excess (deficiency) of revenues over expenditures	<u>23,008</u>	<u>(33,882)</u>	<u>121,331</u>
<b>OTHER FINANCING SOURCES/USES:</b>			
Sale of capital assets	-	13,500	13,500
Fund transfers in	-	41,000	41,000
Fund transfers (out)	-	-	(41,000)
Total other financial sources/uses	<u>-</u>	<u>54,500</u>	<u>13,500</u>
Net changes in fund balances	23,008	20,618	134,831
<b>FUND BALANCE:</b>			
Beginning of the year	241,736	478,329	1,207,921
Prior period adjustments	-	(713)	267
End of the year	<u>\$ 264,744</u>	<u>\$ 498,234</u>	<u>\$ 1,343,019</u>

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

Sheridan School District #5  
 Madison County  
 Sheridan, Montana 59749

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, 2017

Net Changes in Fund Balance	\$	134,831
Revenues on the Statement of Activities not included in governmental funds statement:		
Increase (decrease) in taxes receivable	2,709	
State Pension Aid	78,769	81,478
Revenues reported in the governmental funds statement not included in the Statement of Activities		
Sale of Fixed Assets	13,500	(13,500)
Expenses on the Statement of Activities not included in the governmental funds statement:		
Depreciation Expense	(154,299)	
Actuarial Pension Expense	(127,453)	
(Increase) decrease in compensated absence liability	(10,718)	(292,470)
Expenditures reported in the governmental funds statement not included in the Statement of Activities		
Capital outlays	43,228	
Gain (loss) on sale of assets	15,239	
Principal payments on debt	200,000	258,467
Change in net position reported on the Statement of Activities	\$	168,806

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



STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 June 30, 2017

	Private Purpose	
	Trust Funds	Agency Funds
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 165,662	\$ 109,070
Restricted Cash	90,000	-
Total Assets	<u>\$ 255,662</u>	<u>\$ 109,070</u>
<b>LIABILITIES:</b>		
Current liabilities:		
Warrants payable	-	109,070
Total Liabilities	-	<u>\$ 109,070</u>
<b>NET POSITION:</b>		
Held in trust for endowment	112,497	
Held in trust for student activities	143,165	
Total Net Position	<u>\$ 255,662</u>	

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 For the year ended June 30, 2017

	Private Purpose Trust Funds
<b>ADDITIONS:</b>	
Revenues from student activities	\$ 181,534
Contributions to Endowment	5,956
Total Additions	<u>187,490</u>
<b>DEDUCTIONS:</b>	
Expenses of student activities	182,984
Expenses of student scholarships	2,800
Total Deductions	<u>185,784</u>
Change in net position	1,706
<b>NET POSITION:</b>	
Beginning of the year	<u>253,956</u>
End of the year	<u>\$ 255,662</u>

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

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of the Sheridan School District No. 5 (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.

At the end of fiscal year 2017 the School District adopted the following:

- GASB Statement No. 82 – Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73. This statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. The requirements of this statement are effective for reporting periods beginning after June 15, 2016. The School District implemented this statement consistent with guidance provided by the State of Montana for implementation.
- GASB Statement No. 85 – Omnibus 2017. This statement establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this statement are effective for reporting periods beginning after December 15, 2017. The School District determined that this statement does not significantly affect its reporting.
- GASB Statement No. 86 – Certain Debt Extinguishment Issues. The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. The School District determined this statement does not significantly affect its reporting.

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

- GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. The School District plans to implement when they update their OPEB numbers at the next evaluation date or by fiscal year end 2018, whichever comes first.
- GASB Statement No. 83 – Certain Asset Retirement Obligation. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). The requirements of this statement are effective for reporting periods beginning after June 15, 2018. The School District believes that this statement is not applicable to its financial statements, however it will make a final determination on its applicability before the effective date.
- GASB Statement No. 84 – Fiduciary Activities. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The School District plans to implement this statement once the State of Montana updates the standard chart of accounts.
- GASB Statement No. 87 – Leases. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The School District plans to implement this statement once it has identified all leases and has reviewed the Q&A on this statement.

The School District consists of two legally separate entities, an elementary district which provides education for kindergarten through eighth grade and a high school district which provides education for ninth through twelfth grade. For financial reporting purposes the two school districts are combined because they are controlled by the same central board of trustees and managed by the same administration. 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. GAAP requires only one general fund for each reporting entity, so the elementary and high school general funds are combined in the accompanying financial statements.

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2017

The Sheridan School District No. 5 was incorporated under the laws of the State of Montana and as required by GAAP, the financial statements of the reporting entity include those of the Sheridan School District No. 5 (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 (primary government). Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The government-wide financial statements report using the economic resource measurement focus and the accrual basis of accounting and generally include 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 direct expenses of a given function offset by program revenues directly connected with the functional program. Direct expenses are those that are specifically associated with a function. Program revenues include:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and
- Operating grants that are restricted to a particular function.

Property taxes, investment earnings, state equalization payments, and other revenue sources not properly included with program revenue are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-supporting or drawing from 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, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The student activity funds and endowment funds 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 government-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 statements 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 is generally not material. Unavailable income is recorded in governmental funds for delinquent taxes. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and compensated absence payments which are recognized when due. Capital assets are functional expenditures in governmental funds, and proceeds from long-term debt or capital leases are reported as other financing sources.

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2017

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 School District.

Trust, and agency fund financial statements use 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. Revenue from donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

GASB Statement No. 34 requires the general fund be reported as a major fund and that only one general fund be reported so the elementary and high school general funds have been combined as one major fund. Other individual governmental funds should be reported in separate columns as major funds based on these criteria:

- Total assets, liabilities, revenues, or expenditures of that individual governmental 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 funds)

In addition to funds that meet the major fund criteria, any other governmental 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. In the governmental fund financial statements, the general fund also includes the activities of the elementary and high school flexibility funds since the restrictions on those funds are similar to the general fund.
- Elementary Bus Depreciation Fund – This fund is used to account for financing the replacement of yellow school buses and two-way radio equipment owned by a school. Deposits made to the fund are limited by depreciation percentages of current buses and two-way radio equipment owned by the School District.
- Elementary Miscellaneous Fund – This fund is used to account for local, state, or federal grants and reimbursements. Donations that allow the expenditure of both principal and interest for support of School District programs are deposited in this fund.
- Elementary Debt Service Fund – This fund is used to account for the financing needs of the School District to pay interest and principal on outstanding bonds and special improvement district (SID) assessments.
- High School Bus Depreciation Fund – This fund is used to account for financing the replacement of yellow school buses and two-way radio equipment owned by a school. Deposits made to the fund are limited by depreciation percentages of current buses and two-way radio equipment owned by the School District.

1. b. 3. OTHER FUND TYPES

Private-Purpose Trust Funds – These funds account 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 – These funds account for assets that the School District holds on behalf of others as their agent and for warrants written but not redeemed that are reported in the School District's 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.

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2017

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 of Montana 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 or credit union which is Federal Deposit Insurance Corporation (FDIC) or National Credit Union Association insured; or in repurchase agreements as authorized by MCA or 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 held by County is not available to the School District. However, State of Montana statute requires that United State government securities or agencies be held as collateral to secure deposits of public funds in excess of FDIC insurance. The external investment pool is audited as part of Madison County’s financial statements. This investment pool is not registered with or monitored by the Securities and Exchange Commission (SEC).

Cash overdrafts reported in the fund statements are classified as current liabilities in the governmental fund statements. The cash overdrafts are eliminated in the governmental activities column of the statement of net position. The cash overdraft appears on the fund statements when cash in the fund is overdrawn and the fund is borrowing money from another fund without displaying on the financial statements an interfund receivable and payable.

1. c. 2. TAXES

Property tax levies are set in 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 State of 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, food inventory, and supplies inventory are expenditures when acquired in governmental funds (purchases method), since governmental funds focus on the use of current financial resources. At year-end inventories were not material

1. c. 4. CAPITAL ASSETS

The School District’s property, plant, and equipment 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	50 years
Machinery and Equipment	5 – 30 years

1. c. 5. DEFERRED OUTFLOWS/ INFLOWS OF RESOURCES

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2017

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.

Pension Liability – Deferred outflow/inflow

The School District recognizes a net pension liability for each qualified pension plan in which it participates. Changes in the net pension liability during the fiscal year are recorded as pension expense, deferred inflows of resources, or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience, are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense.

Property Taxes – Deferred inflows

The School District reports deferred inflows under the modified accrual basis of accounting in the governmental funds for property taxes. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. In the governmental fund balance sheet, they are reported as unavailable from property taxes receivable.

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 10 days of sick leave at the beginning of each year for personal and family illness. Unused sick leave will be accruable up to 105 days. At the time the employee properly separates with the District the teacher will receive pay which equals 25% of the employee's regular pay at the time of severance, for each day of unused sick leave, up to a maximum of 60 days. Certified School District employees shall accrue 3 days of personal leave. Teachers with 15 years or more shall receive an additional day, bringing their total to four days. At the end of the year, teachers may carryover days sufficient to bring their cumulative total to a maximum of 5 days. At the end of the year, or upon termination the District will cash out a rate of \$100 per day for any unused Personal Leave days (\$50 for each half day).

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 \$11,128 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 elements 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.
- Assigned – Includes amounts management has set aside for a specific purpose. This includes the executing of a purchase order for a specific purpose such as an encumbrance.
- Unassigned – Amounts that are available for any purpose. These amounts are reported only in the general fund or funds that have negative fund balances.

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2017

As of June 30, 2017, fund balance components other than unassigned fund balance consist of the following:

<u>Purpose</u>	<u>Restricted</u>	<u>Assigned</u>
Instructional and Support Services	\$ 20,158	\$ 35,617
Student Transportation	91,021	0
School Food	6,040	0
Third Party Grantor Restrictions	42,834	0
Employer Retirement Benefits	111,983	0
Future Technology	23,060	0
Future Capital Costs	681,224	0
Total	<u>\$ 976,320</u>	<u>\$ 35,617</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance are available, the School District considers restricted funds to have been spent first. When an expenditure is incurred and assigned or unassigned fund balances are available, the School District considers amounts to have been spent first out of assigned and then unassigned funds as needed, unless the Board of Trustees has provided otherwise.

1. d. OTHER

1. d. 1. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP 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 Madison 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. No service charges have been recorded by the School District or the Madison County.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2017, the summary of cash, cash equivalents for governmental and fiduciary funds is as follows:

<u>Account Type</u>	<u>Governmental</u> <u>Activities</u>	<u>Fiduciary</u> <u>Funds</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 1,316,586	\$ 274,732	\$ 1,591,318
Restricted Assets	0	90,000	90,000
Total	<u>\$ 1,316,586</u>	<u>\$ 364,732</u>	<u>\$ 1,681,318</u>

The carrying amount of cash on hand, deposits and investments at June 30, 2017, is as follows:

	<u>Amount</u>
Demand Accounts	\$ 155,286
Time Deposits	77,018
County Investment Pool	1,425,656
Mutual Funds	23,358
Total	<u>\$ 1,681,318</u>

County investment pool: Cash resources of the School District are held and managed by the Madison County Treasurer pursuant to State Law. They are combined with cash resources of other governmental entities within Madison County to form a pool of cash and cash equivalents. Investments of pooled cash consist primarily of money market accounts, certificates of deposit, and STIP 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 Madison County government. Because of the custodial involvement of the Madison County government, and the commingling of cash in County deposits in the name of the Madison County Treasurer, full risk classifications are available in the Madison County's annual report. There is no known maturity and credit rating of the Madison County Investment Pool.

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2017

Custodial credit risk-deposits: The cash of the extracurricular funds is held separately by the School District and, consequently, 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, 2017, the deposits in the extracurricular fund were covered by FDIC insurance.

2. a. FUND CASH OVERDRAFT

The following funds report overdrawn cash accounts.

<u>Elementary Fund</u>	<u>Amount</u>	<u>Reason</u>
Miscellaneous*	\$ 10,952	Pending grant fund reimbursement
Debt Service*	1,570	Pending receipt of delinquent taxes
<u>High School Fund</u>		
Debt Service	469	Pending receipt of delinquent taxes
Total	<u>\$ 12,991</u>	

\* Denotes Major Funds

2. b. RESTRICTED ASSETS

The following restricted cash was held by the School District Treasurer as of June 30, 2017:

	<u>Scholarships</u>
Scholarship fund fixed principal	<u>\$ 90,000</u>
Total	<u>\$ 90,000</u>

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, 2016, upon which the levy for the 2017 fiscal year was based, was \$3,433,513 for the Elementary School District and \$5,047,738 for the High School District. The tax rates assessed for the year ended June 30, 2017 to finance School District operations and applicable taxes receivable for the elementary and high schools follows:

<u>Elementary Fund</u>	<u>Mill Levies</u>	<u>Taxes Receivable</u>
General*	101.70	\$ 3,088
Transportation	20.58	625
Bus Depreciation*	10.14	308
Technology	3.70	112
Debt Service*	30.81	936
Building Reserve	5.82	177
<u>High School Fund</u>		
General*	76.93	2,733
Transportation	11.91	423
Bus Depreciation*	4.15	147
Adult Education	2.13	76
Technology	3.78	134
Debt Service	20.99	746
Building Reserve	3.96	141
Total	<u>296.60</u>	<u>\$ 9,646</u>

\* Denotes Major Funds

Property taxes fees assessed may be paid under protest and held by the county treasurer until the action is finally determined to be in favor or against the governmental entity levying the tax. Money paid under protest is accounted for by the county in a protest-ed tax agency fund until the final determination.



SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2017

NOTE 4. DUE FROM OTHER GOVERNMENTS

Due from other governments represent amounts due to the School District for costs incurred but not reimbursed by third party grantors. The amounts reported and the organization due from are noted below:

<u>Elementary Fund</u>	<u>Amount</u>	<u>Due From</u>	<u>Reason</u>
Miscellaneous*	\$ 5,519	State of Montana	21 <sup>st</sup> Century grant revenue
Miscellaneous*	12,378	State of Montana	Title I grant revenue
Miscellaneous*	6,436	Federal Government	REAP grant revenue
<u>High School Fund</u>			
Miscellaneous	782	State of Montana	Carl Perkins grant revenue
Traffic Education	<u>1,318</u>	State of Montana	Traffic education revenue
Total	<u>\$ 26,433</u>		

\* Denotes Major Funds

NOTE 5. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

5. a. At June 30, 2017, the schedule of changes in general capital assets follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments/</u> <u>Transfers</u>	<u>Balance</u> <u>June 30, 2017</u>
<u>Non-depreciable:</u>					
Land	\$ 23,500	\$ 0	\$ 0	\$ 0	\$ 23,500
Construction in progress	<u>21,493</u>	<u>0</u>	<u>0</u>	<u>(21,493)</u>	<u>0</u>
Total Non-depreciable	<u>\$ 44,993</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (21,493)</u>	<u>\$ 23,500</u>
<u>Depreciable:</u>					
Buildings	\$ 3,832,927	\$ 0	\$ 0	\$ 0	\$ 3,832,927
Machinery and equipment	<u>1,114,178</u>	<u>43,228</u>	<u>(2,192)</u>	<u>54,654</u>	<u>1,209,868</u>
Total Depreciable	<u>\$ 4,947,105</u>	<u>\$ 43,228</u>	<u>\$ (2,192)</u>	<u>\$ 54,654</u>	<u>\$ 5,042,795</u>
<u>Accumulated Depreciation:</u>					
Buildings	\$ (1,711,992)	\$ (68,958)	\$ 0	\$ 0	\$ (1,780,950)
Machinery and equipment	<u>(638,913)</u>	<u>(85,341)</u>	<u>3,931</u>	<u>0</u>	<u>(720,323)</u>
Total Depreciation	<u>\$ (2,350,905)</u>	<u>\$ (154,299)</u>	<u>\$ 3,931</u>	<u>\$ 0</u>	<u>\$ (2,501,273)</u>
Net Depreciable Assets	<u>2,596,200</u>	<u>(111,071)</u>	<u>1,739</u>	<u>54,654</u>	<u>2,541,522</u>
Net General Capital Assets	<u>\$ 2,641,193</u>	<u>\$ (111,071)</u>	<u>\$ 1,739</u>	<u>\$ 33,161</u>	<u>\$ 2,565,022</u>

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

<u>Function</u>	<u>Amount</u>
Instructional	\$ 71,922
School Administration	3,719
Operation & Maintenance	22,115
Transportation	<u>56,543</u>
Total Depreciation Expense	<u>\$ 154,299</u>

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2017

NOTE 6. CHANGES IN LONG-TERM DEBT

6. a. At June 30, 2017, the schedule of changes in general long-term debt follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>July 1, 2016</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, 2017</u>	<u>Due within</u> <u>One Year</u>
<u>Bonds and Notes Payable:</u>					
General Obligation Bonds	\$ 410,000	\$ 0	\$ (200,000)	\$ 210,000	\$ 210,000
Total Bonds and Notes Payable	\$ 410,000	\$ 0	\$ (200,000)	\$ 210,000	\$ 210,000
<u>Other Liabilities:</u>					
Compensated Absences	\$ 86,613	\$ 10,718	\$ 0	\$ 97,331	\$ 11,128
Accrued Pension	1,611,310	319,700	0	1,931,010	0
Other Post-Employment Benefits (OPEB)	126,657	0	0	126,657	0
Total Other Liabilities	\$ 1,824,580	\$ 330,418	\$ 0	\$ 2,154,998	\$ 11,128
Total Governmental Activities - Long-Term Debt:	\$ 2,234,580	\$ 330,418	\$ (200,000)	\$ 2,364,998	\$ 221,128

6. b. GENERAL OBLIGATION BONDS

The School District issued general obligation bonds in prior years for the acquisition and construction of capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. These bonds were issued for the terms and payment schedules indicated in the following schedule:

<u>Description</u>	<u>Issue Date</u>	<u>Interest</u> <u>Rate</u>	<u>Length</u> <u>of Loan</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Outstanding</u> <u>June 30,</u> <u>2017</u>
Series 1988 Elem. GO Bond	1/15/1998	4.45% - 6.50%	20 Years	7/1/2018	\$ 1,331,000	\$ 105,000
Series 1988 HS GO Bond	1/15/1998	4.45% - 6.50%	20 Years	7/1/2018	1,369,000	105,000
					<u>\$ 2,700,000</u>	<u>\$ 210,000</u>

Debt service requirements to maturity for principal and interest for all bonded long-term obligations are as follows:

For the year ended 6/30:	<u>Elementary</u>		<u>High School</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 105,000	\$ 5,040	\$ 105,000	\$ 5,040

NOTE 7. DEFERRED INFLOWS OF RESOURCES

<u>Elementary Fund</u>	<u>Amount</u>	<u>Reason</u>
General*	\$ 3,088	Taxes Receivable
Transportation	625	Taxes Receivable
Bus Depreciation*	308	Taxes Receivable
Technology	112	Taxes Receivable
Debt Service*	936	Taxes Receivable
Building Reserve	177	Taxes Receivable
<u>High School Fund</u>		
General*	2,733	Taxes Receivable
Transportation	423	Taxes Receivable
Bus Depreciation*	147	Taxes Receivable
Adult Education	76	Taxes Receivable
Technology	134	Taxes Receivable
Debt Service	746	Taxes Receivable
Building Reserve	141	Taxes Receivable
Total	<u>\$ 9,646</u>	

\* Denotes Major Funds

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2017

NOTE 8. DEFICIT FUND BALANCES

Deficit fund balance result from commitments exceeding the resources. The following is a listing of deficit fund balances.

<u>Elementary Fund</u>	<u>Amount</u>	<u>How School District plans to correct</u>
Debt Service*	\$ 1,570	Collection of delinquent taxes
<u>High School Fund</u>		
Debt Service	469	Collection of delinquent taxes
Total	<u>\$ 2,039</u>	

\* Denotes Major Funds

NOTE 9. PRIOR PERIOD ADJUSTMENTS

<u>Elementary Fund</u>	<u>Governmental Funds</u>	<u>Reason</u>
Miscellaneous*	\$ (20)	Correction of error in deposit
<u>High School Fund</u>		
General*	1,000	Prior year revenue correction
Miscellaneous	<u>(713)</u>	Correction of error in deposit
Total	<u>\$ 267</u>	

\* Denotes Major Funds

  

Governmental Type Activities	<u>33,161</u>	Correction of capital asset additions
Total	<u>\$ 33,428</u>	

NOTE 10. INTERFUND OPERATING TRANSFERS IN/OUT

<u>Elementary Fund - In</u>	<u>Amount</u>	<u>Elementary Fund - Out</u>	<u>Purpose of Transfer</u>
Building reserve	\$ 19,500	General*	Future capital projects
<u>High School Fund - In</u>		<u>High School Fund - Out</u>	
Building Reserve	<u>21,500</u>	General*	Future capital projects
Total	<u>\$ 41,000</u>		

\* Denotes Major Funds

NOTE 11. OTHER POST EMPLOYMENT BENEFITS

Plan Description - The School District provides the same health care plan to all of its members. 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 50% 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, 2015 was as follows:

Actuarial Accrued Liability (AAL)	\$ 126,657
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>126,657</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 1,154,132
UAAL as a percentage of covered payroll	11.0%

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2017

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, 2015.

Annual Required Contribution (ARC)	\$ 8,630
Interest on net OPEB obligation	323
Adjustment to ARC	<u>0</u>
Annual OPEB cost (expense)	8,952
Contribution made	<u>(8,952)</u>
Increase in net OPEB obligation	0
Net OPEB obligation - beginning of year	<u>126,657</u>
Net OPEB obligation - end of year	<u>\$ 126,657</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)	3.74%
Average Salary Increase	3.00%

Health care cost rate trend	
Year	% Increase
2016	5.20%
2017	4.90%
2018	4.70%
2019	4.90%
2020	5.30%
2021	5.60%
2022	5.70%
2023	5.60%
2024 and after	5.70%

NOTE 12. 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, e.g., errors and omissions; d) environmental damage; e) workers' compensation, e.g., 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 assessed. 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.

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2017

NOTE 13. OTHER COMMITMENTS

13. a. ENCUMBRANCES

The School District’s encumbrance policy is for fiscal year-end encumbrances exceeding \$1,000 to be considered significant encumbrances. All encumbrances are classified as assigned in the funds noted below:

<u>Elementary Fund</u>	<u>Amount</u>
General*	\$ 35,617
<u>High School Fund</u>	
General*	<u>5,567</u>
Total	<u>\$ 41,184</u>

\* Denotes Major Funds

NOTE 14. 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, stand-alone financial statements, actuarial valuations, experience studies and plan audited financial statements. Those reports may be obtained from the following:

Teachers Retirement System	Public Employees Retirement System
P.O. Box 200139	P.O. Box 200131
1500 Sixth Avenue	100 N. Park Avenue Suite 200
Helena, MT 59620-0139	Helena, MT 59620-0131
Phone: 406-444-3134	Phone: 406-444-3154
www.trs.mt.gov	www.mpera.mt.gov

14. a. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES OF RETIREMENT SYSTEMS

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

Investments are reported at fair value. MPERA and TRS adhere to all applicable GASB statements.

14. b. PUBLIC EMPLOYEE RETIREMENT SYSTEM

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

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the *defined contribution* and *defined benefit* retirement plans.

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

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2017

14. b. 1. SUMMARY OF BENEFITS

Eligibility for benefit (service retirement):

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

Early retirement, actuarially reduced:

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

Vesting:

5 years of membership service

Member's highest average compensation:

- Hired prior to July 1, 2011: -Highest average compensation (HAC) during any consecutive 36 months.  
-
- Hired on or after July 1, 2011: -HAC during any consecutive 60 months.

Compensation Cap:

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

Monthly benefit formula:

- Hired prior to July 1, 2011: -Less than 25 years of membership service 1.785% of HAC per year of service credit; or  
-25 years of membership service or more 2% of HAC per year of service credit.
- Hired on or after July 1, 2011: -Less than 10 years of membership service 1.5% of HAC per year of service credit;  
-10 years or more, but less than 30 years of membership service 1.785% of HAC per year of service credit; or  
-30 years or more of membership service 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment:

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

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

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2017

14. b. 2. OVERVIEW OF CONTRIBUTIONS

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

Fiscal Year	Member		State & Universities Employer	Local Government		School Districts	
	Hired <07/01/11	Hired >07/01/11		Employer	State	Employer	State
2017	7.900%	7.900%	8.470%	8.370%	0.100%	8.100%	0.370%
2016	7.900%	7.900%	8.370%	8.270%	0.100%	8.000%	0.370%
2015	7.900%	7.900%	8.270%	8.170%	0.100%	7.900%	0.370%
2014	7.900%	7.900%	8.170%	8.070%	0.100%	7.800%	0.370%
2012-2013	6.900%	7.900%	7.170%	7.070%	0.100%	6.800%	0.370%
2010-2011	6.900%		7.170%	7.070%	0.100%	6.800%	0.370%
2008-2009	6.900%		7.035%	6.935%	0.100%	6.800%	0.235%
2000-2007	6.900%		6.900%	6.800%	0.100%	6.800%	0.100%

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
2. Employer contributions to the system:
  - a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.
  - b. Effective July 1, 2013, employers are required to make contributions on working retirees’ compensation. Member contributions for working retirees are not required.
  - c. The Plan Choice Rate (PCR), that directed a portion of employer contributions for DC members to the PERS defined benefit plan, are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
3. Non-Employer Contributions:
  - a. Special Funding
    - i. The State contributes 0.1% of members’ compensation on behalf of local government entities.
    - ii. The State contributes 0.37% of members’ compensation on behalf of school district entities.
  - b. Not Special Funding
    - i. The State contributes a portion of Coal Severance Tax income and earnings from the Coal Trust Permanent Trust fund.

Special Funding

The state of Montana, as the non-employer contributing entity, paid to the Plan additional contributions that qualify as special funding. Those employers who received special funding are counties, cities and towns, school districts and high schools, and other governmental agencies.

Not Special Funding

Per State of Montana law, state agencies and universities paid their own additional contributions. The employer paid contributions are not accounted for as special funding for state agencies and universities but are reported as employer contributions. The State of Montana, as the non-employer contributing entity, also paid to the Plan coal tax contributions that are not accounted for as special funding for all participating employers.

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2017

14. b. 3. ACTUARIAL ASSUMPTIONS

The Total Pension Liability (TPL) used to calculate the NPL was determined by taking the results of the June 30, 2015, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2016. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of the last actuarial experience study, dated June 2010, for the six-year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

General Wage Growth*	4.00%
*includes Inflation at	3.00%
Merit Increases	0% to 6%
Investment Return (net of admin expenses)	7.75%
Admin Expense as % of Payroll	0.27%
Postretirement Benefit Increases	
3% for members hired prior to July 1, 2007	
1.5% for members hired between July 1, 2007 and June 30, 2013	
Members hired on or after July 1, 2013:	
• 1.5% for each year PERS is funded at or above 90%	
• 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%;	
and	
• 0% whenever the amortization period for PERS is 40 years or more	

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

14. b. 4. DISCOUNT RATE

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non- employer contributing entities will be made based on the Board’s funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

14. b. 5. TARGET ALLOCATIONS

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



SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2017

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis	Long-Term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%	0.10%
Domestic Equity	36.00%	4.55%	1.64%
Foreign Equity	18.00%	6.35%	1.14%
Fixed Income	23.40%	1.00%	0.23%
Private Equity	12.00%	7.75%	0.93%
Real Estate	8.00%	4.00%	0.32%
Total	<u>100.00%</u>		<u>4.37%</u>
Inflation			3.00%
Portfolio Return Expectation			7.37%

14. b. 6. DEFINED CONTRIBUTION PLAN

The School District contributed to the state of Montana Public Employee Retirement System Defined Contribution Retirement Plan (PERS-DCRP) for employees that have elected the DCRP. The PERS-DCRP is administered by the PERB and is reported as a multiple-employer plan established July 1, 2002, and governed by Title 19, chapters 2 & 3, MCA.

All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the defined benefit and defined contribution retirement plans.

Member and employer contribution rates are specified by state law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The Montana Legislature has the authority to establish and amend contribution rates.

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.

At the plan level for the measurement period ended June 30, 2016, the PERS-DCRP employer did not recognize any net pension liability or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 289 employers that have participants in the PERS-DCRP totaled \$382,656.

14. c. TEACHERS' RETIREMENT SYSTEM (TRS)

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

The TRS Board is the governing body of the System and the TRS staff administers the system in conformity with the laws set forth in Title 19, chapter 20 of the Montana Code Annotated, and administrative rules set forth in Title 2, Chapter 44 of the Administrative Rules of Montana.

14. c. 1. SUMMARY OF BENEFITS

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

- Tier Two uses a 5-year average final compensation (as opposed to 3-year AFC in Tier One)
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One)
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One)
- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2017

- Tier Two provides for an enhanced benefit calculation - 1.85% x AFC x years of creditable service - for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than 1.6667 x AFC x years of creditable service)

A guaranteed annual benefit adjustment (GABA) is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABA calculated prior to July 1, 2013, was 1.5% of the benefit payable as of January 1st. Effective July 1, 2013, the GABA to be calculated for Tier One and Tier Two members each year may vary from 0.5% to 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation.

14. c. 2. OVERVIEW OF CONTRIBUTIONS

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

School District and Other Employers

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

14. c. 3. ACTUARIAL ASSUMPTIONS

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

Total Wage Increases*	4% - 8.51% for Non-University members and 5.00% for University members
Investment Return	7.75%
Price Inflation	3.25%

- Postretirement Benefit Increases
  - Tier One Members: If the retiree has received benefits for at least 3 years, the retirement allowance will be increased by 1.5% on January 1<sup>st</sup>.
  - Tier Two Members: the retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the System to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.
- Mortality among contributing members, service retired members, and beneficiaries

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2017

- For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
- For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members
  - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

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

14. c. 4. DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board’s funding policy, which establishes the contractually required rates under Montana Code Annotated. In addition to the contributions the State general fund will contribute \$25 million annually to the System payable July 1st of each year. Based on those assumptions, the System’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

14. c. 5. TARGET ALLOCATIONS

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return*
Broad US Equity	36.00%	4.80%	1.73%
Broad International Equity	18.00%	6.05%	1.09%
Private Equity	12.00%	8.50%	1.02%
Intermediate Bonds	23.40%	1.50%	0.35%
Core Real Estate	4.00%	4.50%	0.18%
High Yield Bonds	2.60%	3.25%	0.08%
Non-Core Real Estate	<u>4.00%</u>	7.50%	<u>0.30%</u>
	100%		4.75%
		Inflation	<u>3.25%</u>
		Expected arithmetic nominal return	8.00%

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

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

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2017

14. d. SENSITIVITY ANALYSIS

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

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
<b>PERS</b>			
Net Pension Liability	\$ 2,836,551,371	\$ 1,947,626,401	\$ 1,201,441,171
School District's Net Pension Liability	\$ 457,406	\$ 315,219	\$ 192,739
<b>TRS</b>			
Net Pension Liability	\$ 2,451,115,994	\$ 1,826,842,979	\$ 1,301,274,169
School District's Net Pension Liability	\$ 2,167,943	\$ 1,615,791	\$ 1,150,940

14. e. NET PENSION LIABILITY

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize, and report certain amounts associated with their participation in the PERS and TRS. Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions.

In accordance with Statement 68, PERS and TRS have special funding situations in which the State of Montana is legally responsible for making contributions directly to PERS and TRS on behalf of the employers. Due to the existence of this special funding situation, local governments and school districts are required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer.

PERS	<u>Net Pension Liability</u>		<u>Percent of</u>	<u>Percent of</u>	<u>Change in</u>
	<u>as of 6/30/17</u>	<u>as of 6/30/16</u>	<u>Collective NPL</u> <u>as of 6/30/17</u>	<u>Collective NPL</u> <u>as of 6/30/16</u>	<u>Percent of</u> <u>Collective NPL</u>
School District Proportionate Share	\$ 315,219	\$ 210,359	0.0185%	0.0150%	0.0035%
State of Montana Proportionate Share associated with Employer	14,732	9,885	0.0009%	0.0007%	0.0002%
Total	\$ 329,951	\$ 220,244	0.0194%	0.0158%	0.0036%
<b>TRS</b>					
	<u>Net Pension Liability</u>		<u>Percent of</u>	<u>Percent of</u>	<u>Change in</u>
	<u>as of 6/30/17</u>	<u>as of 6/30/16</u>	<u>Collective NPL</u> <u>as of 6/30/17</u>	<u>Collective NPL</u> <u>as of 6/30/16</u>	<u>Percent of</u> <u>Collective NPL</u>
School District Proportionate Share	\$ 1,615,791	\$ 1,400,951	0.0884%	0.0853%	0.0031%
State of Montana Proportionate Share associated with Employer	1,055,967	945,208	0.0578%	0.0575%	0.0003%
Total	\$ 2,671,758	\$ 2,346,159	0.1462%	0.1428%	0.0034%

At June 30, 2017, the employer recorded a liability of \$315,219 and \$1,615,791 for PERS and TRS, respectively, for its proportionate share of the Net Pension Liability. At June 30, 2017, the employer's proportion was 0.0185 percent and 0.0884 percent for PERS and TRS, respectively.

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation (For TRS as of July 1, 2016. The actuarial assumptions used in the July 1, 2016 valuation were based on the results of the last actuarial experience study, dated May 1, 2014.) (For PERS as of June 2015 and applying standard roll forward procedures to update the total pension liability to June 30, 2016. The actuarial assumptions used in the June 30, 2016, valuation was based on the results of the last actuarial experience study, dated June 2010, for the six-year period July 1, 2003 to June 30, 2009.)

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2017

**Changes in actuarial assumptions and methods:** Any changes can be obtained from PERS or TRS as in the first part of this note.

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

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

14. f. PENSION EXPENSE

PERS	Pension Expense as of 6/30/17	Pension Expense as of 6/30/16
School District's Proportionate Share	\$ 18,139	\$ (8,136)
State of Montana Proportionate Share associated with the Employer	1,235	614
Grant revenue from the State of Montana Coal Tax Fund	<u>5,523</u>	<u>5,048</u>
Total	<u>\$ 24,897</u>	<u>\$ (2,473)</u>
TRS	Pension Expense as of 6/30/17	Pension Expense as of 6/30/16
School District's Proportionate Share	\$ 154,347	\$ 97,448
State of Montana Proportionate Share associated with the Employer	<u>72,011</u>	<u>47,749</u>
Total	<u>\$ 226,358</u>	<u>\$ 145,197</u>

At June 30, 2017, the employer recognized a Pension Expense of \$24,897 and \$226,358 for its proportionate share of the PERS and TRS Pension Expense, respectively. The employer also recognized grant revenue of \$6,758 and \$72,011 for the support provided by the State of Montana for its proportionate share of the Pension Expense that is associated with the employer for PERS and TRS, respectively.

14. g. DEFERRED INFLOWS AND OUTFLOWS

At June 30, 2017, the employer reported its proportionate share of PERS and TRS deferred outflows of resources and deferred inflows of resources related to PERS and TRS from the following sources:

	PERS Deferred Outflows of Resources	PERS Deferred Inflows of Resources	TRS Deferred Outflows of Resources	TRS Deferred Inflows of Resources
Differences between actual and expected experience	<u>\$ 1,701</u>	<u>\$ 1,043</u>	<u>\$ 8,639</u>	<u>\$ 3,435</u>
Changes in assumptions	<u>0</u>	<u>0</u>	<u>10,283</u>	<u>10,156</u>
Difference between projected and actual earnings on pension plan investments	<u>29,656</u>	<u>0</u>	<u>104,049</u>	<u>0</u>
Changes in proportion differences between employer contributions and proportionate share of contributions	<u>5,876</u>	<u>0</u>	<u>0</u>	<u>0</u>
Difference between actual and expected contributions	<u>0</u>	<u>0</u>	<u>59,529</u>	<u>0</u>
#Contributions paid subsequent to the measurement date				
– FY 2017 Contributions	<u>19,997</u>	<u>0</u>	<u>103,844</u>	<u>0</u>
Total	<u>\$ 57,229</u>	<u>\$ 1,043</u>	<u>\$ 286,344</u>	<u>\$ 13,591</u>

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

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2017

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

Year ended June 30:	PERS	TRS	TRS	TRS
	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	Deferred Outflows of Resources (a)	Deferred Inflows of Resources (b)	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense (a) – (b)
2018	\$ 1,436	\$ 51,067	\$ 5,126	\$ 45,941
2019	\$ 1,436	\$ 24,448	\$ 5,009	\$ 19,439
2020	\$ 16,852	\$ 69,636	\$ 3,455	\$ 66,181
2021	\$ 10,589	\$ 37,350	\$ 0	\$ 37,350
2022	\$ 0	\$ 0	\$ 0	\$ 0
Thereafter	\$ 0	\$ 0	\$ 0	\$ 0

14. h. PENSION AMOUNTS TOTAL FOR EMPLOYER – EMPLOYER’S PROPORTION OF PERS AND TRS PENSION AMOUNTS

	The employer’s proportionate share associated with PERS	The employer’s proportionate share associated with TRS	The employer’s Total Pension Amounts
	Total Pension Liability	\$ 1,246,417	\$ 4,850,155
Fiduciary Net Position	\$ 931,198	\$ 3,234,364	\$ 4,165,562
Net Pension Liability	\$ 315,219	\$ 1,615,791	\$ 1,931,010
Deferred Outflows of Resources	\$ 57,229	\$ 286,344	\$ 343,573
Deferred Inflows of Resources	\$ 1,043	\$ 13,591	\$ 14,634
Pension Expense	\$ 24,897	\$ 226,358	\$ 251,255

NOTE 15. COOPERATIVE

15. a. SPECIAL EDUCATION

The Sheridan School District No. 5 is a member of the Great Divide Education Service 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 Sheridan School District No. 5, 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 Madison 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 16. 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.

SHERIDAN SCHOOL DISTRICT NO. 5

SCHEDULE OF FUNDING PROGRESS  
 Other Post-Employment Benefits Other Than Pensions (OPEB)  
 For the year ended June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b)-(a))/(c)
<u>7/1/2010</u>	\$ -	\$ 8,096	\$ 8,096	0%	\$ 963,533	0.8%
<u>7/1/2012</u>	\$ -	\$ 194,761	\$ 194,791	0%	\$ 503,976	38.6%
<u>7/1/2015</u>	\$ -	\$ 126,657	\$ 126,657	0%	\$ 1,154,132	11.0%

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

SHERIDAN SCHOOL DISTRICT NO. 5

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
 (Determined as of the measurement date)  
 For the year ended June 30, 2017

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Year ended June 30:	Employer's proportion of the net pension liability	Employer's proportionate share of the net pension liability associated with the Employer (a)	State of Montana's proportionate share of the net pension liability associated with the Employer (b)	Total (a)+(b)=(c)	Employer's covered payroll (d)	Employer's proportionate share of the net pension liability as a percentage of its covered payroll (a)/(d)	Plan fiduciary net position as a percentage of the total pension liability
2014	0.0193%	\$ 240,427	\$ 11,239	\$ 251,667	\$ 225,993	111.22%	79.87%
2015	0.0150%	\$ 210,359	\$ 9,885	\$ 220,244	\$ 181,576	115.85%	78.40%
2016	0.0185%	\$ 315,219	\$ 14,732	\$ 329,951	\$ 229,149	137.56%	74.71%

TEACHERS RETIREMENT SYSTEM

Year ended June 30:	Employer's proportion of the net pension liability	Employer's proportionate share of the net pension liability associated with the Employer (a)	State of Montana's proportionate share of the net pension liability associated with the Employer (b)	Total (a)+(b)=(c)	Employer's covered payroll (d)	Employer's proportionate share of the net pension liability as a percentage of its covered payroll (a)/(d)	Plan fiduciary net position as a percentage of the total pension liability
2014	0.0834%	\$ 1,283,508	\$ 881,692	\$ 2,165,200	\$ 1,051,835	122.03%	70.36%
2015	0.0853%	\$ 1,400,951	\$ 945,208	\$ 2,346,159	\$ 1,088,302	128.73%	69.30%
2016	0.0884%	\$ 1,615,791	\$ 1,055,967	\$ 2,671,758	\$ 1,148,076	140.74%	66.69%

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



SHERIDAN SCHOOL DISTRICT NO. 5

SCHEDULE OF CONTRIBUTIONS TO MONTANA RETIREMENT SYSTEMS  
 (Determined as of the reporting date)  
 For the year ended June 30, 2017

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Year ended June 30:	Contractually required contributions (a)	Plan Choice Rate Required Contribution (b)	Contributions in relation to the contractually required contributions (c)	Contribution deficiency (excess) (a)+(b)- (c)=(d)	Employer's covered payroll (e)	Contributions as a percentage of Covered payroll ((a)+(b))/(d)
2015	\$ 14,472	\$ 861	\$ 15,333	\$ 0	\$ 181,576	8.44%
2016	\$ 18,528	\$ 312	\$ 18,840	\$ 0	\$ 229,149	8.22%
2017	\$ 19,997	\$ 477	\$ 20,474	\$ 0	\$ 256,941	7.97%

TEACHERS RETIREMENT SYSTEM

Year ended June 30:	Contractually required contributions (a)	Contributions in relation to the contractually required contributions (b)	Contribution deficiency (excess) (a)-(b)=(c)	Employer's covered payroll (d)	Contributions as a percentage of covered payroll (a)/(d)
2015	\$ 93,268	\$ 93,268	\$ 0	\$ 1,088,302	8.57%
2016	\$ 118,613	\$ 118,613	\$ 0	\$ 1,148,076	10.33%
2017	\$ 103,844	\$ 103,844	\$ 0	\$ 1,174,844	8.84%

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

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND  
SCHEDULE OF CONTRIBUTIONS TO MONTANA RETIREMENT SYSTEMS  
(June 30, 2016 Measurement Date)  
For the year ended June 30, 2017

NOTE 1. PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS)

1. a. CHANGES OF BENEFIT TERMS

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

**2013 Legislative Changes:**

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

**Guaranteed Annual Benefit Adjustment (GABA) - for PERS**

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

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007 and before July 1, 2013
- Members hired on or after July 1, 2013
  - a. 1.5% each year PERS is funded at or above 90%;
  - b. 1.5% reduced by 0.1% for each 2.0% PERS is funded below 90%; and,
  - c. 0% whenever the amortization period for PERS is 40 years or more.

**2015 Legislative Changes:**

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

**Second Retirement Benefit - for PERS**

- 1) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:
  - refund of member's contributions from second employment plus regular interest (currently 0.25%);
  - no service credit for second employment;
  - start same benefit amount the month following termination; and
  - GABA starts again the January immediately following second retirement.
- 2) For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:
  - member receives a recalculated retirement benefit based on laws in effect at second retirement; and,
  - GABA starts the January after receiving recalculated benefit for 12 months.
- 3) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:
  - refund of member's contributions from second employment plus regular interest (currently 0.25%);
  - no service credit for second employment;
  - start same benefit amount the month following termination; and,
  - GABA starts again the January immediately following second retirement.
- 4) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:
  - member receives same retirement benefit as prior to return to service;
  - member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
  - GABA starts on both benefits in January after member receives original and new benefit for 12 months.

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

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

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

1. b CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

**Method and assumptions used in calculations of actuarially determined contributions**

The following addition was adopted in 2014 based on implementation of GASB Statement 68:

Admin Expense as % of Payroll 0.27%

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND  
SCHEDULE OF CONTRIBUTIONS TO MONTANA RETIREMENT SYSTEMS (continued)  
(June 30, 2016 Measurement Date)  
For the year ended June 30, 2017

There were no changes following the 2013 Economic Experience study.

The following Actuarial Assumptions were adopted from the June 2010 Experience Study:

General Wage Growth*	4.00%
*Includes inflation at	3.00%
Merit increase	0% to 6.0%
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open

NOTE 2. TEACHERS' RETIREMENT SYSTEM (TRS)

2. a. CHANGES OF BENEFIT TERMS

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

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

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

- (1) **Final Average Compensation:** average of earned compensation paid in five consecutive years of full-time service that yields the highest average
- (2) **Service Retirement:** Eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55
- (3) **Early Retirement:** Eligible to receive an early retirement allowance if a member is not eligible for service retirement but has at least five years of creditable service and attained age 55
- (4) **Professional Retirement Option:** if the member has been credited with 30 or more years of service and has attained the age of 60 they are eligible for an enhanced allowance equal to 1.85% of average final compensation times all service at retirement. Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%
- (5) **Annual Contribution:** 8.15% of member's earned compensation
- (6) **Supplemental Contribution Rate:** On or after July 1, 2023, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met:
  - a. The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and
  - b. The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and
  - c. A State or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board.
- (7) **Disability Retirement:** A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination
- (8) **Guaranteed Annual Benefit Adjustment (GABA):**
  - a. If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the Board.

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

- Annual State contribution equal to \$25 million paid to the System in monthly installments.
- One-time contribution payable to the Retirement System by the trustees of a school district maintaining a retirement fund. The one-time contribution to the Retirement System shall be the amount earmarked as an operating reserve in excess of 20% of the adopted retirement fund budget for the fiscal year 2013. The amount received was \$22 million in FY 2014.
- 1% supplemental employer contribution. This will increase the current employer rates:

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND  
SCHEDULE OF CONTRIBUTIONS TO MONTANA RETIREMENT SYSTEMS (continued)  
(June 30, 2016 Measurement Date)  
For the year ended June 30, 2017

- School Districts contributions will increase from 7.47% to 8.47%
- The Montana University System and State Agencies will increase from 9.85% to 10.85%.
- The supplemental employer contribution will increase by 0.1% each fiscal year for fiscal year 2014 thru fiscal year 2024. Fiscal years beginning after June 30, 2024 the total supplemental employer contribution will be equal to 2%.
- Members hired prior to July 1, 2013 (Tier 1) under HB 377 are required to contribute a supplemental contribution equal to an additional 1% of the member's earned compensation.
- Each employer is required to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position to the System.

2. b. CHANGES IN ACTUARIAL ASSUMPTIONS AND OTHER INPUTS:

The following changes to the actuarial assumptions were adopted in 2016:

- The normal cost method has been updated to align the calculation of the projected compensation and the total present value of plan benefits so that the normal cost rate reflects the most appropriate allocation of plan costs over future compensation.

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

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three-year COLA deferral period for Tier 2 Members.
- The 0.63% load applied to the projected retirement benefits of the university members "to account for larger than average annual compensation increases observed in the years immediately preceding retirement" is not applied to benefits expected to be paid to university members on account of death, disability and termination (prior to retirement eligibility).
- The actuarial valuation was updated to reflect the assumed rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.
- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the \$500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to "retain membership in the System" are covered by the \$500 death benefit after termination.

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

- Assumed rate of inflation was reduced from 3.50% to 3.25%
- Payroll Growth Assumption was reduced from 4.50% to 4.00%
- Assumed real wage growth was reduced from 1.00% to 0.75%
- Investment return assumption was changed from net of investment and administrative expenses to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
  - For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members was updated to the following:
  - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

**Method and assumptions used in calculations of actuarially determined contributions:**

● Actuarial cost method	Entry age
● Amortization method	Level percentage of pay, open
● Remaining amortization period	24 years
● Asset valuation method	4-year smoothed market
● Inflation	3.25 percent
● Salary increase	4.00 to 8.51 percent, including inflation for Non-University Members and 5.00% for University Members;
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 (Budget and Actual)  
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS  
 For the year ended June 30, 2017

	General (Elem.)			General (HS)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>REVENUES:</b>						
District levies	\$ 349,204	\$ 349,204	\$ 342,687	\$ -	\$ -	\$ 385,038
Interest	419	419	1,035	-	-	941
Other	512	512	-	-	-	-
State	711,176	711,176	711,172	-	-	521,400
<b>Total revenues</b>	<u>1,061,311</u>	<u>1,061,311</u>	<u>1,054,894</u>	<u>-</u>	<u>-</u>	<u>907,379</u>
<b>EXPENDITURES:</b>						
Current:						
Instructional services			658,495			509,082
Educational media services			15,127			13,900
General administrative services			140,204			112,128
Operation & maintenance services			174,731			153,112
Extracurricular			26,423			102,170
Capital outlay			16,674			-
<b>Total expenditures</b>	<u>1,061,311</u>	<u>1,061,311</u>	<u>1,031,654</u>	<u>-</u>	<u>-</u>	<u>890,392</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>23,240</u>	<u>-</u>	<u>-</u>	<u>16,987</u>
<b>OTHER FINANCING SOURCES/USES:</b>						
Fund transfers (out)			(19,500)			(21,500)
<b>Total other financial sources/uses</b>	<u>-</u>	<u>-</u>	<u>(19,500)</u>	<u>-</u>	<u>-</u>	<u>(21,500)</u>
<b>Net changes in fund balances</b>	<u>-</u>	<u>-</u>	<u>3,740</u>	<u>-</u>	<u>-</u>	<u>(4,513)</u>
<b>FUND BALANCE:</b>						
Beginning of the year			89,024			93,749
Prior period adjustments			(6,094)			(196)
<b>End of the year</b>			<u>\$ 86,670</u>			<u>\$ 89,040</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 year ended June 30, 2017

	Flexibility Fund (Elem.)			Flexibility Fund (HS)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>REVENUES:</b>						
District levies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	-	-	565	-	-	600
Other	-	-	7,756	-	-	3,905
State	7,749	-	7,749	-	-	12,435
Total revenues	<u>7,749</u>	<u>-</u>	<u>16,070</u>	<u>-</u>	<u>-</u>	<u>16,940</u>
<b>EXPENDITURES:</b>						
Current:						
Instructional services			-			-
Educational media services			-			-
General administrative services			-			-
Operation & maintenance services			-			-
Extracurricular			-			-
Capital outlay			-			-
Total expenditures	<u>63,260</u>	<u>63,260</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>(55,511)</u>	<u>(63,260)</u>	<u>16,070</u>	<u>-</u>	<u>-</u>	<u>16,940</u>
<b>OTHER FINANCING SOURCES/USES:</b>						
Fund transfers (out)			-			-
Total other financial sources/uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	<u>(55,511)</u>	<u>(63,260)</u>	<u>16,070</u>	<u>-</u>	<u>-</u>	<u>16,940</u>
<b>FUND BALANCE:</b>						
Beginning of the year			55,511			63,323
Prior period adjustments			<u>-</u>			<u>-</u>
End of the year			<u>\$ 71,581</u>			<u>\$ 80,263</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 year ended June 30, 2017

	Bus Depreciation (Elem.)			Bus Depreciation (HS)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>REVENUES:</b>						
District levies	\$ 34,820	\$ 34,820	\$ 34,225	\$ -	\$ -	\$ 20,874
Interest	-	-	1,527	-	-	2,134
Other	-	-	-	-	-	-
State	-	-	-	-	-	-
Total revenues	<u>34,820</u>	<u>34,820</u>	<u>35,752</u>	<u>-</u>	<u>-</u>	<u>23,008</u>
<b>EXPENDITURES:</b>						
Current:						
Instructional services			-			-
Educational media services			-			-
General administrative services			-			-
Operation & maintenance services			-			-
Extracurricular			-			-
Capital outlay			-			-
Total expenditures	<u>198,560</u>	<u>198,560</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>(163,740)</u>	<u>(163,740)</u>	<u>35,752</u>	<u>-</u>	<u>-</u>	<u>23,008</u>
<b>OTHER FINANCING SOURCES/USES:</b>						
Fund transfers (out)			-			-
Total other financial sources/uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	<u>(163,740)</u>	<u>(163,740)</u>	<u>35,752</u>	<u>-</u>	<u>-</u>	<u>23,008</u>
<b>FUND BALANCE:</b>						
Beginning of the year			163,740			241,736
Prior period adjustments			<u>-</u>			<u>-</u>
End of the year			<u>\$ 199,492</u>			<u>\$ 264,744</u>

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

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE BUDGET VS ACTUAL SCHEDULE  
For the year ended June 30, 2017

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 (Transportation, Bus Depreciation, Tuition, Retirement, Adult Education, Technology, Flexibility), 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 debt service is not included in the schedule because it is not a special revenue fund and the miscellaneous program fund 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 of Montana 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. FUND BALANCE RECONCILIATION

The fund balances of the general funds displayed on the Statement of Revenue, Expenditures, and Changes in Fund Balances (GAAP Basis) is different from that on the Schedule of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual) by \$36,617 and \$5,567, respectively. The difference is due to the reserve for encumbrances.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used control expenditures. Encumbrances are not included as expenditures on the GAAP basis statement as they do not meet the GAAP definition of expenditures. The School District reports encumbrances at year end as budgeted expenditures and displays these amounts as assigned or reserve for fund balances, as applicable.

NOTE 3. BUDGET AMENDMENT

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



SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE BUDGET VS ACTUAL SCHEDULE (continued)  
For the year ended June 30, 2017

NOTE 4. COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE ALL SUB-FUNDS OF THE GENERAL FUND

	<u>Sub-fund</u> <u>General</u> <u>Fund</u> <u>(Elem)</u>	<u>Sub-fund</u> <u>General</u> <u>Fund</u> <u>(HS)</u>	<u>Sub-fund</u> <u>Flexibility</u> <u>Fund</u> <u>(Elem)</u>	<u>Sub-fund</u> <u>Flexibility</u> <u>Fund</u> <u>(HS)</u>	<u>Total</u> <u>General</u> <u>Fund</u>
<b>REVENUES:</b>					
District levies	\$ 342,687	\$ 385,038	\$ 0	\$ 0	\$ 727,725
Interest earnings	1,035	941	565	600	3,141
Other	0	0	7,756	3,905	11,661
State sources	<u>711,172</u>	<u>521,400</u>	<u>7,749</u>	<u>12,435</u>	<u>1,252,756</u>
Total revenues	<u>\$ 1,054,894</u>	<u>\$ 907,379</u>	<u>\$ 16,070</u>	<u>\$ 16,940</u>	<u>\$ 1,995,283</u>
<b>EXPENDITURES:</b>					
Instructional services	635,066	505,907	0	0	1,140,973
Educational media	15,127	13,900	0	0	29,027
General administrative	140,204	112,128	0	0	252,332
Operation & maintenance	174,731	153,112	0	0	327,843
Extracurricular	26,423	102,170	0	0	128,593
Capital outlay	<u>16,674</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>16,674</u>
Total expenditures	<u>\$ 1,008,225</u>	<u>\$ 887,217</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,895,442</u>
Excess (deficiency) of revenues over expenditures	46,669	20,162	16,070	16,940	99,841
<b>OTHER FINANCING SOURCES/USES:</b>					
Fund transfers (out)	<u>(19,500)</u>	<u>(21,500)</u>	<u>0</u>	<u>0</u>	<u>(41,000)</u>
Total other financial sources/uses	(19,500)	(21,500)	0	0	(41,000)
Net changes in fund balances	<u>27,169</u>	<u>(1,338)</u>	<u>16,070</u>	<u>16,940</u>	<u>58,841</u>
<b>FUND BALANCE:</b>					
Beginning of the Year	95,118	94,945	55,511	63,323	308,897
Prior period adjustment	<u>0</u>	<u>1,000</u>	<u>0</u>	<u>0</u>	<u>1,000</u>
Ending of the Year (GAAP)	<u>122,287</u>	<u>94,607</u>	<u>71,581</u>	<u>80,263</u>	<u>\$ 368,738</u>
Current year encumbrances	<u>35,617</u>	<u>5,567</u>	<u>0</u>	<u>0</u>	
Ending of the Year (Budget)	<u>\$ 86,670</u>	<u>\$ 89,040</u>	<u>\$ 71,581</u>	<u>\$ 80,263</u>	

In the reconciliation the elementary general fund, elementary flexibility fund, high school general fund, and high school flexibility fund are added together to get to the aggregate general fund shown as a major fund on the Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Funds. The elementary flexibility fund and high school flexibility fund are maintained as separate funds for accounting purposes. However, for external financial reporting they are added to the general fund because they have unassigned fund balance like the general fund.

On the Statement of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual) All Budgeted Major Governmental Funds display budgeted information for the general and major special revenue funds. The statement presents budgetary information for the elementary general fund, high school general fund, elementary flexibility fund, and high school flexibility fund, because they are reported as major funds and have legally adopted budgets.

SHERIDAN SCHOOL DISTRICT NO. 5

SCHEDULE OF REVENUES, EXPENSES AND BALANCES EXPENDABLE TRUST –  
STUDENT ACTIVITY FUNDS  
For the year ended June 30, 2017

Activity Account Name	Beginning Balance 7/1/2016	Revenues	Expenses	Transfers	Ending Balance 6/30/2017
ABC BOOSTER CLUB	\$ 1,750	\$ 1	\$ -	\$ -	\$ 1,751
ACTIVITY TICKETS	3,708	4,034	-	(7,268)	474
AG ED PROJECTS	371	521	353	-	539
ANNUAL	2,388	850	12	-	3,226
ARCHERY	2,551	502	165	-	2,888
ATHLETICS SUPPLIES	1,212	1,000	653	-	1,559
BAND TRIP	2,909	3,920	2,343	-	4,486
BB CAMP	1,178	501	176	-	1,503
BOOK FAIR	166	3,999	4,083	91	173
BOOK FINES/COPY FEES	1,622	127	-	-	1,749
BOYS BASKETBALL	4,701	3,909	3,524	536	5,622
BUSINESS PROJECTS	146	-	-	-	146
CARNIVAL	(241)	3,205	2,316	833	1,481
CHEERLEADING	2,140	1,001	1,033	536	2,644
CLASS OF 15	6	-	-	-	6
CLASS OF 16	(59)	-	-	-	(59)
CLASS OF 17	2,128	2,803	4,682	-	249
CLASS OF 18	923	4,191	2,498	795	3,411
CLASS OF 19	644	-	25	-	619
CLASS OF 20	1,317	1	-	-	1,318
CLASS OF 21	2,898	314	150	-	3,062
CLASS OF 22	2,398	415	138	-	2,675
CLASS OF 23	925	2,304	1,351	-	1,878
CLASS OF 24	-	2,620	1,605	-	1,015
CLASS OF 25	-	-	-	-	-
CLOSE-UP	3,049	26,666	30,278	524	(39)
CONCESSIONS	-	8,279	5,477	(2,716)	86
CROSS COUNTRY	5	1,167	702	535	1,005
DRAMA	3,858	1,677	1,235	536	4,836
ELEM FIELD TRIPS	1,611	946	208	-	2,349
ELEMENTARY EQUIPMENT	3,175	583	724	-	3,034
FCCLA	25,932	21,074	34,283	564	13,287
FFA	20,435	37,850	36,108	-	22,177
FOOTBALL	6,498	6,529	7,046	535	6,516
FOOTBALL CAMP	461	615	415	-	661
FORENSICS	1,885	1,001	1,409	536	2,013
GIRLS' BASKETBALL	3,873	2,140	2,325	535	4,223
HIGH SCH EQUIPMENT	385	29	-	-	414
HOME EC PROJECTS	32	138	190	-	(20)
HONOR SOCIETY	786	150	219	-	717
INTEREST EARNED	-	-	-	-	-
JOURNALISM	2,564	1	-	-	2,565
LIBRARY	345	190	247	(91)	197
Sub-total	<u>110,330</u>	<u>145,063</u>	<u>145,726</u>	<u>(3,428)</u>	<u>106,239</u>

SHERIDAN SCHOOL DISTRICT NO. 5

SCHEDULE OF REVENUES, EXPENSES AND BALANCES EXPENDABLE TRUST –  
 STUDENT ACTIVITY FUNDS (continued)  
 For the year-ended June 30, 2017

Activity Account Name	Beginning Balance 7/1/2016	Revenues	Expenses	Transfers	Ending Balance 6/30/2017
LOCKS	1,096	1	-	-	1,097
MONTANA ARTS COUNCIL	262	60	-	-	322
MS HIGH BOYS' BB	1,978	842	1,225	383	1,978
MS HIGH FOOTBALL	890	700	580	382	1,392
MS HIGH GIRLS' BB	1,794	751	825	382	2,102
MS HIGH TRACK	2,895	251	477	383	3,052
MS HIGH VOLLEYBALL	1,593	700	1,043	383	1,633
MUSIC	2,059	1,043	1,505	535	2,132
MUSIC/RENTAL	2,463	678	1,819	-	1,322
PAYS PROGRAM	14	730	770	-	(26)
RENTAL FEES	115	-	-	-	115
SCIENCE CLUB	148	-	-	-	148
SCIENCE FAIR	26	-	20	-	6
SPANISH CLUB	1,162	11,682	11,402	-	1,442
STUDENT COUNCIL	305	1,037	386	-	956
STUDENT FEES	6,444	6,219	6,417	-	6,246
TECHNOLOGY FEES	(619)	2,001	50	-	1,332
TRACK	4,185	1,242	1,601	535	4,361
TRAP SHOOTING	3,596	2	-	-	3,598
VOLLEYBALL	2,193	7,581	8,049	536	2,261
VOLLEYBALL CAMP	1,201	351	359	-	1,193
YOUTH LEADERSHIP	140	500	483	-	157
Sub-total	<u>34,285</u>	<u>36,561</u>	<u>37,258</u>	<u>3,428</u>	<u>37,016</u>
Total	<u>\$ 144,615</u>	<u>\$ 181,624</u>	<u>\$ 182,984</u>	<u>\$ -</u>	<u>\$ 143,255</u>

SHERIDAN SCHOOL DISTRICT NO. 5

SCHEDULE OF REPORTED ENROLLMENT

For the year ended June 30, 2017

	<u>FALL ENROLLMENT –</u> <u>OCTOBER, 2016</u>			<u>SPRING ENROLLMENT –</u> <u>FEBRUARY, 2017</u>		
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
<b>Elementary</b>						
Kindergarten Full	18	18	0	19	19	0
Grade 1 - 6	77	77	0	77	77	0
Grade 7 - 8	30	31	0	31	31	0
Total	<u>125</u>	<u>125</u>	<u>0</u>	<u>127</u>	<u>127</u>	<u>0</u>
Part-time Students						
Less than 181 hours	0	0	0	0	0	0
Less than 359 hours	0	0	0	0	0	0
Less than 539 hours	0	0	0	0	0	0
Less than 719 hours	0	0	0	0	0	0
Total Part-time	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>High School</b>						
Grade 9 - 12	<u>49</u>	<u>49</u>	<u>0</u>	<u>49</u>	<u>49</u>	<u>0</u>
Part-time Students						
Less than 181 hours	0	0	0	0	0	0
Less than 359 hours	0	0	0	0	0	0
Less than 539 hours	0	0	0	0	0	0
Less than 719 hours	0	0	0	0	0	0
Total Part-time	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
19-year olds included	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Youth Challenge included	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>



# STROM & ASSOCIATES, P.C.

Certified Public Accountants

3203 3<sup>rd</sup> Ave N. Suite 208  
PO Box 1980  
Billings, MT 59103

Phone: 406-252-2765  
E-mail: [audit@stromcpa.net](mailto:audit@stromcpa.net)

---

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  
Sheridan School District No. 5  
Madison County  
Sheridan, Montana 59749

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, each major fund, and the aggregate remaining fund information of Sheridan School District No. 5 as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Sheridan School District No. 5's basic financial statements and have issued our report thereon dated June 14, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Sheridan School District No. 5'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 School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School 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 over financial reporting 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. 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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Sheridan School District No. 5'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*.

**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 14, 2018

SHERIDAN SCHOOL DISTRICT NO. 5

SCHEDULE OF FINDINGS AND RESPONSES

For the year ended June 30, 2017

---

**Prior year findings/status:**

The following is the status of prior year findings and updated for the fiscal year ended June 30, 2017.

2016-001 – Capital assets

Implemented

There were no findings for the fiscal year ending June 30, 2017.