

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
Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	14
Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position	15
Notes to the Financial Statements	16 - 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 - 45
Schedule of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual) –	
All Budgeted Major Funds	46 - 48
Notes to the Budget and Actual Schedule	49 - 50
SUPPLEMENTAL SCHEDULES:	
Schedule of Revenues, Expenses, and Balances Expendable Trust – Student Activity Funds	51 - 52
Schedule of Reported Enrollment	53
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>	54 - 55
SCHEDULE OF FINDINGS AND RESPONSES	56

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

ORGANIZATION

BOARD OF TRUSTEES

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

OFFICIALS

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

**SHERIDAN PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

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 \$2.7 million in revenue, or 84.3 percent of all fiscal year 2018 revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$.5 million or 15.6 percent of total fiscal year 2018 revenues.
- The District had approximately \$2.98 million in expenses related to governmental activities: of which \$.5 million of these expenses were offset by program specific charges for services or grants and contributions. General revenues of \$2.7 million were adequate to provide the remaining costs of these programs.
- Among major funds, the General Fund had \$1.97 million in fiscal year 2018 revenues, which primarily consisted of state aid and property taxes, and \$1.92 million in expenditures. The General Fund's fund balance excess of expenditures over revenues was \$50,048.
- The District currently has no debt.

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 8-9 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 12 and 14, respectively.

**SHERIDAN PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

The basic governmental fund financial statements can be found on pages 12-13 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 15 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 16-38 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 39-50 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 \$2,079,340 as of June 30, 2018.

By far the largest portion of the District's net position (120 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 District's 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>6/30/2017</u>	<u>6/30/2018</u>	<u>CHANGE</u>	<u>% CHANGE</u>
Current Assets	\$ 1,352,665	\$ 1,515,967	\$ 163,302	12.07%
Capital Assets, net	<u>2,565,022</u>	<u>2,499,826</u>	<u>(65,196)</u>	<u>-2.54%</u>
Total Assets	3,917,687	4,015,793	98,106	2.50%
Deferred outflows of re- sources	<u>343,573</u>	<u>259,360</u>	<u>(84,213)</u>	<u>-24.51%</u>
Current Liabilities	221,128	9,470	(211,658)	-95.72%
Long Term Liabilities	<u>2,143,870</u>	<u>2,163,697</u>	<u>19,827</u>	<u>0.92%</u>
Total Liabilities	2,364,998	2,173,167	(191,831)	-8.11%
Deferred Inflows of Re- sources	<u>14,634</u>	<u>22,646</u>	<u>8,012</u>	<u>54.75%</u>
Net Position:				
Net Investment in Capital Assets	2,355,022	2,499,826	144,804	6.15%
Restricted	980,145	1,010,115	29,970	3.06%
Unrestricted	<u>(1,453,539)</u>	<u>(1,430,601)</u>	<u>22,938</u>	<u>-1.58%</u>
Total Net Position	1,881,628	2,079,340	197,712	10.51%

Changes in net position. The District's total revenues for the fiscal year ended June 30, 2018, were \$3.22 million. The total cost of all programs and services was \$2.98 million. The following table presents a summary of the changes in net position (in thousands of dollars).

**SHERIDAN PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

	<u>6/30/2017</u>	<u>6/30/2018</u>	<u>CHANGE</u>	<u>% CHANGE</u>
Revenues				
Program Revenues:				
Charges for Services	405,362	29,404	(375,958)	-92.75%
Operating Grants	223,151	228,678	5,527	2.48%
Capital Grants	-	246,236	246,236	100%
General Revenues:				
District levies	1,205,022	1,307,096	102,074	8.47%
State Equalization	737,215	730,164	(7,051)	-0.96%
Other State Revenues	346,579	409,051	62,472	18.03%
County	267,440	227,533	(39,907)	-14.92%
Interest	10,949	21,049	10,100	92.25%
Other	17,071	15,866	(1,205)	-7.06%
Gain (loss) on Sale of Assets	<u>15,239</u>	<u>2,113</u>	<u>(13,126)</u>	<u>-86.13%</u>
Total Revenues	3,228,028	3,217,190	(10,838)	-0.34%
Program Expenses				
Instructional services	1,638,461	1,711,366	72,905	4.45%
Support services	69,499	92,870	23,371	33.63%
Educational media services	47,575	35,907	(11,668)	-24.53%
General administrative services	373,867	374,012	145	0.04%
Operation & maintenance services	494,037	417,528	(76,509)	-15.49%
Transportation services	187,958	128,239	(59,719)	-31.77%
School food services	88,255	75,960	(12,295)	-13.93%
Extracurricular	139,590	129,212	(10,378)	-7.43%
Other current charges	-	7,497	7,497	100.00%
Debt service:				
Interest and other charges	<u>19,980</u>	<u>10,080</u>	<u>(9,900)</u>	<u>-49.55%</u>
Total Expenses	<u>3,059,222</u>	<u>2,982,671</u>	<u>(76,551)</u>	<u>-2.50%</u>
Change in Net Position	168,806	234,519	65,713	

General revenues decreased by \$10,838 primarily due to legislative changes that resulted in reductions in state funding, part of which was offset by an increase in local taxes. Expenses decreased by \$76,551. This was primarily due to higher than normal spending on building repairs and equipment in the prior fiscal year. Additionally, the District planned for a reduction in state funding, and attempted to reduce expenditures to compensate.

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).

	Total costs of service			Net costs of Service		
	<u>6/30/2017</u>	<u>6/30/2018</u>	Percentage Change	<u>6/30/2017</u>	<u>6/30/2018</u>	Percentage Change
Instructional services	1,638.5	1,711.4	4.45%	1,253.8	1,470.0	17.24%
Support services	69.5	92.9	33.63%	0.2	0.4	100.00%
Educational media services	47.6	35.9	-24.53%	34.1	30.6	-10.26%
General administrative services	373.9	374.0	0.04%	366.0	367.9	0.52%
Operation & maintenance services	494.0	417.5	-15.49%	450.0	395.4	-12.13%
Transportation services	188.0	128.2	-31.77%	147.5	54.7	-62.92%
School food services	88.3	76.0	-13.93%	19.5	12.5	-35.90%
Extracurricular	139.6	129.2	-7.43%	139.6	129.2	-7.45%
Other current charges	-	7.5	100.00%	-	7.5	100.00%
Debt service:						
Interest and other charges	<u>20.0</u>	<u>10.1</u>	<u>-49.55%</u>	<u>20.0</u>	<u>10.1</u>	<u>-49.50%</u>
Total Expenses	<u>3,059.4</u>	<u>2,982.7</u>	<u>-2.51%</u>	<u>2,430.7</u>	<u>2,478.4</u>	<u>1.96%</u>

- The cost of all governmental activities this year was \$2.8 million.

**SHERIDAN PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

- Federal and state governments and charges for services subsidized certain programs with grants and contributions and other local revenues of \$.5 million.
- Net cost of governmental activities (\$2.3 million), was financed by general revenues, which are made up of primarily property taxes (\$1.3 million) federal and state and county aide (\$.96 million). Investment earnings accounted for \$21,049 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 \$1,526,480. Approximately \$1,004,637 of the fund balance is Restricted, while \$113,986 is Assigned. The remaining fund balance of \$382,889 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 12, the total governmental fund balances increased \$158,493 as compared to an increase of \$197,712 in government-wide net position. The difference is explained on page 13.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2018, the District had invested \$2,499,826 in capital assets, including school building, athletic facilities, buses and other vehicles, computers, and other equipment. Total depreciation expense for the year was \$105065.

The following schedule presents capital asset balances net of depreciation for the fiscal year ended June 30, 2018.

	Amount
Land and improvements	\$ 23,500
Buildings and improvements	2,002,519
Vehicles, furniture and equipment	473,807
Total	\$ 2,499,826

Additional information on the District's capital assets can be found in on page 23 of this report.

Debt Administration. At year-end, the District had no debt. A 20-year general obligation bond was paid in full on 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 \$3,925,121 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 24 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 2018-2019 budget. The primary factors were decreases in state funding for education, increasing enrollment, increasing employee salary costs, which includes a retirement incentive agreement for certified personnel. The local economy was also considered. The administration also reduced expenditures in fiscal year 2017-18 to ensure that the District would have full reserves in the general fund for the ensuing budget year.

These indicators were considered when adopting the budget for fiscal year 2018-2019. Budgeted expenditures in the General Fund were increased by \$9,319 to \$1,973,151 in the fiscal year 2018-2019 due to slight increases in state funding and enrollment. The Board and Administration resolved to operate within the highest budget without a vote, in part to offset increases in non-voted levies in the Building Reserve Fund. The District anticipates slight to marginal increases in state income and education funding, based on funding formulas established by the Montana State Legislature and Montana's Office of Public Instruction. 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.



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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, 2018, 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, 2018, 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.

Change in Accounting Principle

As described in Note 1 and 11 to the financial statements, in year ended June 30, 2018, the Sheridan School District No. 5 adopted GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

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 40-45), and budgetary comparison information (pages 46-50) 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 51-52) and schedule of reported enrollment (page 54) 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 April 18, 2019 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
April 18, 2019

STATEMENT OF NET POSITION
 June 30, 2018

	Governmental Activities
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 1,470,691
Taxes receivable	14,455
Due from other governments	<u>30,821</u>
Total current assets	<u>1,515,967</u>
Noncurrent assets:	
Capital assets:	
Land	23,500
Net depreciable assets	<u>2,476,326</u>
Total noncurrent assets	<u>2,499,826</u>
Total assets	<u>4,015,793</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Employer pension plan activities	<u>259,360</u>
Total deferred outflows of resources	<u>259,360</u>
Total assets and deferred outflows of resources	<u>\$ 4,275,153</u>
LIABILITIES:	
Current liabilities:	
Current portions compensated absences	<u>9,470</u>
Total current liabilities	<u>9,470</u>
Noncurrent liabilities:	
Compensated absences	93,312
Net pension accrual	1,892,228
Other postemployment benefits	<u>178,157</u>
Total noncurrent liabilities	<u>2,163,697</u>
Total liabilities	<u>2,173,167</u>
DEFERRED INFLOWS OF RESOURCES:	
Employer pension plan	<u>22,646</u>
Total deferred inflows of resources	<u>22,646</u>
NET POSITION:	
Net investment in capital assets	2,499,826
Restricted	1,010,115
Unrestricted (Deficit)	<u>(1,430,601)</u>
Total net position	<u>2,079,340</u>
Total liabilities, deferred inflows and net position	<u>\$ 4,275,153</u>

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

STATEMENT OF ACTIVITIES
 For the year ended June 30, 2018

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
GOVERNMENT OPERATIONS:					
Instructional services	\$ 1,711,366	\$ 1,789	\$ 110,037	\$ 129,502	\$ (1,470,038)
Support services	92,870	-	143	92,298	(429)
Educational media services	35,907	-	736	4,526	(30,645)
General administrative services	374,012	-	6,131	-	(367,881)
Operation & maintenance services	417,528	-	6,131	15,952	(395,445)
Transportation services	128,239	-	69,626	3,958	(54,655)
School food services	75,960	27,615	35,874	-	(12,471)
Extracurricular	129,212	-	-	-	(129,212)
Other current charges	7,497	-	-	-	(7,497)
Debt service:					
Interest and other charges	10,080	-	-	-	(10,080)
Total Governmental Activities	<u>2,982,671</u>	<u>29,404</u>	<u>228,678</u>	<u>246,236</u>	<u>(2,478,353)</u>
GENERAL REVENUES:					
District levies					1,307,096
State Equalization					730,164
Other State Revenues					409,051
County					227,533
Interest					21,049
Other					15,866
Gain (loss) on Sale of Assets					<u>2,113</u>
Total General Revenues					<u>2,712,872</u>
Change in Net Position					234,519
NET POSITION:					
Beginning of the year					1,881,628
Prior period adjustments					<u>(36,807)</u>
End of the year					<u>\$ 2,079,340</u>

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

BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2018

	MAJOR					Total Governmental Funds
	General	Bus Depreciation (Elem.)	Miscellaneous Programs (Elem.)	Bus Depreciation (HS)	Other Governmental Funds	
ASSETS:						
Current assets:						
Cash and cash equivalents	\$ 498,241	\$ 202,705	\$ -	\$ 269,010	\$ 511,248	\$ 1,481,204
Taxes receivable	8,977	41	-	-	5,437	14,455
Due from other governments	-	-	28,940	-	1,881	30,821
Total assets	<u>507,218</u>	<u>202,746</u>	<u>28,940</u>	<u>269,010</u>	<u>518,566</u>	<u>1,526,480</u>
DEFERRED OUTFLOWS OF RESOURCES:						
Total deferred outflows of resources	-	-	-	-	-	-
Total assets and deferred outflows of resources	<u>\$ 507,218</u>	<u>\$ 202,746</u>	<u>\$ 28,940</u>	<u>\$ 269,010</u>	<u>\$ 518,566</u>	<u>\$ 1,526,480</u>
LIABILITIES:						
Current liabilities:						
Cash overdraft	-	-	9,147	-	1,366	10,513
Total liabilities	-	-	9,147	-	1,366	10,513
DEFERRED INFLOWS OF RESOURCES:						
Unavailable property taxes receivable	8,977	41	-	-	5,437	14,455
Total deferred inflows of resources	<u>8,977</u>	<u>41</u>	<u>-</u>	<u>-</u>	<u>5,437</u>	<u>14,455</u>
FUND BALANCE (DEFICITS):						
Restricted	-	202,705	19,793	269,010	513,129	1,004,637
Assigned	113,986	-	-	-	-	113,986
Unassigned	384,255	-	-	-	(1,366)	382,889
Total fund balance	<u>498,241</u>	<u>202,705</u>	<u>19,793</u>	<u>269,010</u>	<u>511,763</u>	<u>1,501,512</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 507,218</u>	<u>\$ 202,746</u>	<u>\$ 28,940</u>	<u>\$ 269,010</u>	<u>\$ 518,566</u>	<u>\$ 1,526,480</u>
RECONCILIATION TO THE STATEMENT OF NET POSITION						
Total fund balance reported above						\$ 1,501,512
Governmental capital assets						2,499,826
Employer pension plan activities						259,360
Long-term Liabilities						
Compensated absences						(102,782)
Net pension accrual						(1,892,228)
Other postemployment benefits						(178,157)
Employer pension plan						(22,646)
Unavailable property taxes receivable						14,455
Net Position of Governmental Activities						<u>\$ 2,079,340</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, 2018

	MAJOR					
	General	Bus Depreciation (Elem.)	Miscellaneous Programs (Elem.)	Bus Depreciation (HS)	Other Governmental Funds	Total Governmental Funds
REVENUES:						
District levies	\$ 811,366	\$ 277	\$ -	\$ 1,271	\$ 489,373	\$ 1,302,287
Interest	7,120	2,936	33	2,995	7,965	21,049
Charges for services	-	-	-	-	29,404	29,404
Other	7,851	-	648	-	7,367	15,866
County	-	-	-	-	266,644	266,644
State	1,165,242	-	93,098	-	43,978	1,302,318
Federal	-	-	137,186	-	58,244	195,430
Total revenues	1,991,579	3,213	230,965	4,266	902,975	3,132,998
EXPENDITURES:						
Current:						
Instructional services	1,205,453	-	128,426	-	217,079	1,550,958
Support services	4,444	-	88,283	-	143	92,870
Educational media services	25,903	-	3,886	-	6,128	35,917
General administrative services	243,783	-	-	-	105,034	348,817
Operation & maintenance services	244,586	-	-	-	135,266	379,852
Transportation services	-	-	3,958	-	119,875	123,833
School food services	-	-	-	-	76,009	76,009
Extracurricular	115,907	-	-	-	13,305	129,212
Other current charges	-	-	-	-	7,497	7,497
Debt service:						
Principal	-	-	-	-	210,000	210,000
Interest and other charges	-	-	-	-	10,080	10,080
Capital outlay	-	-	-	-	11,573	11,573
Total expenditures	1,840,076	-	224,553	-	911,989	2,976,618
Excess (deficiency) of revenues over expenditures	151,503	3,213	6,412	4,266	(9,014)	156,380
OTHER FINANCING SOURCES/USES:						
Sale of capital assets	730	-	-	-	1,383	2,113
Fund transfers in	-	-	-	-	22,730	22,730
Fund transfers (out)	(22,730)	-	-	-	-	(22,730)
Total other financial sources/uses	(22,000)	-	-	-	24,113	2,113
Net changes in fund balances	129,503	3,213	6,412	4,266	15,099	158,493
FUND BALANCE:						
Beginning of the year	368,738	199,492	13,381	264,744	496,664	1,343,019
End of the year	\$ 498,241	\$ 202,705	\$ 19,793	\$ 269,010	\$ 511,763	\$ 1,501,512

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, 2018

Net Changes in Fund Balance	\$	158,493
Revenues on the Statement of Activities not included in governmental funds statement:		
Capital contributions	15,952	
Increase (decrease) in taxes receivable	4,809	
State Pension Aid	61,318	82,079
Revenues reported in the governmental funds statement not included in the Statement of Activities		
Sale of Fixed Assets	2,113	(2,113)
Expenses on the Statement of Activities not included in the governmental funds statement:		
Depreciation Expense	(105,065)	
Actuarial Pension Expense	(114,761)	
(Increase) decrease in Other Post Employment Benefits	(2,349)	
(Increase) decrease in compensated absence liability	(5,451)	(227,626)
Expenditures reported in the governmental funds statement not included in the Statement of Activities		
Capital outlays	11,573	
Gain (loss) on sale of assets	2,113	
Principal payments on debt	210,000	223,686
Change in net position reported on the Statement of Activities	\$	234,519

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

STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 June 30, 2018

	Private Purpose	
	Trust Funds	Agency Funds
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 141,206	\$ 73,160
Restricted Cash	\$ 90,000	\$ -
Total Assets	<u>\$ 231,206</u>	<u>\$ 73,160</u>
LIABILITIES:		
Current liabilities:		
Warrants payable	-	73,160
Total Liabilities	-	<u>\$ 73,160</u>
NET POSITION:		
Held in trust for endowment	110,825	
Held in trust for student activities	<u>120,381</u>	
Total Net Position	<u>\$ 231,206</u>	

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 For the year ended June 30, 2018

	Private Purpose
	Trust Funds
ADDITIONS:	
Revenues from student activities	\$ 164,517
Contributions to Endowment	<u>3,828</u>
Total Additions	<u>168,345</u>
DEDUCTIONS:	
Expenses of student activities	187,301
Expenses of student scholarships	<u>5,500</u>
Total Deductions	<u>192,801</u>
Change in net position	(24,456)
NET POSITION:	
Beginning of the year	<u>255,662</u>
End of the year	<u>\$ 231,206</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, 2018

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 2018 the School District adopted the following GASB 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 implemented this Statement.
- GASB Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The School District reviewed its debt disclosures and does not believe this Statement significantly affect its current debt disclosures.
- GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The School District determined that this Statement does not significantly affect its reporting, but will comply if any construction projects are entered into.

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. 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, 2018

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 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 the 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.
- Operating and Capital 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, 2018

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 the related expenditures were made under the provisions of the grant. When such funds are received before the expenditure was incurred, they are recorded as unearned grant revenues. 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 is 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. As such, the elementary and high school general funds have been combined and are reported 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% of the corresponding total (assets, liabilities, etc.) for all funds of that category or type (e.g., 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 and High School Bus Depreciation Fund – This fund is used to account for financing the replacement of 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.

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) directs the School District trustee to pay a particular sum of money to a payee (person or entity) from funds in the School District treasury which are or may become available.

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

1. c. 1 CASH AND INVESTMENTS

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

Allowable Depositories – 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, or 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
- Repurchase agreements as authorized by MCA or the State of Montana Short-Term Investment Pool (STIP).

Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. Investments are recorded at fair market value.

County Investment Pool Collateral – Information regarding the collateral and security for cash held by the 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 – 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 an interfund receivable and payable on the financial statements.

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 its 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 (using the purchases method) since the focus of governmental funds is 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 when the capital assets were initially recorded by determining the actual cost or estimating the cost 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. Depreciation on capital assets is provided over their estimated useful lives on the straight-line method. Land and construction in progress are not depreciated. The useful life of depreciable assets has been estimated as follows:

<u>Capital Asset Classes</u>	<u>Useful Life</u>
Buildings	50 years
Machinery and Equipment	5 – 30 years

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

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 represents a consumption of net position that applies to a future period(s) and, as such, will not be recognized as an outflow of resources (e.g., expense/expenditure) until that time.

In addition to liabilities, the statement of financial position, reports a separate section for Deferred Inflows of Resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and, as such, will not be recognized as an inflow of resources (e.g., 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 and 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. At termination, only 25% of accumulated sick leave is paid at the employee's 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 \$9,470 and it is generally paid out of the general fund.

1. c. 7. NET POSITION AND FUND BALANCE

The Statement of Net Position includes the following:

- Net Investment in Capital Assets – This component of net position 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 – This component of net position is restricted either externally by creditors (e.g., debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net position is difference between the assets and liabilities that are not reported in the other components of net position.

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

Governmental fund financial statements include the following fund balances:

- **Restricted** – This balance includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- **Assigned** – This balance 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** – This balance includes amounts that are available for any purpose. These amounts are reported only in the general fund or funds that have negative fund balances.

As of June 30, 2018, fund balance components other than unassigned fund balance consist of the following:

Purpose	Restricted	Assigned
Instructional and Support Services	\$ 23,989	\$ 105,339
Operations and Maintenance	0	8,647
Student Transportation	95,052	0
Third Party Grantor Restrictions	39,498	0
Employer Retirement Benefits	110,425	0
Future Technology	27,365	0
Future Capital Costs	695,156	0
Debt Service	<u>13,152</u>	<u>0</u>
Total	<u>\$ 1,004,637</u>	<u>\$ 113,986</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 Madison County.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2018, the summary of cash, cash equivalents for governmental and fiduciary funds is as follows:

Account Type	Governmental Activities	Fiduciary Funds	Total
Cash and Cash Equivalents	\$ 1,470,691	\$ 214,366	\$ 1,685,057
Restricted Assets	<u>0</u>	<u>90,000</u>	<u>90,000</u>
Total	<u>\$ 1,470,691</u>	<u>\$ 304,366</u>	<u>\$ 1,775,057</u>

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

The carrying amount of cash on hand, deposits, and investments at June 30, 2018, is as follows:

	Amount
Demand Accounts	\$ 130,663
Savings Deposits	265
Time Deposits	76,992
County Investment Pool	1,543,887
Mutual Funds	<u>23,250</u>
Total	<u>\$ 1,775,057</u>

County Investment Pool – Cash resources of the School District are held and managed by the County Treasurer pursuant to State Law. They are combined with cash resources of other governmental entities within 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 County government. Because of the custodial involvement of the County government, and the commingling of cash in County deposits in the name of the County Treasurer, full risk classifications are available in the County’s annual report. There is no known maturity and credit rating of the County Investment Pool.

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. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2018, the deposits in the extracurricular fund were covered by FDIC insurance.

2. a. FUND CASH OVERDRAFT

The following funds report overdrawn cash accounts.

Fund	Amount	Reason
Elementary		
School Food Services	\$ 1,366	Enrollment and participation decreased.
Miscellaneous*	<u>9,147</u>	Pending grant fund reimbursement.
Total	<u>\$ 10,513</u>	

* Denotes Major Funds

2. b. RESTRICTED ASSETS

The following restricted cash was held by the School District Treasurer as of June 30, 2018:

Fund Name	Scholarships
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, 2017, upon which the levy for the 2018 fiscal year was based, was \$3,501,686 for the Elementary School District and \$5,220,805 for the High School District. The tax rates assessed for the year ended June 30, 2018 to finance School District operations and applicable taxes receivable for the elementary and high schools follows:

Fund	Mill Levies	Taxes Receivable
Elementary		
General*	105.10	\$ 4,714
Transportation	16.54	760
Bus Depreciation*	0.00	41
Technology	3.63	164
Debt Service	33.04	1,477
Building Reserve	13.88	592

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

Fund	Mill Levies	Taxes Receivable
<u>High School</u>		
General*	81.58	4,263
Transportation	12.68	663
Adult Education	1.00	56
Technology	3.65	192
Debt Service	21.78	1,140
Building Reserve	7.78	393
Total	<u>300.66</u>	<u>\$ 14,455</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 protested tax agency fund until the final determination.

NOTE 4. OTHER ASSETS

4. a. 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:

Fund	Amount	Due From	Reason
<u>Elementary</u>			
Miscellaneous*	\$ 7,425	State of MT	Title VI grant revenue
Miscellaneous*	13,093	State of MT	Title I grant revenue
Miscellaneous*	1,993	State of MT	Title VI grant revenue
Miscellaneous*	6,429	Federal Government	REAP grant revenue
<u>High School</u>			
Miscellaneous	632	State of MT	Carl Perkins grant revenue
Miscellaneous	143	State of MT	GEAR UP grant revenue
Traffic Education	1,106	State of MT	Traffic education reimbursement
Total	<u>\$ 30,821</u>		

* Denotes Major Funds

NOTE 5. CAPITAL ASSETS, DEPRECIATION, AND NET CAPITAL ASSETS

5. a. GENERAL CAPITAL ASSETS

At June 30, 2018, the schedule of changes in general capital assets follows:

Governmental Activities:	Balance July 1, 2017	Additions	Deletions	Adjustments/ Transfers	Balance June 30, 2018
<u>Non-depreciable:</u>					
Land	\$ 23,500	\$ 0	\$ 0	\$ 0	\$ 23,500
Total Non-depreciable	<u>23,500</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>23,500</u>
<u>Depreciable:</u>					
Buildings	3,832,927	\$ 20,000	0	0	3,852,927
Machinery and equipment	1,209,868	7,525	(33,560)	8,001	1,191,834
Total Depreciable	<u>5,042,795</u>	<u>27,525</u>	<u>(33,560)</u>	<u>8,001</u>	<u>5,044,761</u>
<u>Accumulated Depreciation:</u>					
Buildings	(1,780,950)	(69,458)	0	0	(1,850,408)
Machinery and equipment	(720,323)	(35,607)	33,560	4,343	(718,027)
Total Depreciation	<u>(2,501,273)</u>	<u>(105,065)</u>	<u>33,560</u>	<u>4,343</u>	<u>(2,568,435)</u>
Net Depreciable Assets	<u>2,541,522</u>	<u>(77,540)</u>	<u>0</u>	<u>12,344</u>	<u>2,476,326</u>
Net General Capital Assets	<u>\$ 2,565,022</u>	<u>\$ (77,540)</u>	<u>\$ 0</u>	<u>\$ 12,344</u>	<u>\$ 2,499,826</u>

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

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	24,228
Transportation	5,196
Total Depreciation Expense	<u>\$ 105,065</u>

NOTE 6. CHANGES IN LONG-TERM DEBT

6. a. At June 30, 2018, the schedule of changes in general long-term debt follows:

<u>Governmental Activities:</u>	<u>Balance July 1, 2017</u>	<u>New Debt and Other Additions</u>	<u>Principal Payments and Other Reductions</u>	<u>Balance June 30, 2018</u>	<u>Due within One Year</u>
<u>Bonds and Notes Payable:</u>					
General Obligation Bonds	<u>\$ 210,000</u>	<u>\$ 0</u>	<u>\$ (210,000)</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Bonds and Notes Payable	<u>210,000</u>	<u>0</u>	<u>(210,000)</u>	<u>0</u>	<u>0</u>
<u>Other Liabilities:</u>					
Compensated Absences	97,331	5,451	0	102,782	9,470
Accrued Pension	1,931,010	75,166	(113,948)	1,892,228	0
Other Post-Employment Benefits (OPEB)	<u>126,657</u>	<u>51,500</u>	<u>0</u>	<u>178,157</u>	<u>0</u>
Total Other Liabilities	<u>2,154,998</u>	<u>132,117</u>	<u>(113,948)</u>	<u>2,173,167</u>	<u>9,470</u>
Total Governmental Activities - Long-Term Debt:	<u>\$ 2,364,998</u>	<u>\$ 132,117</u>	<u>\$ (323,948)</u>	<u>\$ 2,173,167</u>	<u>\$ 9,470</u>

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 Rate</u>	<u>Length of Loan</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Outstanding June 30, 2018</u>
Series 1988 Elem. GO Bond	1/15/1998	4.45%-6.50%	20 Years	7/1/2018	\$1,331,000	\$ 0
Series 1988 HS GO Bond	1/15/1998	4.45%-6.50%	20 Years	7/1/2018	<u>1,369,000</u>	<u>0</u>
					<u>\$2,700,000</u>	<u>\$ 0</u>

NOTE 7. DEFERRED INFLOWS OF RESOURCES

7. a. PROPERTY TAXES

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
<u>Elementary</u>		
General*	\$ 4,714	Taxes Receivable
Transportation	760	Taxes Receivable
Bus Depreciation*	41	Taxes Receivable
Technology	164	Taxes Receivable
Debt Service	1,477	Taxes Receivable
Building Reserve	592	Taxes Receivable

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

Fund	Amount	Reason
<u>High School</u>		
General*	4,263	Taxes Receivable
Transportation	663	Taxes Receivable
Adult Education	56	Taxes Receivable
Technology	192	Taxes Receivable
Debt Service	1,140	Taxes Receivable
Building Reserve	393	Taxes Receivable
Total	<u>\$ 14,455</u>	

* Denotes Major Funds

NOTE 8. DEFICIT FUND BALANCES

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

Fund	Amount	How School District plans to correct
<u>Elementary</u>		
School Food Services	<u>\$ 1,366</u>	Future collections

* Denotes Major Funds

NOTE 9. PRIOR PERIOD ADJUSTMENTS

Fund	Governmental Funds	Reason
Governmental Type Activities	12,344	Adjust capital assets to detail accumulated depreciation
Governmental Type Activities	<u>(49,151)</u>	Implementation of GASB 75
Total	<u>\$ (36,807)</u>	

NOTE 10. INTERFUND OPERATING TRANSFERS IN/OUT

Operating Fund - In	Amount	Operating Fund - Out	Purpose of Transfer
<u>Elementary</u>		<u>Elementary</u>	
Compensated Absences	\$ 5,814	General*	Fund compensated absences
Building Reserve	5,000	General*	School safety & security transfer
<u>High School</u>		<u>High School</u>	
Compensated Absences	416	General*	Fund compensated absences
Building Reserve	<u>11,500</u>	General*	School safety & security transfer
Total	<u>\$ 22,730</u>		

* Denotes Major Funds

NOTE 11. OTHER POST EMPLOYMENT BENEFITS

The School District implemented GASB 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during the fiscal year ended June 30, 2018.

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 5% 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.

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

Benefits Provided – The School District provides healthcare benefits for retirees and their dependents. Retirees are required to pay 100% of the health insurance premium to retain the healthcare benefits. The School District covers 100% of the premiums for active employees.

Employees covered by benefit terms. At June 30, 2018, the following employees were covered by the benefit terms:

Active employees 23

Total OPEB Liability

The School District’s total OPEB liability of \$178,157 was measured as of June 30, 2018 and was determined by an Alternative Measurement Method as of that date.

Alternative Measurement Method and other inputs. The total OPEB liability in the June 30, 2018 Alternative Measurement Method was determined using the following Alternative Measurement Method and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	2.00%
Discount rate	2.70%
Health care cost rate trend	
Year	% Increase
2019 and after	6.00%
Retiree’s share of benefit related costs	100%

Changes in the Total OPEB Liability

Balance at June 30, 2017	\$ 126,657
Prior period adjustment for retrospective application of GASB 75	49,151
Balance at July 1, 2017	\$ 175,808
Changes for the year:	
Service cost	12,671
Interest	3,420
Changes of benefit terms	0
Changes in assumptions or other inputs	2,349
Benefit payments	(16,091)
Net Changes	2,349
Balance at June 30, 2018	\$ 178,157

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the School District, as well as what the School District’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (%) or 1-percentage-point higher (%) than the current discount rate:

	1% Decrease (1.70%)	Discount Rate (2.70%)	1% Increase (3.70%)
Total OPEB Liability	\$ 220,600	\$ 178,157	\$ 145,282

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the School District, as well as what the School District’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (% decreasing to %) or 1-percentage-point higher (% decreasing to %) than the current healthcare cost trend rates:

	1% Decrease (5.00%)	Healthcare Cost Trend Rate (6.00%)	1% Increase (7.00%)
Total OPEB Liability	\$ 141,996	\$ 178,157	\$ 225,203

The School District did not have deferred outflows or inflows of resources associated with the OPEB liability.

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

NOTE 12. OTHER COMMITMENTS

12. 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 or restricted in the funds noted below:

<u>Fund</u>	<u>Amount</u>
<u>Elementary</u>	
General*	\$ 33,950
Transportation	682
Miscellaneous*	18,059
Technology	54
Flexibility*	8,647
<u>High School</u>	
General*	69,945
Transportation	2,585
Miscellaneous	6,184
Flexibility*	1,444
Building Reserve	255
Total	<u>\$ 141,805</u>

* Denotes Major Funds

NOTE 13. 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 accessed. There is no other liability to the School District other than timely payments of premiums. The School District can withdraw from the Workers Compensation Risk Retention Program with 60 days’ notice at any time. The School District has no coverage for potential losses from environmental damages.

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

NOTE 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
P.O. Box 200139
1500 Sixth Avenue
Helena, MT 59620-0139
Phone: 406-444-3134
www.trs.mt.gov

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

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

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, and information about the fiduciary net position and additions to and 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 (Defined Benefit plan), administered by the MPERA, is a multiple-employer, cost-sharing plan established July 1, 1945 and is governed by Title 19, chapters 2 & 3, 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 Defined Benefit plan and have a 12-month window during which they may choose to remain in the Defined Benefit Plan or join the PERS-Defined Contribution Retirement Plan (Defined Contribution plan) by filing an irrevocable election. Members may not be members of both the *Defined Benefit* and *Defined Contribution* retirement plans.

The Defined Benefit 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.

14. b. 1. SUMMARY OF BENEFITS

Eligibility for benefits

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.

Second Retirement:

(requires returning to PERS-covered employer or PERS service)

- Retire before January 1, 2016 and accumulate less than 2 years additional service credit or retire on or after January 1, 2016 and accumulate less than 5 years additional service credit:
 - A refund of member's contributions plus return interest (currently .77% effective July 1, 2017);
 - No service credit for second employment;
 - Start the same benefit amount the month following termination; and
 - Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.
- Retire before January 1, 2016 and accumulate at least 2 years additional service credit:
 - A recalculated retirement benefit based on provision in effect after the initial retirement; and
 - GABA starts on the recalculation benefit in the January after receiving the new benefit for 12 months.

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

- Retire on or after January 1, 2016 and accumulate 5 or more years additional service credit:
 - The same retirement as prior to the return to service;
 - A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
 - GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

Vesting:
Member's Highest Average Compensation (HAC):

- 5 years of membership service
- Hired prior to July 1, 2011:
 - 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 following percentage each January, inclusive of other adjustments to the member's benefit:

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
 - 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.

14. b. 2. OVERVIEW OF CONTRIBUTIONS

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 state Legislature has the authority to establish and amend contribution rates. Member and employer contribution rates are shown in the table below.

Fiscal Year	Member		State & Universities	Local Government	School Districts		
	Hired <07/01/11	Hired >07/01/11	Employer	Employer	State	Employer	State
2018	7.900%	7.900%	8.570%	8.470%	0.100%	8.200%	0.370%
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%

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

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 would remain below the 25 years following the reduction of both the additional employer and additional 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.
3. Non-Employer Contributions:
 - a. Special Funding
 - i. The State contributed 0.1% of members' compensation on behalf of local government entities.
 - ii. The State contributed 0.37% of members' compensation on behalf of school district entities.
 - b. Not Special Funding
 - i. The State contributed a portion of Coal Severance Tax income and earnings from the Coal Severance Tax fund.

14. b. 3. ACTUARIAL ASSUMPTIONS

The Total Pension Liability (TPL) used to calculate the Net Pension Liability (NPL) was determined by taking the results of the June 30, 2016 actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2017. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the last actuarial experience study, dated May 2017, for the six-year period July 1, 2010 to June 30, 2016. Among those assumptions were the following:

- Investment Return (net of admin expenses) 7.65%
- Admin Expense as % of Payroll 0.26%
- General Wage Growth (includes inflation at 2.75%) 3.50%
- Merit Increases 0% to 6.3%
- Postretirement Benefit Increases:
 - GABA. After the member has completed 12 full months of retirement, the member's benefit increases by the following percentage each January, inclusive of all other adjustments to the member's benefit:
 - 3% for members hired prior to July 1, 2007
 - 1.5% for members hired 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 and service retired members and beneficiaries were based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back 1 year.
- Mortality assumptions among disabled members are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections.

14. b. 4. DISCOUNT RATE

The discount rate used to measure the TPL was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board's funding policy, which established the contractually required rates under MCA. The State contributed 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributed coal severance tax and interest money from the general fund. The interest was contributed monthly and the severance tax was contributed quarterly. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

14. b. 5. TARGET ALLOCATIONS

The long-term expected return on pension plan assets was reviewed as part of the regular experience study prepared for the Plan. The most recent analysis, performed for the period of July 1, 2010 to June 30, 2016, was outlined in a report dated May 2017 and can be located on the MPERA website. The long-term rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions 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 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 by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocations as of June 30, 2017 are summarized below.

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis	Long-Term Expected Real Rate of Return
	(a)	(b)	(a) x (b)
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	100.00%		4.37%
Inflation			2.75%
Portfolio Return Expectation			7.12%

The long-term expected nominal rate of return of 7.12% is an expected portfolio rate of return provided by Board of Investments, which differs from the total long-term assumed rate of return of 7.65% in the experience study. The assumed investment rate is comprised of a 2.75% inflation rate and a real rate of return of 4.90%.

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 state 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, 2017, 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 300 employers that have participants in the PERS-DCRP totaled \$396,650.

14. c. TEACHERS' RETIREMENT SYSTEM

TRS 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.

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

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, MCA, 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 (AFC). 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 AFC (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
- 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 for Tier One).

A GABA is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABA for Tier One members is 1.5% of the benefit payable as of January 1st. The GABA for Tier Two members may vary from 0.5% to 1.5% each year 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

TRS (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.

The table below shows the legislated contribution rates for TRS members, employers, and the State

	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, 2016	8.15%	8.67%	2.49%	19.31%
July 1, 2016 to June 30, 2017	8.15%	8.77%	2.49%	19.41%
July 1, 2017 to June 30, 2018	8.15%	8.87%	2.49%	19.51%
July 1, 2018 to June 30, 2019	8.15%	8.97%	2.49%	19.61%
July 1, 2019 to June 30, 2020	8.15%	9.07%	2.49%	19.71%
July 1, 2020 to June 30, 2021	8.15%	9.17%	2.49%	19.81%
July 1, 2021 to June 30, 2022	8.15%	9.27%	2.49%	19.91%
July 1, 2022 to June 30, 2023	8.15%	9.37%	2.49%	20.01%
July 1, 2023 to June 30, 2024	8.15%	9.47%	2.49%	20.11%

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

14. c. 3. ACTUARIAL ASSUMPTIONS

The TPL as of June 30, 2017 is based on the results of an actuarial valuation date of July 1, 2017. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the July 1, 2017 valuation were based on the results of the last actuarial experience study, dated May 1, 2014. Among those assumptions were the following:

- | | |
|---|--|
| <u>Total Wage Increases:</u>
(includes 4.00% general wage increase assumption) | <ul style="list-style-type: none">• 4% to 8.51% for Non-University members• 5.00% for University members |
| <u>Investment Return:</u> | 7.75% |
| <u>Price Inflation:</u> | 3.25% |
| <u>Postretirement Benefit Increases:</u> | <ul style="list-style-type: none">• Tier One. If the retiree has received benefits for at least 3 years, the retirement allowance will be increased by 1.5% on January 1st.• Tier Two. 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%. |
| <u>Mortality:</u>
(among contributing members, service retired members, and beneficiaries) | <ul style="list-style-type: none">• Males. 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.• Females. 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018. |
| <u>Mortality:</u>
(among disabled members) | <ul style="list-style-type: none">• Males. RP 2000 Disabled Mortality Table for males, set forward one year, with mortality improvements projected by Scale BB to 2018.• Females. RP 2000 Disabled Mortality Table for females, set forward five years, with mortality improvements projected by Scale BB to 2018. |

14. c. 4. DISCOUNT RATE

The discount rate used to measure the TPL 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 MCA. 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 TPL. No municipal bond rate was incorporated in the discount rate.

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

14. c. 5. TARGET ALLOCATIONS

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis	Long-Term Expected Real Rate of Return*
	(a)	(b)	(a) x (b)
Broad US Equity	36.00%	4.80%	1.73%
Broad International Equity	18.00%	6.05%	1.09%
Private Equity	12.00%	8.50%	1.02%
Intermediate Bonds	23.40%	1.50%	0.35%
Core Real Estate	4.00%	4.50%	0.18%
High Yield Bonds	2.60%	3.25%	0.08%
Non-Core Real Estate	4.00%	7.50%	0.30%
Total	100.00%		4.75%
Inflation			3.25%
Portfolio Return Expectation			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 assumed 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 2009 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, 2017, is summarized in the above table.

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 7.65% and 7.75% for PERS and TRS, respectively, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) and (6.75) for PERS and TRS, respectively or 1.00% higher (8.65) and (8.75%) for PERS and TRS, respectively than the current rate.

As of measurement date	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
PERS			
Net Pension Liability	\$ 2,836,551,371	\$ 1,947,626,401	\$ 1,201,441,171
School District’s Net Pension Liability	\$ 568,563	\$ 390,385	\$ 240,819
As of measurement date			
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
TRS			
Net Pension Liability	\$ 2,451,115,994	\$ 1,826,842,979	\$ 1,301,274,169
School District’s Net Pension Liability	\$ 2,069,587	\$ 1,501,843	\$ 1,023,684

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

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 NPL, Pension Expense, and 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 that are used to provide pension benefits to the retired members. Due to the existence of this special funding situation, employers are also required to report the portion of the State of Montana’s proportionate share of the collective Net Pension Liability that is associated with the employer.

As of measurement date	NPL		Percent of	Percent of	Change in
	as of 6/30/18	as of 6/30/17	Collective NPL as of 6/30/18	Collective NPL as of 6/30/17	Percent of Collective NPL
PERS					
School District Proportionate Share	\$ 390,385	\$ 315,219	0.0200%	0.0185%	0.0015%
State of Montana Proportionate Share associated with Employer	<u>19,092</u>	<u>17,732</u>	<u>0.0973%</u>	<u>0.0905%</u>	<u>0.0068%</u>
Total	<u>\$ 409,477</u>	<u>\$ 329,951</u>	<u>0.1173%</u>	<u>0.1090%</u>	<u>0.0084%</u>
TRS					
School District Proportionate Share	\$ 1,501,843	\$1,615,791	0.0891%	0.0884%	0.0007%
State of Montana Proportionate Share associated with Employer	<u>953,516</u>	<u>1,055,967</u>	<u>0.0566%</u>	<u>0.0578%</u>	<u>(0.0012%)</u>
Total	<u>\$ 2,455,359</u>	<u>\$2,671,758</u>	<u>0.1457%</u>	<u>0.1462%</u>	<u>(0.0005%)</u>

At June 30, 2018, the employer recorded a liability of \$390,385 and \$1,501,843 for PERS and TRS, respectively, for its proportionate share of the NPL. At June 30, 2018, the employer’s proportion was 0.0200 percent and 0.0891 percent for PERS and TRS, respectively.

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation...

For PERS: ...as of June 30, 2016 and applying standard roll forward procedures. The roll forward procedures uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

For TRS: ...as of July 1, 2017. Therefore, no update procedures were used to roll forward the total pension liability to the measurement date. The employer’s proportion of the net pension liability was based on the employer’s contributions received by TRS during the measurement period, July 1, 2016 through July 1, 2017, relative to the total employer contributions received from all of TRS’ participating employers.

	PERS	TRS
<u>Changes in actuarial assumptions, other inputs, and methods:</u>	Effective July 1, 2017, the following assumption changes were used: <ul style="list-style-type: none"> • Lowered the interest rate from 7.75% to 7.65%. • Lowered the inflation rate from 3.00% to 2.75%. • Updated non-disabled mortality to the RP 2000 Combined Employee and Annuitant projected to 2020 using scale BB, males set back one year. • Increased rates of withdrawal. • Lowered the merit component of the total salary increase. • Lowered the wage base component of the total salary increase from 4.00% to 3.50%. 	There were no changes in actuarial assumptions and other inputs since the previous measurement date.

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

- Decreased the administrative expense load from 0.27% to 0.26%.

Effective July 1, 2017, the following method changes were used:

- Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for PERS. This amount will vary from year to year based on the prior year's actual administrative expenses.
- To be consistent with the wage base growth change, the payroll growth assumption for amortization as a level percent of pay was reduced from 4.00% to 3.50%.

Changes in benefit terms:

Effective July 1, 2017, the following were benefit changes:

- The interest rate credited to member accounts increased from 0.25% to 0.77%.
- Lump sum payouts are limited to the member's accumulated contributions rather than the present value of the member's benefit.

There were 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 NPL and the employer's reporting date.

There were no changes between the measurement date of the collective NPL and the reporting date.

14. f. PENSION EXPENSE

	<u>Pension Expense as of 6/30/18</u>	<u>Pension Expense as of 6/30/17</u>
PERS (as of measurement date)		
School District's Proportionate Share	\$ 45,015	\$ 18,140
State of Montana Proportionate Share associated with the Employer	1,018	1,235
Grant revenue from the State of Montana Coal Tax Fund	<u>5,585</u>	<u>5,523</u>
Total	<u>\$ 51,618</u>	<u>\$ 24,897</u>
TRS		
School District's Proportionate Share	\$ 142,648	\$ 154,347
State of Montana Proportionate Share associated with the Employer	<u>54,715</u>	<u>72,011</u>
Total	<u>\$ 197,363</u>	<u>\$ 226,358</u>

At June 30, 2018, the employer recognized a Pension Expense of \$51,618 and \$197,363 for its proportionate share of the PERS and TRS Pension Expense, respectively. The employer also recognized grant revenue of \$6,603 and \$54,715 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:

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

	PERS		TRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected economic experience	\$ 9,614	\$ 565	\$ 5,523	\$ 2,245
Changes in actuarial assumptions	53,362	0	0	6,279
Difference between projected and actual investment earnings	0	2,622	0	5,943
Changes in proportion and differences between actual and expected contributions	27,363	0	30,095	4,992
Difference between actual and expected contributions	0	0	0	0
#Contributions paid subsequent to the measurement date – FY 2018 Contributions	21,972	0	111,431	0
Total	<u>\$ 112,311</u>	<u>\$ 3,187</u>	<u>\$ 147,049</u>	<u>\$ 19,459</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 NPL in the year ended June 30, 2019.

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		
	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	\$ 13,828	\$ 0	\$ 0	\$ 0
2019	\$ 30,526	\$ 21,071	\$ 28,643	\$ (7,572)
2020	\$ 23,743	\$ 44,809	\$ 5,268	\$ 39,541
2021	\$ (8,309)	\$ 12,113	\$ 1,413	\$ 10,700
2022	\$ 0	\$ 0	\$ 26,508	\$ (26,508)
2023	\$ 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	\$ 1,487,181	\$ 5,020,907	\$ 6,508,088
Fiduciary Net Position	<u>\$ 1,096,796</u>	<u>\$ 3,519,064</u>	<u>\$ 4,615,860</u>
Net Pension Liability	\$ 390,385	\$ 1,501,843	\$ 1,892,228
Deferred Outflows of Resources	\$ 112,311	\$ 147,049	\$ 259,360
Deferred Inflows of Resources	\$ 3,187	\$ 19,459	\$ 22,646
Pension Expense	\$ 51,618	\$ 197,363	\$ 248,981

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2018

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.

NOTE 17. SUBSEQUENT REPORTABLE EVENTS

The School District does have some minor construction working that occurred after June 30, 2018. The School District applied for and received a grant from North Western Energy to install solar panels on the elementary school. The grant was \$30,000, the project is about \$70,000. The School District has paid up front, and will be reimbursed by the grant. As of the date of this report, the School District has spent about \$40,000. The School District has some ongoing maintenance issues with the elementary roof leaking, so the School District is trying to resolve that first, so the solar panels may be in progress at fiscal yearend June 30, 2019.

The School District is doing an addition to the vo-ag building, but it is being done in stages, with some of the work being completed by our vo-ag construction class. So far, the project has cost the School District around \$15,000 for some electrical work.

The School District purchased two busses in July 2018, a new activity bus and a new route bus. The School District has ordered another one, but it may not be received by the School District prior to close of fiscal year June 30, 2019.

SHERIDAN SCHOOL DISTRICT NO. 5

SCHEDULE OF FUNDING PROGRESS
 Other Post-Employment Benefits Other Than Pensions
 For the year ended June 30, 2018

Other Postemployment Benefits

Fiscal year end	Service cost (a)	Interest (b)	Changes of benefit terms (c)	Changes of assumptions or other inputs (d)	Benefit payments (e)	Net Change in total OPEB liability Sum of (a) to (e)=(f)	Total OPEB Liability beginning (g)	Total OPEB Liability ending (f)+(g)	Covered payroll
6/30/18	\$ 12,671	\$ 3,420	\$ 0	\$ 51,500	\$ (16,091)	\$ 51,500	\$ 126,657	\$ 178,157	\$ 1,565,826

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, 2018

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%
2017	0.0200%	\$ 390,385	\$ 19,092	\$ 409,477	\$ 256,941	151.94%	73.75%

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%
2017	0.0891%	\$ 1,501,843	\$ 953,516	\$ 2,455,359	\$ 1,174,844	127.83%	70.09%

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, 2018

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Year end- ed June 30:	Contractually required contributions (a)	Plan Choice Rate Required Contribution (b)	Contributions in relation to 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))/(e)
2015	\$ 14,472	\$ 861	\$ 15,333	\$ 0	\$ 181,576	8.44%
2016	\$ 18,528	\$ 312	\$ 18,840	\$ 0	\$ 229,149	8.22%
2017	\$ 20,812	\$ 0	\$ 20,812	\$ 0	\$ 256,941	8.10%
2018	\$ 21,972	\$ 0	\$ 21,972	\$ 0	\$ 276,944	7.93%

TEACHERS RETIREMENT SYSTEM

Year end- ed June 30:	Contractually required contributions (a)	Contributions in relation to 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%
2018	\$ 111,431	\$ 111,431	\$ 0	\$ 1,210,804	9.20%

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
(As of the Measurement Date)
For the year ended June 30, 2018

NOTE 1. PUBLIC EMPLOYEE RETIREMENT SYSTEM

1. a. CHANGES OF BENEFIT TERMS

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

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.

2017 Legislative Changes:

General Revisions – House Bill 101, effective July 1, 2017

Working Retiree Limitations – for PERS

If a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.

Terminating Employers – Recovery of actuary costs – for PERS

Employers who terminate participation in PERS must pay the actuarial liability associated with that termination. Starting July 1, 2017, the terminating employer must also pay for the cost of the actuarial study used to determine that liability.

Refunds

- 1) Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
- 2) Terminating members with accumulated contributions between \$200 and \$1,000 who wish to rollover their refund must do so within 90 days of termination of service.
- 3) Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

Family Law Orders

If a Family Law Order (FLO) is silent regarding the apportionment of post-retirement benefit adjustments such as the GABA, the FLO is presumed to require apportionment of the post-retirement benefit adjustment in the same percentage as the monthly retirement benefit is apportioned.

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)
(As of the Measurement Date)
For the year ended June 30, 2018

Disabled PERS Defined Contribution Members

PERS members hired after July 1, 2011 have a normal retirement age of 65. PERS Defined Contribution (DC) members hired after July 1, 2011 who became disabled were previously only eligible for a disability benefit until age 65. Effective July 1, 2017, these individuals will be eligible for a disability benefit until they reach 70, thus ensuring the same 5-year time period available to PERS DC disabled members hired prior to July 1, 2011 who have a normal retirement age of 60 and are eligible for a disability benefit until age 65.

PERS Statutory Appropriation – House Bill 648, effective July 1, 2017

Revenue from coal severance taxes and interest income from the coal severance tax permanent fund previously statutorily-appropriated to the PERS defined benefit trust fund will be replaced with the following statutory appropriations:

1. FY 2018 - \$31.386 million
2. FY 2019 - \$31.958 million
3. Beginning July 1, 2019 through at least June 30, 2025, 101% of the contribution from the previous year from the general fund to the PERS defined benefit trust fund, as follows:
 - a. FY 2020 - \$32.277 million
 - b. FY 2021 - \$32.6 million
 - c. FY 2022 - \$32.926 million
 - d. FY 2023 - \$33.255 million
 - e. FY 2024 - \$33.588 million
 - f. FY 2025 - \$33.924 million

1. b CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

Method and assumptions used in calculations of actuarially determined contributions

The following Actuarial Assumptions were adopted from the June 30, 2017 actuarial valuation:

General Wage Growth*	3.50%
*Includes inflation at	2.75%
Merit increase	0% to 6.30%
Investment rate of return	7.65 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
Mortality (Healthy members)	For Males and Females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year
Mortality (Disabled members)	For Males and Females: RP 2000 Combined Mortality Table
Admin Expense as % of Payroll	0.26%

Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount varies from year to year based on the prior year's actual administrative expenses.

NOTE 2. TEACHERS' RETIREMENT SYSTEM

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

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)
(As of the Measurement Date)
For the year ended June 30, 2018

- (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:
 - 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.

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)
 (As of the Measurement Date)
 For the year ended June 30, 2018

- 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, 2018

	General (Elem.)			General (HS)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
District levies	\$ 368,036	\$ 368,036	\$ 366,595	\$ 425,935	\$ 425,935	\$ 444,771
Interest	1,035	1,035	2,243	941	941	2,447
Other	-	-	-	-	-	-
State	672,273	672,273	669,420	495,612	495,612	485,261
Total revenues	<u>1,041,344</u>	<u>1,041,344</u>	<u>1,038,258</u>	<u>922,488</u>	<u>922,488</u>	<u>932,479</u>
EXPENDITURES:						
Current:						
Instructional services			680,503			511,553
Support services			2,315			2,325
Educational media services			13,398			12,682
General administrative services			123,580			127,596
Operation & maintenance services			140,585			124,805
Extracurricular			29,281			108,613
Capital outlay			10,077			10,645
Total expenditures	<u>1,041,344</u>	<u>1,041,344</u>	<u>999,739</u>	<u>922,488</u>	<u>922,488</u>	<u>898,219</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>38,519</u>	<u>-</u>	<u>-</u>	<u>34,260</u>
OTHER FINANCING SOURCES/USES:						
Sale of capital assets			-			-
Fund transfers (out)			(10,814)			(11,916)
Total other financial sources/uses	<u>-</u>	<u>-</u>	<u>(10,814)</u>	<u>-</u>	<u>-</u>	<u>(11,916)</u>
Net changes in fund balances	<u>-</u>	<u>-</u>	<u>27,705</u>	<u>-</u>	<u>-</u>	<u>22,344</u>
FUND BALANCE:						
Beginning of the year			86,670			89,040
End of the year			<u>\$ 114,375</u>			<u>\$ 111,384</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, 2018

	Bus Depreciation (Elem.)			Bus Depreciation (HS)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
District levies	\$ -	\$ -	\$ 277	\$ -	\$ -	\$ 1,271
Interest	-	-	2,936	-	-	2,995
Other	-	-	-	-	-	-
State	-	-	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>3,213</u>	<u>-</u>	<u>-</u>	<u>4,266</u>
EXPENDITURES:						
Current:						
Instructional services			-			-
Support services			-			-
Educational media services			-			-
General administrative services			-			-
Operation & maintenance services			-			-
Extracurricular			-			-
Capital outlay			-			-
Total expenditures	<u>199,492</u>	<u>199,492</u>	<u>-</u>	<u>264,744</u>	<u>264,744</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>(199,492)</u>	<u>(199,492)</u>	<u>3,213</u>	<u>(264,744)</u>	<u>(264,744)</u>	<u>4,266</u>
OTHER FINANCING SOURCES/USES:						
Sale of capital assets			-			-
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>(199,492)</u>	<u>(199,492)</u>	<u>3,213</u>	<u>(264,744)</u>	<u>(264,744)</u>	<u>4,266</u>
FUND BALANCE:						
Beginning of the year			<u>199,492</u>			<u>264,744</u>
End of the year			<u>\$ 202,705</u>			<u>\$ 269,010</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, 2018

	Flexibility (Elem.)			Flexibility (HS)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
District levies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	-	-	1,162	-	-	1,268
Other	-	-	7,851	-	-	-
State	7,749	7,749	4,055	12,435	12,435	6,506
Total revenues	<u>7,749</u>	<u>7,749</u>	<u>13,068</u>	<u>12,435</u>	<u>12,435</u>	<u>7,774</u>
EXPENDITURES:						
Current:						
Instructional services			-			1,444
Support services			-			-
Educational media services			-			-
General administrative services			-			-
Operation & maintenance services			13,476			-
Extracurricular			-			-
Capital outlay			-			-
Total expenditures	<u>79,330</u>	<u>79,330</u>	<u>13,476</u>	<u>92,698</u>	<u>92,698</u>	<u>1,444</u>
Excess (deficiency) of revenues over expenditures	<u>(71,581)</u>	<u>(71,581)</u>	<u>(408)</u>	<u>(80,263)</u>	<u>(80,263)</u>	<u>6,330</u>
OTHER FINANCING SOURCES/USES:						
Sale of capital assets			-			730
Fund transfers (out)			-			-
Total other financial sources/uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>730</u>
Net changes in fund balances	<u>(71,581)</u>	<u>(71,581)</u>	<u>(408)</u>	<u>(80,263)</u>	<u>(80,263)</u>	<u>7,060</u>
FUND BALANCE:						
Beginning of the year			71,581			80,263
End of the year			<u>\$ 71,173</u>			<u>\$ 87,323</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, 2018

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 funds miscellaneous programs 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 elementary and high school general funds, and elementary and high school flexibility 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 \$33,950, \$69,945, \$8,647, and \$1,444, 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, 2018

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

	Sub-fund General Fund (Elem)	Sub-fund General Fund (HS)	Sub-fund Flexibility Fund (Elem)	Sub-fund Flexibility Fund (HS)	Total General Fund
REVENUES:					
District levies	\$ 366,595	\$ 444,77	\$ 0	\$ 0	\$ 811,366
Interest earnings	2,243	2,447	1,162	1,268	7,120
Other	0	0	7,851	0	7,851
State sources	<u>669,420</u>	<u>485,261</u>	<u>4,055</u>	<u>6,506</u>	<u>1,165,242</u>
Total revenues	<u>\$ 1,038,258</u>	<u>\$ 932,479</u>	<u>\$ 13,068</u>	<u>\$ 7,774</u>	<u>\$ 1,991,579</u>
EXPENDITURES:					
Instructional services	709,071	496,382	0	0	1,205,453
Support services	2,119	2,325	0	0	4,444
Educational media	13,221	12,682	0	0	25,903
General administrative	119,315	124,468	0	0	243,783
Operation & maintenance	132,155	107,602	4,829	0	244,586
Extracurricular	25,525	90,382	0	0	115,907
Capital outlay	10,077	0	0	0	10,077
Total expenditures	<u>\$ 1,001,406</u>	<u>\$ 833,841</u>	<u>\$ 4,829</u>	<u>\$ 0</u>	<u>\$ 1,840,076</u>
Excess (deficiency) of revenues over expenditures	36,852	98,638	8,239	7,774	151,503
OTHER FINANCING SOURCES/USES:					
Sale of capital assets	0	0	0	730	730
Fund transfers in	0	0	0	0	0
Fund transfers (out)	<u>(10,814)</u>	<u>(11,916)</u>	<u>0</u>	<u>0</u>	<u>(22,730)</u>
Total other financial sources/uses	<u>(10,814)</u>	<u>(11,916)</u>	<u>0</u>	<u>730</u>	<u>(22,000)</u>
Net changes in fund balances	<u>26,038</u>	<u>86,722</u>	<u>8,239</u>	<u>8,504</u>	<u>129,503</u>
FUND BALANCE:					
Beginning of the Year	<u>122,287</u>	<u>94,607</u>	<u>71,581</u>	<u>80,263</u>	<u>368,738</u>
Ending of the Year (GAAP)	<u>148,325</u>	<u>181,329</u>	<u>79,820</u>	<u>88,767</u>	<u>\$ 498,241</u>
Current year encumbrances	<u>(33,950)</u>	<u>(69,945)</u>	<u>(8,647)</u>	<u>(1,444)</u>	
Ending of the Year (Budget)	<u>\$ 114,375</u>	<u>\$ 111,384</u>	<u>\$ 71,173</u>	<u>\$ 87,323</u>	

In the General Fund sub-funds reconciliation above, the elementary and high school General fund, and elementary 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 and high school Flexibility fund are maintained as separate funds for accounting purposes. However, for external financial reporting purposes, they are added to the General fund because they, like the General fund, have unassigned fund balance(s).

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 of the School District. The above General Fund sub-funds display budget to actual information, except for the elementary miscellaneous programs fund which is a non-budgeted fund.

SHERIDAN SCHOOL DISTRICT NO. 5

SCHEDULE OF REVENUES, EXPENSES AND BALANCES EXPENDABLE TRUST –
STUDENT ACTIVITY FUNDS
For the year ended June 30, 2018

Activity Account Name	Beginning Balance 7/1/2017	Revenues	Expenses	Transfers	Ending Balance 6/30/2018
ABC BOOSTER CLUB	\$ 1,751	\$ 1	\$ 324	\$ 324	\$ 1,752
ACTIVITY TICKETS	473	3,645	75	(4,042)	1
AG ED PROJECTS	539	1,981	1,717	-	803
ANNUAL	3,226	466	2,411	-	1,281
ARCHERY	2,888	2	574	-	2,316
ATHLETICS SUPPLIES	1,559	-	1,227	-	332
BAND TRIP	4,486	2,605	4,420	(1,100)	1,571
BB CAMP	1,503	876	-	-	2,379
BOOK FAIR	173	3,135	3,123	-	185
BOOK FINES/COPY FEES	1,749	43	-	-	1,792
BOYS BASKETBALL	5,621	3,222	7,936	276	1,183
BUSINESS PROJECTS	146	-	-	-	146
CARNIVAL	1,481	2,953	4,557	1,056	933
CHEERLEADING	2,644	1	616	276	2,305
CLASS OF 15	6	-	-	(6)	-
CLASS OF 16	(59)	-	-	59	-
CLASS OF 17	249	-	(40)	(52)	237
CLASS OF 18	3,411	572	3,954	-	29
CLASS OF 19	619	412	157	370	1,244
CLASS OF 20	1,318	179	55	-	1,442
CLASS OF 21	3,062	2	-	-	3,064
CLASS OF 22	2,675	2,330	1,815	-	3,190
CLASS OF 23	1,878	1	-	-	1,879
CLASS OF 24	1,015	2,160	1,366	-	1,809
CLASS OF 25	-	1,346	816	-	530
CLOSE-UP	(39)	28,943	26,437	-	2,467
CONCESSIONS	86	10,793	7,392	(3,487)	-
CROSS COUNTRY	1,005	-	252	252	1,005
DRAMA	4,836	748	6,392	2,998	2,190
ELEM FIELD TRIPS	2,350	201	-	-	2,551
ELEMENTARY EQUIPMENT	3,034	2,547	820	(323)	4,438
FCCLA	13,288	23,475	22,234	-	14,529
FRA	22,176	37,538	43,096	-	16,618
FOOTBALL	6,516	2,793	6,480	(123)	2,706
FOOTBALL CAMP	661	500	315	-	846
FORENSICS	2,012	1	1,095	276	1,194
GIRLS' BASKETBALL	4,223	2,227	7,244	276	(518)
HIGH SCH EQUIPMENT	414	-	-	-	414
HOME EC PROJECTS	(21)	36	-	-	15
HONOR SOCIETY	717	300	174	-	843
JOURNALISM	2,566	1	-	-	2,567
LIBRARY	197	26	-	-	223
Sub-total	<u>106,434</u>	<u>136,061</u>	<u>157,034</u>	<u>(2,970)</u>	<u>82,491</u>

SHERIDAN SCHOOL DISTRICT NO. 5

SCHEDULE OF REVENUES, EXPENSES AND BALANCES EXPENDABLE TRUST –
 STUDENT ACTIVITY FUNDS (continued)
 For the year-ended June 30, 2018

Activity Account Name	Beginning Balance 7/1/2017	Revenues	Expenses	Transfers	Ending Balance 6/30/2018
LOCKS	1,097	10	-	-	1,107
MONTANA ARTS COUNCIL	322	-	30	-	292
MS HIGH BOYS' BB	1,977	201	1,462	272	988
MS HIGH FOOTBALL	1,392	125	1,330	272	459
MS HIGH GIRLS' BB	2,102	381	1,542	272	1,213
MS HIGH TRACK	3,053	2	404	271	2,922
MS HIGH VOLLEYBALL	1,633	351	1,017	271	1,238
MUSIC	2,131	622	1,018	276	2,011
MUSIC/RENTAL	1,321	1,220	1,577	-	964
PAYS PROGRAM	(26)	820	713	-	81
RENTAL FEES	115	54	-	-	169
SCIENCE CLUB	149	-	-	-	149
SCIENCE FAIR	6	-	-	-	6
SPANISH CLUB	1,443	9,778	8,917	908	3,212
STUDENT COUNCIL	956	2,375	1,002	(124)	2,205
STUDENT FEES	6,247	7,614	4,683	-	9,178
TECHNOLOGY FEES	1,332	2,432	350	-	3,414
TRACK	4,361	2	765	276	3,874
TRAP SHOOTING	3,598	2	-	-	3,600
VOLLEYBALL	2,261	2,278	5,315	276	(500)
VOLLEYBALL CAMP	1,192	1	-	-	1,193
YOUTH LEADERSHIP	<u>157</u>	<u>100</u>	<u>140</u>	<u>-</u>	<u>117</u>
Sub-total	<u>36,819</u>	<u>28,368</u>	<u>30,265</u>	<u>2,970</u>	<u>37,892</u>
Total	<u>\$ 143,253</u>	<u>\$ 164,429</u>	<u>\$ 187,299</u>	<u>\$ -</u>	<u>\$ 120,383</u>

SHERIDAN SCHOOL DISTRICT NO. 5

SCHEDULE OF REPORTED ENROLLMENT

For the year ended June 30, 2018

	FALL ENROLLMENT – OCTOBER, 2017			SPRING ENROLLMENT – FEBRUARY, 2018		
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Elementary						
Kindergarten Full	19	19	0	21	21	0
Grade 1 - 6	69	69	0	71	71	0
Grade 7 - 8	26	26	0	27	27	0
Total	<u>114</u>	<u>114</u>	<u>0</u>	<u>119</u>	<u>119</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>
High School						
Grade 9 - 12	<u>55</u>	<u>55</u>	<u>0</u>	<u>53</u>	<u>53</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>1</u>	<u>1</u>	<u>0</u>



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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
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, 2018, 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 April 18, 2019.

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.

A handwritten signature in black ink that reads "Strom & Associates, P.C." The signature is written in a cursive, slightly slanted style.

STROM & ASSOCIATES, PC
Billings, Montana
April 18, 2019

SHERIDAN SCHOOL DISTRICT NO. 5

SCHEDULE OF FINDINGS AND RESPONSES

For the year ended June 30, 2018

Prior year findings/status:

There were no findings or recommendations in the prior audit report and none for the fiscal year ended June 30, 2018.