

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

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

ORGANIZATION

BOARD OF TRUSTEES

| | |
|--------------------|------------|
| William Wood | Chair |
| John Russ Hamilton | Vice Chair |
| Rhonda Boyd | Trustee |
| Will Fabel | Trustee |
| Charles Gilman | Trustee |
| Karen Talley | Trustee |
| Kendra Horn | Trustee |
| Therese Sutton | Trustee |

OFFICIALS

| | |
|-------------------|-----------------------|
| Micheal Wetherbee | Superintendent |
| Rebecca Larsen | District Clerk |
| Pam Birkeland | County Superintendent |
| Chris Christensen | County Attorney |

**SHERIDAN PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

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

FINANCIAL HIGHLIGHTS

- General revenues accounted for \$2.6 million in revenue, or 83 percent of all fiscal year 2016 revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$.54 million or 17 percent of total fiscal year 2016 revenues.
- The District had approximately \$2.92 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 \$2.6 million were adequate to provide the remaining costs of these programs.
- Among major funds, the General Fund had \$1.92 million in fiscal year 2016 revenues, which primarily consisted of state aid and property taxes, and \$1.95 million in expenditures. The General Fund's fund balance excess of expenditures over revenues was \$32,132.
- The District's total debt decreased by \$190,000 during the current fiscal year. The key factor in this decrease was the principal payment against general obligation bonds.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

**SHERIDAN PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

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.

The basic governmental fund financial statements can be found on pages 15 - 16 of this report.

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

The basic fiduciary fund financial statements can be found on page 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 17-36 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 37 - 44 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve, over time, as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$1,679,394 as of June 30, 2016.

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

The 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:

| | 6/30/2015 | 6/30/2016 | CHANGE | % CHANGE |
|----------------------------------|-------------|-------------|-----------|----------|
| Current Assets | \$1,172,597 | \$1,214,858 | \$42,261 | 3.60% |
| Capital Assets, net | 2,685,864 | 2,641,193 | (44,671) | -1.66% |
| Total Assets | 3,858,461 | 3,856,051 | (2,410) | -0.06% |
| Deferred outflows of resources | 184,756 | 205,573 | 20,817 | 11.27% |
| Current Liabilities | 41,021 | 28,030 | (12,991) | -31.67% |
| Long Term Liabilities | 2,292,735 | 2,206,550 | (86,185) | -3.76% |
| Total Liabilities | 2,333,756 | 2,234,580 | (99,176) | -4.25% |
| Deferred Inflows of Resources | 261,599 | 147,650 | (113,949) | -43.56% |
| Net Position: | | | | |
| Net Investment in Capital Assets | 2,085,864 | 2,231,193 | 145,329 | 6.97% |
| Restricted | 815,205 | 901,958 | 86,753 | 10.64% |
| Unrestricted | (1,453,208) | (1,453,757) | (549) | 0.04% |
| Total Net Position | 1,447,861 | 1,679,394 | 231,533 | 15.99% |

**SHERIDAN PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

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

- The principal retirement of \$190,000 of debt. Current assets increased by \$42,261. Capital assets decreased by \$44,671 because of additions did not exceed depreciation for current year (page 24).

Changes in net position. The District's total revenues for the fiscal year ended June 30, 2016, were \$2.95 million. The total cost of all programs and services was \$2.87 million. The following table presents a summary of the changes in net position (in thousands of dollars).

| Revenues | <u>6/30/2015</u> | <u>6/30/2016</u> | <u>CHANGE</u> | <u>% CHANGE</u> |
|--------------------------|------------------|------------------|----------------|---------------------|
| Program Revenues: | | | | |
| Charges for Services | 30,996 | 28,989 | (2,007) | -6.48% |
| Operating Grants | 497,715 | 510,712 | 12,997 | 2.61% |
| General Revenues: | | | | |
| District levies | 1,098,048 | 1,177,534 | 79,486 | 7.24% |
| State Equalization | 700,907 | 730,928 | 30,021 | 4.28% |
| Other State Revenues | 454,912 | 463,137 | 8,225 | 1.81% |
| County | 156,164 | 220,564 | 64,400 | 41.24% |
| Interest | 1,565 | 5,117 | 3,552 | 226.96% |
| Other | <u>8,593</u> | <u>6,198</u> | <u>(2,395)</u> | <u>-27.87%</u> |
| Total Revenues | 2,948,900 | 3,143,179 | 194,279 | 6.59% |

| | <u>2015</u> | <u>2016</u> | <u>CHANGE</u> | <u>% CHANGE</u> |
|----------------------------------|-------------------------|-------------------------|----------------------|---------------------|
| Instructional services | 1,572,937 | 1,632,667 | 59,730 | 3.80% |
| Support services | 123,807 | 95,802 | (28,005) | -22.62% |
| Educational media services | 46,736 | 45,708 | (1,028) | -2.20% |
| General administrative services | 346,218 | 339,750 | (6,468) | -1.87% |
| Operation & maintenance services | 346,958 | 381,580 | 34,622 | 9.98% |
| Transportation services | 189,173 | 175,799 | (13,374) | -7.07% |
| School food services | 84,577 | 73,266 | (11,311) | -13.37% |
| Extracurricular | 120,832 | 146,801 | 25,969 | 21.49% |
| Debt service: | | | | |
| Interest and other charges | <u>37,650</u> | <u>29,100</u> | <u>(8,550)</u> | <u>-22.71%</u> |
| Total Expenses | <u>2,868,888</u> | <u>2,920,473</u> | <u>51,585</u> | <u>1.80%</u> |

General revenues increased by \$194,279 primarily due to increase in revenue from district taxes. Expenses increased slightly by \$51,585 mostly due to an increase in instructional services.

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

**SHERIDAN PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

| | Total Cost of Service | | | Net Cost of Service | | |
|------------------------------------|-----------------------|----------------|----------------|---------------------|----------------|----------------|
| | <u>2015</u> | <u>2016</u> | Percent Change | <u>2015</u> | <u>2016</u> | Percent Change |
| Instructional services | 1,572.9 | 1,632.7 | 3.80% | 1,331.7 | 1,353.8 | 1.66% |
| Support services | 123.8 | 95.8 | -22.60% | 10.0 | 1.6 | -83.88% |
| Educational media services | 46.7 | 45.7 | -2.20% | 41.5 | 32.9 | -20.71% |
| General administrative services | 346.2 | 339.8 | -1.87% | 340.8 | 334.4 | -1.88% |
| Operation and maintenance of plant | 347.0 | 381.6 | 9.98% | 343.8 | 376.2 | 9.44% |
| Student transportation services | 189.2 | 175.8 | -7.07% | 107.9 | 105.2 | -2.51% |
| Non-educational services | 205.4 | 220.1 | 8.12% | 129.9 | 147.5 | 13.58% |
| Interest on long-term debt | 37.7 | 29.1 | -22.71% | 37.7 | 29.1 | -22.81% |
| Total expenses | 2,868.9 | 2,920.6 | -34.55% | 2,343.3 | 2,380.8 | 1.60% |

- The cost of all governmental activities this year was \$2.9 million.
- Federal and state governments and charges for services subsidized certain programs with grants and contributions and other local revenues of \$.54 million.
- Net cost of governmental activities (\$2.36 million), was financed by general revenues, which are made up of primarily property taxes (\$1.2 million) federal and state and county aide (\$1.4 million). Investment earnings accounted for \$5,117 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

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

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

As shown on page 16, the total governmental fund balances increased \$55,264 as compared to an increase of \$222,706 in government-wide net position. The difference is explained on page 14.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2016, the District had invested \$2,641,193 in capital assets, including school building, athletic facilities, buses and other vehicles, computers, and other equipment. Total depreciation expense for the year was \$156,398.

**SHERIDAN PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

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

| | Amount |
|-----------------------------------|---------------------|
| Land and improvements | \$ 23,500 |
| Construction in progress | 21,493 |
| Buildings and improvements | 2,120,935 |
| Vehicles, furniture and equipment | 475,265 |
| Total | \$ 2,641,193 |

Additional information on the District's capital assets can be found in on page 24 of this report.

Debt Administration. At year-end, the District had \$410,000 in general obligation bonds debt outstanding, of which \$200,000 is due within one year.

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 \$3,726,643 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 25 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 2016-2017 budget. The primary factor was the District's declining high school student population, increasing employee salary costs, which includes a retirement incentive agreement for certified personnel. Also, considered in the development of the budget was the local economy.

These indicators were considered when adopting the budget for fiscal year 2016-2017. Budgeted expenditures in the General Fund were increased by \$86,520 to \$1,974,105 in the fiscal year 2016-2017 due to an inflationary increase in state funding, the passage of a high school and elementary mill levy, and an increase in Elementary enrollment. Future budget funding reports by both Montana School Board Association and Montana's Office of Public Instruction indicate reduced state income and slight to marginal increases in education funding. Sheridan Schools was able to maintain their current budgets.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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



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Certified Public Accountants

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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, 2016, 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, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information (RSI)

Accounting principles generally accepted in the United States of America requires that the management's discussion and analysis (pages 3 - 7), and the schedule of funding for other post-employment benefits other than pensions (page 37), and schedule of proportionate share of net pension liability (page 38), and Schedule of Contributions to Montana Retirement Systems (page 39), and budgetary comparison information (pages 40 - 44) 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 45 - 46) and schedule of reported enrollment (page 47) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedule of revenues, expenses and balances of student activity funds and schedule of reported enrollment are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of revenues, expenses and balances of student activity funds and schedule of reported enrollment are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2017 on our consideration of the Sheridan School District No. 5 internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Sheridan School District No. 5 internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC
Billings, Montana
June 8, 2017

STATEMENT OF NET POSITION
 June 30, 2016

| | <u>Governmental</u> <u>Activities</u> |
|--|--|
| ASSETS: | |
| Current assets: | |
| Cash and cash equivalents | \$ 1,181,370 |
| Taxes receivable | 6,937 |
| Due from other governments | <u>26,551</u> |
| Total current assets | <u>1,214,858</u> |
| Noncurrent assets: | |
| Capital assets: | |
| Land | 23,500 |
| Construction in progress | 21,493 |
| Net depreciable assets | <u>2,596,200</u> |
| Total noncurrent assets | <u>2,641,193</u> |
| Total assets | <u>3,856,051</u> |
| DEFERRED OUTFLOWS OF RESOURCES: | |
| Employer pension plan activities | <u>205,573</u> |
| Total deferred outflows of resources | <u>205,573</u> |
| Total assets and deferred outflows of resources | <u>\$ 4,061,624</u> |
| LIABILITIES: | |
| Current liabilities: | |
| Current portions compensated absences | <u>28,030</u> |
| Total current liabilities | <u>28,030</u> |
| Noncurrent liabilities: | |
| Long-term obligations | 1,737,967 |
| Compensated absences | 58,583 |
| Long-term capital obligations | <u>410,000</u> |
| Total noncurrent liabilities | <u>2,206,550</u> |
| Total liabilities | <u>2,234,580</u> |
| DEFERRED INFLOWS OF RESOURCES: | |
| Employer pension plan | <u>147,650</u> |
| Total deferred inflows of resources | <u>147,650</u> |
| NET POSITION: | |
| Net investment in capital assets | 2,231,193 |
| Restricted | 901,958 |
| Unrestricted (Deficit) | <u>(1,453,757)</u> |
| Total net position | <u>1,679,394</u> |
| Total liabilities, deferred inflows and net position | <u>\$ 4,061,624</u> |

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

STATEMENT OF ACTIVITIES
 For the year ended June 30, 2016

| | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position |
|--------------------------------------|------------------|------------------------|--|--|
| | Expenses | Charge for Services | Operating Grants and Contributions | Primary Government |
| | | | | Governmental Activities |
| GOVERNMENT OPERATIONS: | | | | |
| Instructional services | \$ 1,632,667 | \$ - | \$ 278,881 | \$ (1,353,786) |
| Support services | 95,802 | - | 94,190 | (1,612) |
| Educational media services | 45,708 | - | 12,804 | (32,904) |
| General administrative services | 339,750 | - | 5,341 | (334,409) |
| Operation & maintenance services | 381,580 | - | 5,341 | (376,239) |
| Transportation services | 175,799 | - | 70,612 | (105,187) |
| School food services | 73,266 | 28,989 | 43,543 | (734) |
| Extracurricular | 146,801 | - | - | (146,801) |
| Debt service: | | | | |
| Interest and other charges | 29,100 | - | - | (29,100) |
| Total Governmental Activities | 2,920,473 | 28,989 | 510,712 | (2,380,772) |
| GENERAL REVENUES: | | | | |
| District levies | | | | 1,177,534 |
| State Equalization | | | | 730,928 |
| Other State Revenues | | | | 463,137 |
| County | | | | 220,564 |
| Interest | | | | 5,117 |
| Other | | | | 6,198 |
| Total General Revenues | | | | 2,603,478 |
| Change in Net Position | | | | 222,706 |
| NET POSITION: | | | | |
| Beginning of the Year | | | | 1,447,861 |
| Prior Period Adjustments | | | | 8,827 |
| End of the Year | | | | \$ 1,679,394 |

* Excludes depreciation included in direct expenses of the various functions

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

BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2016

| | MAJOR | | | |
|---|-------------------|--------------------------------|--------------------------------------|-----------------------------|
| | General | Bus Depreciation (Elem.) | Miscellaneous Programs (Elem.) | Bus Depreciation (HS) |
| ASSETS: | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 308,897 | \$ 163,740 | \$ - | \$ 241,736 |
| Taxes receivable | 4,003 | 239 | - | 216 |
| Due from other governments | - | - | 24,412 | - |
| Total assets | <u>312,900</u> | <u>163,979</u> | <u>24,412</u> | <u>241,952</u> |
| DEFERRED OUTFLOWS OF RESOURCES: | | | | |
| Total deferred outflows of resources | - | - | - | - |
| Total assets and deferred outflows of resources | <u>\$ 312,900</u> | <u>\$ 163,979</u> | <u>\$ 24,412</u> | <u>\$ 241,952</u> |
| LIABILITIES: | | | | |
| Current liabilities: | | | | |
| Cash overdraft | - | - | 13,401 | - |
| Total liabilities | - | - | <u>13,401</u> | - |
| DEFERRED INFLOWS OF RESOURCES: | | | | |
| Unavailable property taxes receivable | 4,003 | 239 | - | 216 |
| Total deferred inflows of resources | <u>4,003</u> | <u>239</u> | <u>-</u> | <u>216</u> |
| FUND BALANCE (DEFICITS): | | | | |
| Restricted | - | 163,740 | 11,011 | 241,736 |
| Assigned | 7,290 | - | - | - |
| Unassigned | 301,607 | - | - | - |
| Total fund balance | <u>308,897</u> | <u>163,740</u> | <u>11,011</u> | <u>241,736</u> |
| Total liabilities, deferred inflows of resources, and fund balance | <u>\$ 312,900</u> | <u>\$ 163,979</u> | <u>\$ 24,412</u> | <u>\$ 241,952</u> |

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

BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2016

| | MAJOR | | |
|---|--------------------------|--------------------------------|--------------------------------|
| | Building Reserve (HS) | Other Governmental Funds | Total Governmental Funds |
| ASSETS: | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 123,832 | \$ 356,566 | \$ 1,194,771 |
| Taxes receivable | 124 | 2,355 | 6,937 |
| Due from other governments | - | 2,139 | 26,551 |
| Total assets | <u>123,956</u> | <u>361,060</u> | <u>1,228,259</u> |
| DEFERRED OUTFLOWS OF RESOURCES: | | | |
| Total deferred outflows of resources | - | - | - |
| Total assets and deferred outflows of resources | <u>\$ 123,956</u> | <u>\$ 361,060</u> | <u>\$ 1,228,259</u> |
| LIABILITIES: | | | |
| Current liabilities: | | | |
| Cash overdraft | - | - | 13,401 |
| Total liabilities | - | - | 13,401 |
| DEFERRED INFLOWS OF RESOURCES: | | | |
| Unavailable property taxes receivable | 124 | 2,355 | 6,937 |
| Total deferred inflows of resources | <u>124</u> | <u>2,355</u> | <u>6,937</u> |
| FUND BALANCE (DEFICITS): | | | |
| Restricted | 123,832 | 358,705 | 899,024 |
| Assigned | - | - | 7,290 |
| Unassigned | - | - | 301,607 |
| Total fund balance | <u>123,832</u> | <u>358,705</u> | <u>1,207,921</u> |
| Total liabilities, deferred inflows of resources, and fund balance | <u>\$ 123,956</u> | <u>\$ 361,060</u> | <u>\$ 1,228,259</u> |
| RECONCILIATION TO THE STATEMENT OF NET POSITION | | | |
| Total fund balance reported above | | | \$ 1,207,921 |
| Governmental Capital Assets | | | 2,641,193 |
| Employer pension plan activities | | | 205,573 |
| Long-term Liabilities | | | |
| Long-Term Obligations | | | (1,737,967) |
| Compensated Absences | | | (86,613) |
| Long-Term Capital Obligations | | | (410,000) |
| Employer pension plan | | | (147,650) |
| Unavailable property taxes receivable | | | <u>6,937</u> |
| Net Position of Governmental Activities | | | <u>\$ 1,679,394</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, 2016

| | MAJOR | | | | | | Total Governmental Funds |
|--|-------------------|--------------------------------|--------------------------------------|-----------------------------|-----------------------------|--------------------------------|--------------------------------|
| | General | Bus Depreciation (Elem.) | Miscellaneous Programs (Elem.) | Bus Depreciation (HS) | Building Reserve (HS) | Other Governmental Funds | |
| REVENUES: | | | | | | | |
| District levies | \$ 686,420 | \$ 42,727 | \$ - | \$ 36,003 | \$ 20,441 | \$ 405,703 | \$ 1,191,294 |
| Interest | 1,489 | 576 | 11 | 916 | 461 | 1,664 | 5,117 |
| Charges for services | - | - | - | - | - | 27,680 | 27,680 |
| Other | 6,690 | - | 20 | - | - | 39,386 | 46,096 |
| County | - | - | - | - | - | 255,870 | 255,870 |
| State | 1,229,502 | - | 97,954 | - | - | 56,756 | 1,384,212 |
| Federal | - | - | 133,725 | - | - | 59,533 | 193,258 |
| Total revenues | 1,924,101 | 43,303 | 231,710 | 36,919 | 20,902 | 846,592 | 3,103,527 |
| EXPENDITURES: | | | | | | | |
| Current: | | | | | | | |
| Instructional services | 1,193,127 | - | 132,655 | - | - | 232,739 | 1,558,521 |
| Support services | - | - | 95,671 | - | - | 131 | 95,802 |
| Educational media services | 29,226 | - | 6,847 | - | - | 7,821 | 43,894 |
| General administrative services | 229,472 | - | - | - | - | 99,656 | 329,128 |
| Operation & maintenance service | 286,054 | - | - | - | 473 | 78,858 | 365,385 |
| Transportation services | - | - | 5,136 | - | - | 106,616 | 111,752 |
| School food services | - | - | - | - | - | 74,222 | 74,222 |
| Extracurricular | 136,189 | - | - | - | - | 10,612 | 146,801 |
| Debt service: | | | | | | | |
| Principal | - | - | - | - | - | 190,000 | 190,000 |
| Interest and other charges | - | - | - | - | - | 29,100 | 29,100 |
| Capital outlay | 82,165 | - | - | - | - | 21,493 | 103,658 |
| Total expenditures | 1,956,233 | - | 240,309 | - | 473 | 851,248 | 3,048,263 |
| Excess (deficiency) of revenues over expenditures | (32,132) | 43,303 | (8,599) | 36,919 | 20,429 | (4,656) | 55,264 |
| OTHER FINANCING SOURCES/USES: | | | | | | | |
| Fund transfers in | - | - | - | - | 1,890 | 2,700 | 4,590 |
| Fund transfers (out) | (4,590) | - | - | - | - | - | (4,590) |
| Total other financial sources/uses | (4,590) | - | - | - | 1,890 | 2,700 | - |
| Net changes in fund balances | (36,722) | 43,303 | (8,599) | 36,919 | 22,319 | (1,956) | 55,264 |
| FUND BALANCE: | | | | | | | |
| Beginning of the year | 345,550 | 120,437 | 19,016 | 204,817 | 101,513 | 360,566 | 1,151,899 |
| Prior period adjustments | 69 | - | 594 | - | - | 95 | 758 |
| End of the year | \$ 308,897 | \$ 163,740 | \$ 11,011 | \$ 241,736 | \$ 123,832 | \$ 358,705 | \$ 1,207,921 |

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

Sheridan School District No. 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, 2016

| | | |
|---|-----------|-----------|
| Net Changes in Fund Balance | \$ | 55,264 |
| Revenues on the Statement of Activities not included in governmental funds statement: | | |
| Increase (decrease) in taxes receivable | | (13,760) |
| State Pension Aid | | 53,412 |
| Expenses on the Statement of Activities not included in the governmental funds statement: | | |
| Depreciation Expense | (156,398) | |
| Actuarial Pension Expense | (6,021) | |
| (Increase) decrease in Other Post Employment Benefits | (9,408) | |
| (Increase) decrease in compensated absence liability | 5,959 | (165,868) |
| Expenditures reported in the governmental funds statement not included in the Statement of Activities | | |
| Capital outlays | 103,658 | |
| Principal payments on bonds | 190,000 | 293,658 |
| Change in net position reported on the Statement of Activities | \$ | 222,706 |

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

STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 June 30, 2016

| | Private Purpose | |
|--------------------------------------|-------------------|-------------------|
| | Trust Funds | Agency Funds |
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 253,956 | \$ 218,002 |
| Total Assets | <u>\$ 253,956</u> | <u>\$ 218,002</u> |
| LIABILITIES: | | |
| Current liabilities: | | |
| Warrants payable | - | 218,002 |
| Total Liabilities | - | <u>\$ 218,002</u> |
| NET POSITION: | | |
| Held in trust for endowment | 109,341 | |
| Held in trust for student activities | <u>144,615</u> | |
| Total Net Position | <u>\$ 253,956</u> | |

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 For the year ended June 30, 2016

| | Private Purpose |
|----------------------------------|-------------------|
| | Trust Funds |
| ADDITIONS: | |
| Revenues from student activities | \$ 177,467 |
| Contributions to Endowment | <u>2,302</u> |
| Total Additions | <u>179,769</u> |
| DEDUCTIONS: | |
| Expenses of student activities | 170,502 |
| Expenses of student scholarships | <u>1,900</u> |
| Total Deductions | <u>172,402</u> |
| Change in net position | 7,367 |
| NET POSITION: | |
| Beginning of the year | 245,760 |
| Prior period adjustments | <u>829</u> |
| End of the year | <u>\$ 253,956</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, 2016

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.

During fiscal year 2016 the School District adopted the following:

- GASB Statement No. 72 – Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The School District has implemented this statement in fiscal year 2016.
- GASB Statement No. 73 – Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. This statement provides guidance on non-employer entity pension plans. This statement appears to be applicable to the State of Montana and has no effect on the School District.
- GASB Statement No. 77 – Tax Abatement Disclosures. This Statement requires governments that enter into tax abatement agreements to disclose the agreements. This statement is applicable for periods beginning after December 15, 2015. The School District has implemented this statement in fiscal year 2016, and had no tax abatements during this timeframe.
- GASB Statement No. 78 – Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This statement is applicable for periods beginning after December 15, 2015. The School District has implemented this statement in fiscal year 2016 and determined it has no effect on its financial reporting.
- GASB Statement No. 79 – Certain External Investment Pools and Pool Participants. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This statement is applicable for periods beginning after December 15, 2015. This change is required of the State of Montana. Beginning in FY 2016, the State will report STIP investments on a Net Asset Value (NAV) basis in its financial statements. The School District has determined this to be a note disclosure change and trivial net asset value adjustment at year-end for any STIP investments held at year-end by the School District.
- GASB Statement No. 80 – Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The School District has reviewed this Statement and they have no not-for profit corporations and determined it does not apply.
- GASB Statement No. 81 – Irrevocable Split-Interest Agreements. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. In FY 2016, the School District reviewed this Statement and determined they have no irrevocable split-interest agreements.

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

- GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. The School District plans to implement when they update their OPEB numbers at the next evaluation date or by FY 2018, whichever, comes first.
- GASB Statement No. 82 – Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. The School District will implement this statement upon the State of Montana implementing.

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

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.

The Sheridan School District No. 5 was incorporated under the laws of the State of Montana and as required by GAAP, the financial statements of the reporting entity include those of the Sheridan School District No. 5 (the primary government) and any component units. The criteria for including organizations as component units within the School District's reporting entity is set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) "Codification of Government Accounting and Financial Reporting Standards." The basic criteria include appointing a voting majority of an organization's governing body, as well as the School District's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the School District. Based on those criteria the School District has no component units.

1. b. BASIS OF PRESENTATION AND ACCOUNTING

1. b. 1. GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements include the statement of net position and the statement of activities. The governmental activities column incorporates data from governmental fund (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 generally including the elimination of internal activity between or within funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

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

The statement of activities reports the 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 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 fund are displayed as fiduciary funds. Since the resources in the fiduciary funds cannot be used for School District operations, they are not included in the 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.

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

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

Trust and agency fund financial statements use the economic resources measurement focus and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

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

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

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

The School District reports the following major governmental funds:

- General Fund – The General Fund is the general operating fund of the School District and accounts for all revenues and expenditures of the School District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. In the governmental fund financial statements, the general fund also includes the activities of the elementary and high school flexibility funds since the restrictions on those funds are similar to the general fund.
- Elementary and High School Bus Depreciation Funds – These funds are used to account for financing the replacement of yellow school buses and two-way radio equipment owned by a school. Deposits made to the fund are limited by depreciation percentages of current buses and two-way radio equipment owned by the School District.
- Elementary Miscellaneous Fund – This fund is used to account for local, state or federal grants and reimbursements. Donations that allow the expenditure of both principal and interest for support of School District programs are deposited in this fund.
- High School Building Reserve Fund – This fund is used to account for financing voter approved building or construction projects funded with School District mill levies. This includes raising money for the future construction, equipping, or enlarging of school buildings and for the purpose of purchasing land needed for school purposes in the School District.

1. b. 3. OTHER FUND TYPES

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

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

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, 2016

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

Information regarding the collateral and security for cash held by Madison County is not available to the School District. However, State statute requires that United State government securities or agencies be held as collateral to secure deposits of public funds in excess of Federal Deposit Insurance Corporation (FDIC) insurance. The external investment pool is audited as part of Madison County's financial statements. This investment pool is not registered with or monitored by the Securities and Exchange Commission (SEC).

Cash overdrafts reported in the fund statements are classified as current liabilities in the governmental fund statements. The cash overdrafts are eliminated in the governmental activities columns of the statement of net position.

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 Montana Department of Revenue based on market values. A revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by State statute as a fixed percentage of market value.

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

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

1. c. 3. INVENTORIES

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

1. c. 4. CAPITAL ASSETS

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

| <u>Capital Asset Classes</u> | <u>Lives</u> |
|------------------------------|--------------|
| Buildings | 50 years |
| Machinery and Equipment | 5 – 30 years |

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

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

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

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

Property Taxes – Deferred inflows

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

1. c. 6. VACATION AND SICK LEAVE

Classified School District employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. Classified School District employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave at the current rate of pay. Classified School District employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of unused sick leave. However, upon termination, only 25% of accumulated sick leave is paid at the current rate of pay.

Certified School District employees shall accrue 10 days of sick leave at the beginning of each year. Unused sick leave will be accruable without limit. A maximum of 105 sick days may be carried over to the next school year. Up to 3 days' personal leave with pay shall be granted each year. Teachers with 15 years or more shall receive an additional day, bringing their total to 4 days total. At the end of the school year up to days of unused personal leave may be carried over to allow a maximum accumulation of five (5) days. At the end of the year teachers may carryover days sufficient to bring their cumulative total to a maximum of 5 days. For example a teacher with ten years in the district may carry over 2 days, so that when the school year starts they have a total of five days (2 from the previous year plus 3 from the new year). At the end of the year, or upon termination the District will cash out at a rate of \$100 per day for any unused Personal Leave day (\$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 \$ 28,030 and it is generally paid out of the general fund.

1. c. 7. NET POSITION AND FUND BALANCE

Statement of Net Position include the following:

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

Governmental fund financial statements include the following fund balances:

- Restricted – Includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Assigned – Includes amounts management has set aside for a specific purpose. This includes the executing of a purchase order for a specific purpose such as an encumbrance.
- Unassigned – Amounts that are available for any purpose; these amounts are reported only in the general fund.

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

As of June 30, 2016, fund balance components other than unassigned fund balance consist of the following:

| <u>Purpose</u> | <u>Restricted</u> | <u>Assigned</u> |
|------------------------------------|-------------------|-----------------|
| Instructional and Support Services | \$ 14,249 | \$ 7,290 |
| Student Transportation | 79,082 | 0 |
| School Food | 8,125 | 0 |
| Third Party Grantor Restrictions | 44,742 | 0 |
| Employer Retirement Benefits | 81,617 | 0 |
| Future Technology | 6,292 | 0 |
| Future Capital Costs | 656,683 | 0 |
| Debt Service | 8,234 | 0 |
| Total | <u>\$ 899,024</u> | <u>\$ 7,290</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 and are periodically remitted to the School District by the Madison County Treasurer. No service charges have been recorded by the School District or the Madison County.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2016, the summary of cash, cash equivalents for governmental and fiduciary funds is as follows:

| <u>Account Type</u> | <u>Governmental</u> <u>Activities</u> | <u>Fiduciary</u> <u>Funds</u> | <u>Total</u> |
|---------------------------|--|----------------------------------|---------------------|
| Cash and Cash Equivalents | \$ <u>1,181,370</u> | \$ <u>471,958</u> | \$ <u>1,653,328</u> |

The carrying amount of cash on hand, deposits and investments at June 30, 2016, is as follows:

| | <u>Amount</u> |
|------------------------|---------------------|
| Demand Accounts | 253,955 |
| County Investment Pool | <u>1,399,373</u> |
| Total | <u>\$ 1,653,328</u> |

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

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

Custodial credit risk-deposits: The cash of the extracurricular funds is held separately by the School District, not at Madison County and the deposits may be subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2016, the deposits in the extracurricular fund were covered by FDIC insurance.

Interest Rate Risk: The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from rising interest rates. The School District's investment policy is to hold investments to maturity with the contractual understanding that these investments are low risk, locked in to a guaranteed rate of return, are therefore not impacted significantly by changes in short term interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates all of the School District's investment portfolio is made up of securities whose maturities are less than 5 years.

2. b. FUND CASH OVERDRAFT

The following funds report overdrawn cash accounts.

| <u>Elementary Fund</u> | <u>Amount</u> | <u>Reason</u> |
|------------------------|------------------|----------------------------|
| Miscellaneous* | \$ <u>13,401</u> | Unreimbursed grant funding |

* Denotes Major Funds

NOTE 3. DUE FROM OTHER GOVERNMENTS

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

| <u>Elementary Fund</u> | <u>Amount</u> | <u>Due From</u> | <u>Reason</u> |
|-------------------------|------------------|------------------|--------------------------|
| Miscellaneous* | \$ 8,718 | State of Montana | 21 st Century |
| Miscellaneous | \$ 1,170 | State of Montana | Gifted & Talented |
| Miscellaneous | \$ 14,525 | State of Montana | Title I reimbursements |
| <u>High School Fund</u> | | | |
| Miscellaneous | 782 | State of Montana | Carl Perkins |
| Traffic Education | <u>1,356</u> | State of Montana | Traffic Education |
| Total | \$ <u>26,551</u> | | |

* Denotes Major Funds

NOTE 4. 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, 2015, upon which the levy for the 2016 fiscal year was based, was \$ 3,349,304 for the Elementary School District and \$ 4,932,125 for the High School District. The tax rates assessed for the year ended June 30, 2016 to finance School District operations and applicable taxes receivable for the elementary and high schools follows:

| <u>Elementary Fund</u> | <u>Mill Levies</u> | <u>Taxes Receivable</u> |
|-------------------------|--------------------|-------------------------|
| General* | 98.12 | \$ 1,841 |
| Transportation | 18.77 | 352 |
| Bus Depreciation* | 12.72 | 239 |
| Tuition | 4.03 | 76 |
| Technology | 3.80 | 71 |
| Debt Service | 31.88 | 598 |
| Building Reserve | 5.97 | 112 |
| <u>High School Fund</u> | | |
| General* | 70.83 | 2,162 |
| Transportation | 10.05 | 307 |
| Bus Depreciation* | 7.09 | 216 |
| Adult Education | 2.09 | 64 |
| Technology | 3.87 | 118 |
| Debt Service | 21.52 | 657 |
| Building Reserve* | <u>4.06</u> | <u>124</u> |
| Total | <u>294.80</u> | \$ <u>6,937</u> |

* Denotes Major Funds

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

NOTE 5. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

5. a. At June 30, 2016, the schedule of changes in general capital assets follows:

| <u>Governmental Activities:</u> | <u>Balance</u> <u>July 1, 2015</u> | <u>Additions</u> | <u>Deletions</u> | <u>Adjustments/ Transfers</u> | <u>Balance</u> <u>June 30, 2016</u> |
|----------------------------------|---------------------------------------|---------------------|--------------------|-----------------------------------|--|
| <u>Non-depreciable:</u> | | | | | |
| Land | \$ 23,500 | \$ 0 | \$ 0 | \$ 0 | \$ 23,500 |
| Construction in progress | 0 | 21,493 | 0 | 0 | 21,493 |
| Total Non-depreciable | <u>\$ 23,500</u> | <u>\$ 21,493</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 44,993</u> |
| <u>Depreciable:</u> | | | | | |
| Buildings | \$ 3,832,927 | \$ 0 | \$ 0 | \$ 0 | \$ 3,832,927 |
| Machinery and equipment | 1,109,245 | 82,165 | (85,300) | 8,068 | 1,114,178 |
| Total Depreciable | <u>\$ 4,942,172</u> | <u>\$ 82,165</u> | <u>\$ (85,300)</u> | <u>\$ 8,068</u> | <u>\$ 4,947,105</u> |
| <u>Accumulated Depreciation:</u> | | | | | |
| Buildings | \$ (1,643,034) | \$ (68,958) | \$ 0 | \$ 0 | \$ (1,711,992) |
| Machinery and equipment | (636,774) | (87,439) | 85,300 | 0 | (638,913) |
| Total Depreciation | <u>\$ (2,279,808)</u> | <u>\$ (156,397)</u> | <u>\$ 85,300</u> | <u>\$ 0</u> | <u>\$ (2,350,905)</u> |
| Net Depreciable Assets | <u>2,662,364</u> | <u>(74,232)</u> | <u>0</u> | <u>8,068</u> | <u>2,596,200</u> |
| Net General Capital Assets | <u>\$ 2,685,864</u> | <u>\$ (52,739)</u> | <u>\$ 0</u> | <u>\$ 8,068</u> | <u>\$ 2,641,193</u> |

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

| <u>Function</u> | <u>Amount</u> |
|----------------------------|-------------------|
| Instructional | \$ 70,508 |
| School Administration | 3,479 |
| Operation & Maintenance | 16,121 |
| Transportation | 66,289 |
| Total Depreciation Expense | <u>\$ 156,397</u> |

NOTE 6. CHANGES IN LONG-TERM DEBT

6. a. At June 30, 2016, the schedule of changes in general long-term debt follows:

| <u>Governmental Activities</u> | <u>Balance</u> <u>July 1, 2015</u> | <u>New Debt</u> <u>and Other</u> <u>Additions</u> | <u>Principal</u> <u>Payments</u> <u>and Other</u> <u>Reductions</u> | <u>Balance</u> <u>June 30, 2016</u> | <u>Due within</u> <u>One Year</u> |
|---|---------------------------------------|---|--|--|--------------------------------------|
| <u>Bonds and Notes Payable:</u> | | | | | |
| General Obligation Bonds | \$ 600,000 | \$ 0 | \$ (190,000) | \$ 410,000 | \$ 0 |
| Total Bonds and Notes Payable | <u>\$ 600,000</u> | <u>\$ 0</u> | <u>\$ (190,000)</u> | <u>\$ 410,000</u> | <u>\$ 0</u> |
| <u>Other Liabilities:</u> | | | | | |
| Compensated Absences | \$ 92,572 | \$ 0 | \$ (5,959) | \$ 86,613 | \$ 28,030 |
| Accrued Pension | 1,523,935 | 117,443 | (30,068) | 1,611,310 | 0 |
| Other Post-Employment Benefits (OPEB) | 117,249 | 9,408 | 0 | 126,657 | 0 |
| Total Other Liabilities | <u>\$ 1,733,756</u> | <u>\$ 126,851</u> | <u>\$ (36,027)</u> | <u>\$ 1,824,580</u> | <u>\$ 28,030</u> |
| Total Governmental Activities - Long-Term Debt: | <u>\$ 2,333,756</u> | <u>\$ 126,851</u> | <u>\$ (226,027)</u> | <u>\$ 2,234,580</u> | <u>\$ 28,030</u> |

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

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, 2016</u> |
|---------------------------|-------------------|----------------------|-----------------------|----------------------|----------------------|----------------------------------|
| Series 1988 Elem. GO Bond | 1/15/1998 | 4.45%-6.50% | 20 Years | 7/1/2018 | \$ 1,331,000 | \$ 205,000 |
| Series 1988 HS GO Bond | 1/15/1998 | 4.45%-6.50% | 20 Years | 7/1/2018 | <u>1,369,000</u> | <u>205,000</u> |
| | | | | | <u>\$ 2,700,000</u> | <u>\$ 410,000</u> |

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

| For the year ended 6/30: | <u>Elementary</u> | | <u>High School</u> | |
|--------------------------|-------------------|------------------|--------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2017 | \$ 0 | \$ 7,200 | \$ 0 | \$ 7,200 |
| 2018 | 100,000 | 9,840 | 100,000 | 9,840 |
| 2019 | <u>105,000</u> | <u>5,040</u> | <u>105,000</u> | <u>5,040</u> |
| Totals | <u>\$ 205,000</u> | <u>\$ 22,080</u> | <u>\$ 205,000</u> | <u>\$ 22,080</u> |

NOTE 7. PRIOR PERIOD ADJUSTMENTS

| <u>Elementary Fund</u> | <u>Governmental Funds</u> | <u>Reason</u> |
|------------------------------|---------------------------|---|
| General* | \$ 50 | Voided warrants |
| Miscellaneous* | 594 | Voided warrants |
| <u>High School Fund</u> | | |
| General* | 19 | Voided warrants |
| Transportation | <u>95</u> | Voided warrants |
| Total | <u>\$ 758</u> | |
| * Denotes Major Funds | | |
| Governmental Type Activities | <u>8,068</u> | Down payment for Black Mountain capitalized |
| Total | <u>\$ 8,826</u> | |

NOTE 8. DEFERRED INFLOWS OF RESOURCES – PROPERTY TAXES

| <u>Elementary Fund</u> | <u>Amount</u> | <u>Reason</u> |
|-------------------------|-----------------|------------------|
| General* | \$ 1,841 | Taxes Receivable |
| Transportation | 352 | Taxes Receivable |
| Bus Depreciation* | 239 | Taxes Receivable |
| Tuition | 76 | Taxes Receivable |
| Technology | 71 | Taxes Receivable |
| Debt Service | 598 | Taxes Receivable |
| Building Reserve | 112 | Taxes Receivable |
| <u>High School Fund</u> | | |
| General* | 2,162 | Taxes Receivable |
| Transportation | 307 | Taxes Receivable |
| Bus Depreciation* | 216 | Taxes Receivable |
| Adult Education | 64 | Taxes Receivable |
| Technology | 118 | Taxes Receivable |
| Debt Service | 657 | Taxes Receivable |
| Building Reserve* | <u>124</u> | Taxes Receivable |
| Total | <u>\$ 6,937</u> | |

* Denotes Major Funds

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

NOTE 9. INTERFUND OPERATING TRANSFERS IN/OUT

| <u>Elementary Fund - In</u> | <u>Amount</u> | <u>Elementary Fund - Out</u> | <u>Purpose of Transfer</u> |
|------------------------------|-----------------|-------------------------------|----------------------------|
| Building Reserve | 2,700 | General* | School safety transfer |
| <u>High School Fund - In</u> | | <u>High School Fund - Out</u> | |
| Building Reserve* | <u>1,890</u> | General* | School safety transfer |
| Total | <u>\$ 4,590</u> | | |

* Denotes Major Funds

NOTE 10. OTHER POST EMPLOYMENT BENEFITS

Plan Description - The School District provides the same health care plan to all of its members. The School District had fewer than 100 plan participants and thus qualified to use an Alternative Measurement Method instead of an actuarial valuation to determine the OPEB liability. Valuations involve estimates of the reported amounts and assumptions about the probability of events far into the future and estimated amounts are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for the plan are based on types of benefits provided under the current plan. The valuation assumed that 50% of plan participants would elect to continue coverage after retirement. The School District reevaluated its participation rate which was 100% in the previous valuation and determined that 10% of plan participants would elect to continue coverage after retirement.

Funding Policy - The government pays OPEB liabilities on a pay as you go basis. The trust fund for future liabilities has not been established.

Funding status and progress as of July 1, 2015 was as follows:

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

Annual OPEB Cost and Net OPEB Obligations - The government's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the government's net OPEB obligation for the valuation performed at July 1, 2015.

| | |
|---|-------------------|
| Annual Required Contribution (ARC) | \$ 15,668 |
| Interest on net OPEB obligation | 0 |
| Adjustment to ARC | <u>2,692</u> |
| Annual OPEB cost (expense) | 18,360 |
| Contribution made | <u>(8,952)</u> |
| Increase in net OPEB obligation | 9,408 |
| Net OPEB obligation - beginning of year | <u>117,249</u> |
| Net OPEB obligation - end of year | <u>\$ 126,657</u> |

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

| Actuarial Cost Method | Unit Credit Cost Method |
|--|-------------------------|
| Average age of retirement (based on historical data) | 65 |
| Discount rate (average anticipated rate) | 3.74% |
| Average Salary Increase | 3.00% |

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

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

NOTE 11. OTHER COMMITMENTS

11. 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>Elementary Fund</u> | <u>Amount</u> |
|-------------------------|-----------------|
| General* | \$ 6,094 |
| <u>High School Fund</u> | |
| General* | <u>1,196</u> |
| Total | <u>\$ 7,290</u> |

* Denotes Major Funds

NOTE 12. RISK MANAGEMENT

The School District is exposed to various types of risk of loss, including: a) damage to and loss of property and contents; b) employee torts; c) professional liability, i.e. errors and omissions; d) environmental damage; e) workers’ compensation, i.e. employee injuries and f) medical insurance costs of employees. Several methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and contents damage, employee torts, professional liabilities, and employee medical insurance. The School District has joined with other School Districts throughout the state into an interlocal common risk pool to insure workers’ compensation for all participating School Districts in a self-insurance pool. The Workers Compensation Risk Retention Program is managed by a board of directors elected annually. Members are responsible for fully funding the Workers Compensation Risk Retention Program through the payment of annual premiums accessed. There is no other liability to the School District other than timely payments of premiums. The School District can withdraw from the Workers Compensation Risk Retention Program with 60 days’ notice at any time. The School District has no coverage for potential losses from environmental damages. Levels of insurance have not changed materially from the prior year and settlements have not exceeded insurance coverage limits during the current or each of the two previous years.

NOTE 13. 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, 2016

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

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

Investments are reported at fair value. MPERA and TRS adhere to all applicable Governmental Accounting Standards Board (GASB) statements.

13. b. PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS)

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

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

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

13. b. 1. SUMMARY OF BENEFITS

Eligibility for benefit (Service retirement):

Hired prior to July 1, 2011: Age 60, 5 years of membership service; Age 65, regardless of membership service; or any age, 30 years of membership service.

Hired on or after July 1, 2011: Age 65, 5 years of membership service; Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011: Age 50, 5 years of membership service; or any age, 25 years of membership service.

Hired on or after July 1, 2011: Age 55, 5 years of membership service.

Vesting: 5 years of membership service

Member's highest average compensation (HAC):

Hired prior to July 1, 2011: highest average compensation during any consecutive 36 months;

Hired on or after July 1, 2011: highest average compensation 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 highest average compensation.

Monthly benefit formula:

Members hired prior to July 1, 2011: Less than 25 years of membership service 1.785% of HAC per year of service credit; 25 years of membership service or more 2% of HAC per year of service credit.

Members 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; 30 years or more of membership service 2% of HAC per year of service credit.

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

Guaranteed Annual Benefit Adjustment (GABA):

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

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

13. b. 2. OVERVIEW OF CONTRIBUTIONS

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

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 of the PERSDBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.
 - b. Effective July 1, 2013, employers are required to make contributions on working retirees’ compensation. Member contributions for working retirees are not required.
 - c. The portion of employer contributions allocated to the PCR are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
3. Non Employer Contributions:
 - a. Special Funding
 - i. The State contributes 0.1% of members’ compensation on behalf of local government entities.
 - ii. The State contributes 0.37% of members’ compensation on behalf of school district entities.
 - b. Not Special Funding
 - i. The State contributes a portion of Coal Severance Tax income and earnings from the Coal Trust Permanent Trust

| Fiscal Year | Member | | State & Universities Employer | Local Government | | School Districts | |
|-------------|-----------------|-----------------|-------------------------------|------------------|--------|------------------|--------|
| | Hired <07/01/11 | Hired >07/01/11 | | Employer | State | Employer | State |
| 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% |

13. b. 3. ACTUARIAL ASSUMPTIONS

The Total Pension Liability as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2014, with update procedures to roll forward the Total Pension Liability to June 30, 2015. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

| | |
|---|----------|
| General Wage Growth* | 4.00% |
| *includes Inflation at | 3.00% |
| Merit Increases | 0% to 6% |
| Investment Return (net of admin expenses) | 7.75% |
| Admin Expense as % of Payroll | 0.27% |

Postretirement Benefit Increases

3% for members hired prior to July 1, 2007

1.5% for members hired between July 1, 2007 and June 30, 2013

Members hired on or after July 1, 2013:

- 1.5% for each year PERS is funded at or above 90%
 - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%;
and
 - 0% whenever the amortization period for PERS is 40 years or more
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
 - Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

13. b. 4. DISCOUNT RATE

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non- employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

13. b. 5. TARGET ALLOCATIONS

| Asset Class | Target Asset Allocation | Long-Term Expected Real Rate of Return |
|------------------|-------------------------|--|
| Cash Equivalents | 2.00% | -0.25% |
| Domestic Equity | 36.00% | 4.55% |
| Foreign Equity | 18.00% | 6.10% |
| Fixed Income | 24.00% | 1.25% |
| Private Equity | 12.00% | 8.00% |
| Real Estate | 8.00% | 4.25% |

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

13. c. TEACHERS' RETIREMENT SYSTEM (TRS)

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

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

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

13. c. 1. SUMMARY OF BENEFITS

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

- Tier Two uses a 5-year average final compensation (as opposed to 3-year AFC in Tier One)
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One)
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One)
- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation - $1.85\% \times \text{AFC} \times \text{years of creditable service}$ - for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than $1.6667 \times \text{AFC} \times \text{years of creditable service}$)

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

13. c. 2. OVERVIEW OF CONTRIBUTIONS

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

School District and Other Employers

| | Members | Employers | General fund | Total employee and employer |
|-------------------------------|---------|-----------|--------------|-----------------------------|
| Prior to July 1, 2007 | 7.15% | 7.47% | 0.11% | 14.73% |
| July 1, 2007 to June 30, 2009 | 7.15% | 7.47% | 2.11% | 16.73% |
| July 1, 2009 to June 30, 2013 | 7.15% | 7.47% | 2.49% | 17.11% |
| July 1, 2013 to June 30, 2014 | 8.15% | 8.47% | 2.49% | 19.11% |
| July 1, 2014 to June 30, 2015 | 8.15% | 8.57% | 2.49% | 19.21% |
| July 1, 2015 to June 30, 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, 2016

13. c. 3. ACTUARIAL ASSUMPTIONS

The Total Pension Liability as of June 30, 2015, is based on the results of an actuarial valuation date of July 1, 2015. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2015 valuation were based on the results of the last actuarial experience study, dated May 1, 2014. Among those assumptions were the following:

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

Postretirement Benefit Increases

Tier One Members: If the retiree has received benefits for at least 3 years, the retirement allowance will be increased by 1.5% on January 1st.

Tier Two Members, the retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the System to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.

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

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

13. c. 4. DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. In addition to the contributions the State general fund will contribute \$25 million annually to the System payable July 1st of each year. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2119. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

13. c. 5. TARGET ALLOCATIONS

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

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

* 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 4.5%

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

13. 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 above table presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

| | 1.0% Decrease (6.75%) | Current Discount Rate | 1.0% Increase (8.75%) |
|--|--------------------------|--------------------------|--------------------------|
| PERS | | | |
| Net Pension Liability | \$ 2,155,216,222 | \$ 1,397,872,046 | \$ 758,312,456 |
| Employer's proportion of Net Pension Liability | \$ 324,328 | \$ 210,359 | \$ 114,115 |
| TRS | | | |
| Net Pension Liability | \$ 2,257,357,650 | \$ 1,643,005,761 | \$ 1,126,063,873 |
| Employer's proportion of Net Pension Liability | \$ 1,924,795 | \$ 1,400,951 | \$ 960,168 |

13. e. NET PENSION LIABILITY

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

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

The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Tax Severance fund and interest to the PERS. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer.

| PERS | Net Pension Liability | | Percent of | Percent of | Change in |
|---|-----------------------|---------------|---------------------------------|---------------------------------|------------------------------|
| | as of 6/30/16 | as of 6/30/15 | Collective NPL as of 6/30/16 | Collective NPL as of 6/30/15 | Percent of Collective NPL |
| Employer Proportionate Share | \$ 210,359 | \$ 240,427 | 0.015049% | 0.019296% | -0.004247% |
| State of Montana Proportionate Share associated with Employer | 9,885 | 11,239 | 0.000707% | 0.000902% | -0.000195% |
| Total | \$ 220,244 | \$ 251,666 | 0.015756% | 0.020198% | -0.004442% |

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

| TRS | <u>Net Pension Liability</u> | | <u>Percent of</u> | <u>Percent of</u> | <u>Change in</u> |
|---|------------------------------|----------------------|---|---|--|
| | <u>as of 6/30/16</u> | <u>as of 6/30/15</u> | <u>Collective NPL</u> <u>as of 6/30/16</u> | <u>Collective NPL</u> <u>as of 6/30/15</u> | <u>Percent of</u> <u>Collective NPL</u> |
| Employer Proportionate Share | \$ 1,400,951 | \$ 1,283,508 | 0.0853% | 0.0834% | 0.0019% |
| State of Montana Proportionate Share associated with Employer | <u>945,208</u> | <u>881,692</u> | <u>0.0575%</u> | <u>0.0573%</u> | <u>0.0002%</u> |
| Total | <u>\$ 2,346,159</u> | <u>\$ 2,165,200</u> | <u>0.1428%</u> | <u>0.1407%</u> | <u>0.0021%</u> |

At June 30, 2016, the employer recorded a liability of \$210,359 and \$1,400,951 for PERS and TRS, respectively, for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2015. 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 PERS and TRS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERS and TRS participating employers. At June 30, 2016, the employer's proportion was 0.015049 percent and 0.0853 percent for PERS and TRS, respectively.

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

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

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

13. f. PENSION EXPENSE

| | |
|---|----------------------------------|
| PERS | Pension Expense as of 6/30/16 |
| Employer's Proportionate Share | \$ (3,087) |
| State of Montana Proportionate Share associated with the Employer | <u>614</u> |
| Total | <u>\$ (2,473)</u> |
| TRS | Pension Expense as of 6/30/16 |
| Employer's Proportionate Share | \$ 97,448 |
| State of Montana Proportionate Share associated with the Employer | <u>47,749</u> |
| Total | <u>\$ 145,197</u> |

At June 30, 2016, the employer recognized a Pension Expense of \$(2,473) and \$145,197 for its proportionate share of the PERS and TRS Pension Expense, respectively. The employer also recognized grant revenue of \$5,662 and \$47,749 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.

13. g. DEFERRED INFLOWS AND OUTFLOWS

At June 30, 2016, 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, 2016

| | PERS Deferred Outflows of Resources | PERS Deferred Inflows of Resources | TRS Deferred Outflows of Resources | TRS Deferred Inflows of Resources |
|---|---|--|--|---|
| Differences between actual and expected experience | \$ 0 | \$ 1,273 | \$ 14,773 | \$ 0 |
| Changes in assumptions | 0 | 0 | 19,826 | 2,959 |
| Difference between projected and actual earnings on pension plan investments | 0 | 17,809 | 0 | 75,230 |
| Changes in proportion differences between employer contributions and proportionate share of contributions | 89 | 50,379 | 33,393 | 0 |
| Difference between actual and expected contributions | 0 | 0 | 0 | 0 |
| #Contributions paid subsequent to the measurement date - FY 2016 Contributions | \$ 18,878 | \$ 0 | \$ 118,613 | \$ 0 |
| Total | \$ 18,967 | \$ 69,461 | \$ 186,605 | \$ 78,189 |

#Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. 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 Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense | TRS Deferred Outflows of Resources | TRS Deferred Inflows of Resources | TRS Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense |
|---------------------|--|---------------------------------------|--------------------------------------|---|
| 2017 | \$ (24,740) | \$ 31,354 | \$ 32,533 | \$ (1,179) |
| 2018 | \$ (24,740) | \$ 31,359 | \$ 32,533 | \$ (1,174) |
| 2019 | \$ (24,524) | \$ 5,280 | \$ 32,421 | \$ (27,141) |
| 2020 | \$ 4,632 | \$ 19,299 | \$ 0 | \$ 19,299 |
| 2021 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Thereafter | \$ 0 | \$ 0 | \$ 0 | \$ 0 |

13. 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 | \$ 973,884 | \$ 4,563,358 | \$ 5,537,242 |
| Fiduciary Net Position | \$ 763,525 | \$ 3,162,407 | \$ 3,925,932 |
| Net Pension Liability | \$ 210,359 | \$ 1,400,951 | \$ 1,611,310 |
| Deferred Outflows of Resources | \$ 18,967 | \$ 186,605 | \$ 205,572 |
| Deferred Inflows of Resources | \$ 69,461 | \$ 78,189 | \$ 147,650 |
| Pension Expense | \$ (2,473) | \$ 145,197 | \$ 142,724 |

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

NOTE 14. COOPERATIVE

14. 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 Powell 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 15. CONTINGENCIES

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

SHERIDAN SCHOOL DISTRICT NO. 5

SCHEDULE OF FUNDING PROGRESS
 Other Post-Employment Benefits Other Than Pensions (OPEB)
 For the year ended June 30, 2016

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

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
For the year ended June 30, 2016

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- employee payroll (d) | Employer's proportionate share of the net pension liability as a percentage of its covered- employee payroll (a)/(d) | Plan fiduciary net position as a percentage of the total pension liability |
|------------------------|--|--|---|----------------------|--|--|---|
| 2015 | 0.019296% | \$ 240,427 | \$ 11,239 | \$ 251,666 | \$ 225,989 | 106.39% | 79.9% |
| 2016 | 0.015049% | \$ 210,359 | \$ 9,885 | \$ 220,244 | \$ 181,576 | 115.85% | 78.4% |

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- employee payroll (d) | Employer's proportionate share of the net pension liability as a percentage of its covered- employee payroll (a)/(d) | Plan fiduciary net position as a percentage of the total pension liability |
|------------------------|--|--|---|----------------------|--|--|---|
| 2015 | 0.0834% | \$ 1,283,508 | \$ 881,692 | \$ 2,165,200 | \$ 1,088,302 | 117.94% | 70.36% |
| 2016 | 0.0853% | \$ 1,400,951 | \$ 945,208 | \$ 2,346,159 | \$ 1,088,302 | 128.73% | 69.30% |

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
For the year ended June 30, 2016

PUBLIC EMPLOYEES RETIREMENT SYSTEM

| Year ended June 30: | Contractually required contributions (a) | Contributions in relation to the contractually required contributions (b) | Contribution deficiency (excess) (a)-(b)=(c) | Employer's covered- employee payroll (d) | Contributions as a percentage of covered- employee payroll (a)/(d) |
|------------------------|---|--|---|--|---|
| 2015 | \$ 16,146 | \$ 16,146 | \$ 0 | \$ 204,375 | 7.90% |
| 2016 | \$ 18,878 | \$ 18,878 | \$ 0 | \$ 229,149 | 8.238% |

TEACHERS RETIREMENT SYSTEM

| Year ended June 30: | Contractually required contributions (a) | Contributions in relation to the contractually required contributions (b) | Contribution deficiency (excess) (a)-(b)=(c) | Employer's covered- employee payroll (d) | Contributions as a percentage of covered- employee 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% |

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 (Budget and Actual)
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
 For the year ended June 30, 2016

| | General (Elem.) | | | Bus Depreciation (Elem.) | | |
|--|--------------------|-----------------|------------------|--------------------------|------------------|-------------------|
| | Original Budget | Final Budget | Actual | Original Budget | Final Budget | Actual |
| REVENUES: | | | | | | |
| District levies | \$ 328,608 | \$ 328,608 | \$ 330,358 | \$ 42,617 | \$ 42,617 | \$ 42,727 |
| Interest | 129 | 129 | 419 | - | - | 576 |
| Other | - | - | 512 | - | - | - |
| State | 649,930 | 649,930 | 649,929 | - | - | - |
| Total revenues | <u>978,667</u> | <u>978,667</u> | <u>981,218</u> | <u>42,617</u> | <u>42,617</u> | <u>43,303</u> |
| EXPENDITURES: | | | | | | |
| Current: | | | | | | |
| Instructional services | | | 666,980 | | | - |
| Educational media services | | | 15,776 | | | - |
| General administrative services | | | 112,395 | | | - |
| Operation & maintenance services | | | 142,547 | | | - |
| Extracurricular | | | 25,159 | | | - |
| Capital outlay | | | 6,995 | | | - |
| Total expenditures | <u>978,667</u> | <u>978,667</u> | <u>969,852</u> | <u>163,054</u> | <u>163,054</u> | <u>-</u> |
| Excess (deficiency) of revenues over expenditures | <u>-</u> | <u>-</u> | <u>11,366</u> | <u>(120,437)</u> | <u>(120,437)</u> | <u>43,303</u> |
| OTHER FINANCING SOURCES/USES: | | | | | | |
| Fund transfers (out) | | | (2,700) | | | - |
| Total other financial sources/uses | <u>-</u> | <u>-</u> | <u>(2,700)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net changes in fund balances | <u>-</u> | <u>-</u> | <u>8,666</u> | <u>(120,437)</u> | <u>(120,437)</u> | <u>43,303</u> |
| FUND BALANCE: | | | | | | |
| Beginning of the year | | | 80,308 | | | 120,437 |
| Prior period adjustments | | | 50 | | | - |
| End of the year | | | <u>\$ 89,024</u> | | | <u>\$ 163,740</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, 2016

| | Flexibility Fund (Elem.) | | | General (HS) | | |
|--|--------------------------|-----------------|------------------|--------------------|-----------------|------------------|
| | Original Budget | Final Budget | Actual | Original Budget | Final Budget | Actual |
| REVENUES: | | | | | | |
| District levies | \$ - | \$ - | \$ - | \$ 349,359 | \$ 349,359 | \$ 356,062 |
| Interest | - | - | 220 | 171 | 171 | 602 |
| Other | - | - | 5,607 | - | - | - |
| State | 7,749 | 7,749 | 7,749 | 559,389 | 559,389 | 559,389 |
| Total revenues | 7,749 | 7,749 | 13,576 | 908,919 | 908,919 | 916,053 |
| EXPENDITURES: | | | | | | |
| Current: | | | | | | |
| Instructional services | | | - | | | 499,926 |
| Educational media services | | | - | | | 13,450 |
| General administrative services | | | - | | | 117,077 |
| Operation & maintenance services | | | - | | | 163,342 |
| Extracurricular | | | - | | | 111,030 |
| Capital outlay | | | 9,560 | | | 1,000 |
| Total expenditures | 59,244 | 59,244 | 9,560 | 908,919 | 908,919 | 905,825 |
| Excess (deficiency) of revenues over expenditures | (51,495) | (51,495) | 4,016 | - | - | 10,228 |
| OTHER FINANCING SOURCES/USES: | | | | | | |
| Fund transfers (out) | | | - | | | (1,890) |
| Total other financial sources/uses | - | - | - | - | - | (1,890) |
| Net changes in fund balances | (51,495) | (51,495) | 4,016 | - | - | 8,338 |
| FUND BALANCE: | | | | | | |
| Beginning of the year | | | 51,495 | | | 85,392 |
| Prior period adjustments | | | - | | | 19 |
| End of the year | | | \$ 55,511 | | | \$ 93,749 |

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, 2016

| | Bus Depreciation (HS) | | | Flexibility Fund (HS) | | |
|--|-----------------------|------------------|-------------------|-----------------------|-----------------|------------------|
| | Original Budget | Final Budget | Actual | Original Budget | Final Budget | Actual |
| REVENUES: | | | | | | |
| District levies | \$ 34,945 | \$ 34,945 | \$ 36,003 | \$ - | \$ - | \$ - |
| Interest | - | - | 916 | - | - | 248 |
| Other | - | - | - | - | - | 571 |
| State | - | - | - | 12,435 | 12,435 | 12,435 |
| Total revenues | <u>34,945</u> | <u>34,945</u> | <u>36,919</u> | <u>12,435</u> | <u>12,435</u> | <u>13,254</u> |
| EXPENDITURES: | | | | | | |
| Current: | | | | | | |
| Instructional services | | | - | | | - |
| Educational media services | | | - | | | - |
| General administrative services | | | - | | | - |
| Operation & maintenance services | | | - | | | - |
| Extracurricular | | | - | | | - |
| Capital outlay | | | - | | | 9,561 |
| Total expenditures | <u>239,763</u> | <u>239,763</u> | <u>-</u> | <u>72,065</u> | <u>72,065</u> | <u>9,561</u> |
| Excess (deficiency) of revenues over expenditures | <u>(204,818)</u> | <u>(204,818)</u> | <u>36,919</u> | <u>(59,630)</u> | <u>(59,630)</u> | <u>3,693</u> |
| OTHER FINANCING SOURCES/USES: | | | | | | |
| 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>(204,818)</u> | <u>(204,818)</u> | <u>36,919</u> | <u>(59,630)</u> | <u>(59,630)</u> | <u>3,693</u> |
| FUND BALANCE: | | | | | | |
| Beginning of the year | | | 204,817 | | | 59,630 |
| Prior period adjustments | | | - | | | - |
| End of the year | | | <u>\$ 241,736</u> | | | <u>\$ 63,323</u> |

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

SHERIDAN SCHOOL DISTRICT NO. 5

SCHEDULE OF REVENUES, EXPENSES AND BALANCES EXPENDABLE TRUST –
STUDENT ACTIVITY FUNDS
For the year ended June 30, 2016

NOTE 1. BUDGETS

1. a. BUDGETS

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

1. a. 1 GENERAL BUDGET POLICIES:

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

1. a. 2 BUDGET OPERATION:

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

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

NOTE 2. FUND BALANCE RECONCILIATION

The fund balances of the elementary and high school general funds displayed on the Statement of Revenue, Expenditures, and Changes in Fund Balances (GAAP Basis) is differently displayed on the Schedule of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual) by \$6,094 and \$1,196, respectively. This 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

SCHEDULE OF REVENUES, EXPENSES AND BALANCES EXPENDABLE TRUST –
STUDENT ACTIVITY FUNDS (continued)
For the year-ended June 30, 2016

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

| | <u>Sub-fund</u> <u>General</u> <u>Fund</u> <u>(Elem)</u> | <u>Sub-fund</u> <u>General</u> <u>Fund</u> <u>(HS)</u> | <u>Sub-fund</u> <u>Flexibility</u> <u>Fund</u> <u>(Elem)</u> | <u>Sub-fund</u> <u>Flexibility</u> <u>Fund</u> <u>(HS)</u> | <u>Total</u> <u>General</u> <u>Fund</u> |
|--|---|---|---|---|---|
| REVENUES: | | | | | |
| District levies | \$ 330,358 | \$ 356,062 | \$ 0 | \$ 0 | \$ 686,420 |
| Interest earnings | 419 | 602 | 220 | 248 | 1,489 |
| Other | 512 | 0 | 5,607 | 571 | 6,690 |
| State sources | <u>649,929</u> | <u>559,389</u> | <u>7,749</u> | <u>12,435</u> | <u>1,229,502</u> |
| Total revenues | <u>\$ 981,218</u> | <u>\$ 916,053</u> | <u>\$ 13,576</u> | <u>\$ 13,254</u> | <u>\$ 1,924,101</u> |
| EXPENDITURES: | | | | | |
| Instructional services | 673,553 | 519,574 | 0 | 0 | 1,193,127 |
| Educational media | 15,776 | 13,450 | 0 | 0 | 29,226 |
| General administrative | 112,395 | 117,077 | 0 | 0 | 229,472 |
| Operation & maintenance | 142,547 | 143,507 | 0 | 0 | 286,054 |
| Extracurricular | 25,159 | 111,030 | 0 | 0 | 136,189 |
| Capital outlay | <u>6,995</u> | <u>56,049</u> | <u>9,560</u> | <u>9,561</u> | <u>82,165</u> |
| Total expenditures | <u>\$ 976,425</u> | <u>\$ 960,687</u> | <u>\$ 9,560</u> | <u>\$ 9,561</u> | <u>\$ 1,956,233</u> |
| Excess (deficiency) of revenues over expenditures | <u>4,793</u> | <u>(44,634)</u> | <u>4,016</u> | <u>3,693</u> | <u>(32,132)</u> |
| OTHER FINANCING SOURCES/USES: | | | | | |
| Fund transfers (out) | <u>(2,700)</u> | <u>(1,890)</u> | <u>0</u> | <u>0</u> | <u>(4,590)</u> |
| Net changes in fund balances | <u>2,093</u> | <u>(46,524)</u> | <u>4,016</u> | <u>3,693</u> | <u>(36,722)</u> |
| FUND BALANCE: | | | | | |
| Beginning of the Year | 92,975 | 141,450 | 51,495 | 59,630 | 345,550 |
| Prior period adjustment | <u>50</u> | <u>19</u> | <u>0</u> | <u>0</u> | <u>69</u> |
| Ending of the Year (GAAP) | <u>95,118</u> | <u>94,945</u> | <u>55,511</u> | <u>63,323</u> | <u>\$ 308,897</u> |
| Current year encumbrances | <u>6,094</u> | <u>1,196</u> | <u>0</u> | <u>0</u> | |
| Ending of the Year (Budget) | <u>\$ 89,024</u> | <u>\$ 93,749</u> | <u>\$ 55,511</u> | <u>\$ 63,323</u> | |

In the reconciliation the general fund and 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 flexibility fund is maintained as special revenue funds for accounting purposes, however, for external financial reporting they are added to the general fund because they have unassigned fund balance like the general fund.

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

SHERIDAN SCHOOL DISTRICT NO. 5

SCHEDULE OF REVENUES, EXPENSES AND BALANCES EXPENDABLE TRUST –
 STUDENT ACTIVITY FUNDS (continued)
 For the year-ended June 30, 2016

| Activity Account Name | Beginning Balance 7/1/2015 | Revenues | Expenses | Transfers | Ending Balance 6/30/2016 |
|-----------------------|----------------------------------|----------------|----------------|--------------|--------------------------------|
| ABC Booster Club | \$ 1,849 | \$ 1 | \$ 100 | \$ - | \$ 1,750 |
| Activity Tickets | - | 3,743 | 35 | - | 3,708 |
| Ag Ed Projects | 296 | 838 | 763 | - | 371 |
| Annual | 394 | 1,994 | - | - | 2,388 |
| Archery | 2,601 | 1 | 51 | - | 2,551 |
| Athletics Supplies | 1,212 | 2,445 | 2,445 | - | 1,212 |
| Band Trip | 5,153 | 4,619 | 7,003 | 140 | 2,909 |
| BB Camp | 1,803 | 260 | 884 | - | 1,179 |
| Book Fair | 221 | 3,866 | 3,921 | - | 166 |
| Book Fines/Copy Fees | 1,575 | 79 | 9 | (22) | 1,623 |
| Booster Club | 5,059 | - | 5,059 | - | - |
| Boys Basketball | 4,700 | 3,523 | 3,522 | - | 4,701 |
| Business Projects | 146 | - | - | - | 146 |
| Carnival | 205 | 6,813 | 6,770 | (489) | (241) |
| Cheerleaders | 2,141 | 2,375 | 2,375 | - | 2,141 |
| Class of 15 | 6 | - | - | - | 6 |
| Class of 16 | 2,973 | 1 | 3,185 | 152 | (59) |
| Class of 17 | 755 | 737 | 253 | 889 | 2,128 |
| Class of 18 | 622 | 256 | - | 44 | 922 |
| Class of 19 | 674 | - | 105 | 74 | 643 |
| Class of 20 | 1,209 | 98 | 47 | 58 | 1,318 |
| Class of 21 | 2,694 | 397 | 94 | (100) | 2,897 |
| Class of 22 | 1,312 | 2,562 | 1,476 | - | 2,398 |
| Class of 23 | - | 2,428 | 1,503 | - | 925 |
| Close-up | 5,205 | 20,473 | 22,629 | - | 3,049 |
| Concessions | 501 | 4,265 | 2,747 | (2,018) | 1 |
| Cross Country | - | 1,020 | 1,015 | - | 5 |
| Drama | 3,858 | 3,158 | 3,157 | - | 3,859 |
| Elem Field Trips | 1,211 | 401 | - | - | 1,612 |
| Elementary Equipment | 2,488 | 1,229 | 542 | - | 3,175 |
| FCCLA | 22,498 | 22,402 | 20,011 | 1,042 | 25,931 |
| FFA | 14,179 | 23,977 | 17,756 | 34 | 20,434 |
| Football | 6,498 | 11,195 | 11,195 | - | 6,498 |
| Football Camp | 960 | - | 500 | - | 460 |
| Subtotal | <u>94,998</u> | <u>125,156</u> | <u>119,152</u> | <u>(196)</u> | <u>100,806</u> |

SHERIDAN SCHOOL DISTRICT NO. 5

SCHEDULE OF REVENUES, EXPENSES AND BALANCES EXPENDABLE TRUST –
STUDENT ACTIVITY FUNDS (continued)
For the year-ended June 30, 2016

| Activity Account Name | Beginning Balance 7/1/2015 | Revenues | Expenses | Transfers | Ending Balance 6/30/2016 |
|------------------------------|----------------------------------|-------------------|-------------------|-------------|--------------------------------|
| Forensics | \$ 1,885 | \$ 657 | \$ 656 | \$ - | \$ 1,886 |
| Girls' Basketball | 3,872 | 3,741 | 3,741 | - | 3,872 |
| High Sch Equipment | 833 | 28 | 476 | - | 385 |
| Home Ec Projects | 57 | 276 | 301 | - | 32 |
| Honor Society | 947 | 190 | 384 | 33 | 786 |
| Interest Earned - conversion | 288 | - | 288 | - | - |
| Journalism | 2,563 | 1 | - | - | 2,564 |
| Library | 294 | 445 | 417 | 22 | 344 |
| Little Guy Wrestling - remov | 1,469 | - | 1,469 | - | - |
| Locks | 1,056 | 41 | - | - | 1,097 |
| Montana Arts Council | 367 | - | 105 | - | 262 |
| MS High Boys BB | 1,978 | 1,318 | 1,318 | - | 1,978 |
| MS High Football | 889 | 2,650 | 2,650 | - | 889 |
| MS High Girls' BB | 1,794 | 1,071 | 1,071 | - | 1,794 |
| MS High Track | 2,895 | 1,549 | 1,549 | - | 2,895 |
| MS High Volleyball | 1,592 | 956 | 955 | - | 1,593 |
| Music | 2,057 | 1,530 | 1,528 | - | 2,059 |
| Music/Rental | 1,425 | 3,008 | 1,970 | - | 2,463 |
| Pays Program | 954 | 115 | 1,056 | - | 13 |
| Rental Fees | 92 | 23 | - | - | 115 |
| Science Club | 148 | - | - | - | 148 |
| Science Fair | 26 | - | - | - | 26 |
| Spanish Club | - | 6,787 | 5,766 | 141 | 1,162 |
| Student Council | 725 | 921 | 1,342 | - | 304 |
| Student Fees | 3,323 | 8,137 | 5,014 | - | 6,446 |
| Technology Fees | (411) | 2,693 | 2,901 | - | (619) |
| Track | 4,184 | 2,136 | 2,135 | - | 4,185 |
| Trap Shooting | 3,594 | 2 | - | - | 3,596 |
| Volleyball | 2,193 | 5,176 | 5,176 | - | 2,193 |
| Volleyball Camp | 1,454 | 150 | 403 | - | 1,201 |
| Youth Leadership | 385 | - | 245 | - | 140 |
| Subtotal | <u>42,928</u> | <u>43,601</u> | <u>42,916</u> | <u>196</u> | <u>43,809</u> |
| Total | <u>\$ 137,926</u> | <u>\$ 168,757</u> | <u>\$ 162,068</u> | <u>\$ -</u> | <u>\$ 144,615</u> |

SHERIDAN SCHOOL DISTRICT NO. 5

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2016

| | <u>FALL ENROLLMENT –</u> <u>OCTOBER, 2015</u> | | | <u>SPRING ENROLLMENT –</u> <u>FEBRUARY, 2016</u> | | |
|--------------------------|--|----------------|-----------------|---|----------------|-----------------|
| | <u>Reported</u> | <u>Audited</u> | <u>Variance</u> | <u>Reported</u> | <u>Audited</u> | <u>Variance</u> |
| Elementary | | | | | | |
| Kindergarten Full | 20 | 20 | 0 | 20 | 20 | 0 |
| Grade 1 - 6 | 73 | 73 | 0 | 68 | 68 | 0 |
| Grade 7 - 8 | 40 | 40 | 0 | 38 | 38 | 0 |
| Total | <u>133</u> | <u>133</u> | <u>0</u> | <u>126</u> | <u>126</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>50</u> | <u>50</u> | <u>0</u> | <u>47</u> | <u>47</u> | <u>0</u> |
| Part-time Students | | | | | | |
| Less than 181 hours | 0 | 0 | 0 | 1 | 1 | 0 |
| Less than 359 hours | 1 | 1 | 0 | 1 | 1 | 0 |
| Less than 539 hours | 1 | 1 | 0 | 0 | 0 | 0 |
| Less than 719 hours | 0 | 0 | 0 | 1 | 1 | 0 |
| Total Part-time | <u>2</u> | <u>2</u> | <u>0</u> | <u>3</u> | <u>3</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, 2016, and the related notes to the financial statements, which collectively comprise the Sheridan School District No. 5's basic financial statements and have issued our report thereon dated June 8, 2017.

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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies as items 2016-001.

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*.

Sheridan School District No. 5's Response to Findings

The School District's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads "Strom & Associates, P.C." in a cursive style.

STROM & ASSOCIATES, PC
Billings, Montana
June 8, 2017

SHERIDAN SCHOOL DISTRICT NO. 5

SCHEDULE OF FINDINGS AND RESPONSES

For the year ended June 30, 2016

The following is the status of prior year findings and updated for the fiscal year ended June 30, 2016.

Prior year findings/status:

2015-001 UNREPORTED CASH: (repeat from 2014) – not repeated

Current year findings:

2016-001 CAPITAL ASSETS:

Criteria: Generally accepted accounting principles (GAAP) require School Districts to account for their capital assets.

Condition: A tractor and sign purchase were not coded or added to capital assets.

Effect: Capital assets were under reported for fiscal year 2016.

Context: The two purchases total \$41,328.

Cause: The sign was purchase but not actually installed before year end so it was not added. The tractor was purchased at year end and did not get added in the current year.

Recommendation: We recommend the District add capital assets to their schedule in the year they are purchased. If the project is not completed it should be added to construction in progress.

Auditee Response: Capital assets: The District takes your recommendation under advisement, and administration will make a concerted effort to avoid oversights such as this, and will revise current inventory management procedures to more effectively track capital assets.



STROM & ASSOCIATES, P.C.

Certified Public Accountants

3203 3rd Ave N. Suite 208
PO Box 1980
Billings, MT 59103

Phone: 406-252-2765
E-mail: audit@stromcpa.net

June 8, 2017

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

Re: Letter of Transmittal for Audit of FY 2016

We have audited the basic financial statement of Sheridan School District No. 5, and submit our report and other comments as follows: The audit was a Single Audit as required by The Montana Single Audit Act of 1991.

1. DISTRIBUTION OF AUDIT REPORTS:

The reports will be distributed as follows:

Reports submitted to the District

| <u>Copies</u> | <u>Distributed To</u> |
|---------------|------------------------|
| 1 | Clerk |
| 1 | Superintendent |
| 1 | Local Newspaper* |
| <u>1</u> | Public Inspection Copy |
| <u>4</u> | |

* See Paragraph 3 for new advertising requirements.

Reports submitted to other Agencies

| <u>Copies</u> | <u>Distributed To</u> |
|---------------|--|
| 1 | County Superintendent |
| <u>1</u> | MTSBA Attorney |
| <u>2</u> | |
| 1 | Office Public Instruction – electronic |
| 1 | Local Government Services - electronic |

2. GENERAL COMMENTS ABOUT THE AUDIT:

Overall the School District's records and accounting system are in pass with comments. The Clerk/Business Manager and staff should be commended for a job well done.

3. ADVERTISING OF AUDIT REPORTS:

The Montana Single Audit Act (Chapter 489, Laws of 1991) materially revised the responsibilities for publishing local government audit reports. Effective July 1, 1992, each audited School District will be required to send a copy of their annual or biennial audit reports to a newspaper of general circulation in their area. Because of this requirement, we have provided you with an additional copy of the audit report.

In addition, this law requires each audited School District to send to their appropriate newspaper for publication a statement to the effect that the audit report is on file in its entirety, open to public inspection, and that the District will send a copy of the audit report to any interested person upon request.

Publication is required to be done 30 days after you receive the audit report

Please find attached a sample of a letter to your local newspaper requesting the advertisement and a sample of the standard advertisement required for schools.

It was a pleasure working with the District staff and we are looking forward to working with you again next year.

If there are any questions on any matter covered above, please call 252-2765.

Sincerely,

STROM & ASSOCIATES, PC
Billings, Montana
June 8, 2017

SAMPLE LETTER TO NEWSPAPER REGARDING
AUDIT PUBLICATION STATEMENT

June 8, 2017

Name of Newspaper
Address
City, MT 59_____

RE: Audit Report Publication

Section 2-7-521, MCA, requires that the attached Audit Publication Statement be published by a newspaper of general circulation. We consider your newspaper to be a newspaper of general circulation for Sheridan School District No. 5.

Will you please publish the enclosed Audit Publication Statement for the fiscal year ended June 30, 2016? All publications costs as required by statute to be borne by Sheridan School District No. 5, so please bill us for those costs.

Also enclosed for your information, as required by statute, is a complete copy of the audit report. The audit report itself is not required by law to be published. Only the Audit Publication should be published.

Thank you for your cooperation.

Sincerely,

District Clerk

Page enclosed to be published

Billing Address:

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

SAMPLE OF ADVERTISEMENT REQUIRED

AUDIT PUBLICATION STATEMENT

An audit of the affairs of Sheridan School District No. 5, Madison County, Sheridan, Montana 59749, has been conducted by Strom & Associates, PC. The audit covered the fiscal year ended June 30, 2016. The audit also covered the Extracurricular Fund for pupil functions which is included in the financial statements of the District.

Section 2-7-521, MCA, requires that this publication concerning the audit report include a statement that such report is on file in its entirety and open to public inspection at the School Clerk's office, and that the District will send a copy of the audit report to any interested person upon request.

Very truly yours,

AUDIT REPORT TRANSMITTAL FORM

TO: Department of Administration
Local Government Services Bureau
301 South Park Avenue, Room 340
P.O. Box 200547
Helena, MT 59620-0547

FROM: _____ STROM & ASSOCIATES, PC _____
(Name of CPA Firm)

Billings, Montana
(Location)

We have included 3 copies of the audit report with this transmittal.

Entity audited: _____ Sheridan School District No. 5 _____

Fiscal year(s) covered by audit: _____ June 30, 2016 _____

Actual hours involved in conducting audit: _____ 105 _____

Total audit fee billed to entity: \$ _____ 6,200 _____

Opinion date of audit report: _____ June 8, 2017 _____

Date exit review conference held: _____ 3/3/17 _____

Date **final** audit report delivered to entity: _____ June 8, 2017 _____

This audit **WAS NOT** performed in accordance with Uniform Guidance.

Check any of the following that apply:

- No audit findings** are presented in this audit report.
- Audit findings, **along with the entity's response**, are presented in this audit report.
- Audit findings are presented in this audit report, but the **entity's response is NOT included**.
- A **management letter** with (additional) audit findings has been issued in conjunction with this audit. **We have enclosed 3 copies of this management letter with copies of the audit report.**

The **entity's response** to any findings in the management letter **IS / IS NOT** (circle one) included with this transmittal.