



Independent Auditor's Report
& Financial Statements

Shepherd Public School District No. 37

Yellowstone County
Shepherd, Montana
June 30, 2014

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June 30, 2014

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ORGANIZATION – BOARD OF TRUSTEES AND OFFICIALS

June 30, 2014

BOARD OF TRUSTEES

Kirk Brumfield	Chairman
Jamie Mertz	Vice-Chairman
Jason Buyse	Trustee
Russell Curry	Trustee
Julie Hinkle	Trustee
Carl Openshaw	Trustee
Carl Parker	Trustee

OFFICIALS

Dan Jamieson	District Superintendent
Janice Ripley	District Clerk
Scott Twito	County Attorney
Max Lenington	County Superintendent of Schools
Max Lenington	County Treasurer

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

The Superintendent and Business Manager/Clerk of Shepherd School District #37 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 fiscal year ended June 30, 2014. Certain comparative information between the current and prior year is required to be presented in the Management's Discussion and Analysis (MD&A).

USING THIS FINANCIAL REPORT

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

Fund financial statements present a short-term view of the District activities. They include only current assets expected to be collected in the very near future and liabilities that are expected in the very near future. Generally accepted accounting principles require that only major funds be separately reported in these financial statements. These statements provide detailed information about the District's general, elementary bus depreciation, high school bus depreciation, high school retirement, and elementary Interlocal agreement funds, which qualify as major funds.

Statement No. 34 of the Governmental Accounting Standards Board (GASB) requires the general format of this report. Components and purposes of the report are explained below.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

The fund statements provide detailed information about the funds used by the school district. State law and Generally Accepted Accounting Principles (GAAP) establish the fund structure of school districts. State law generally requires school districts to segregate money generated for certain specific purposes, like transportation and debt service, in separate fund accounts.

The fund statements report balances and activities of the most significant, or "major" funds separately and combine the activities of less significant funds under a single category. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the school district's operations, and the existence of legal budget requirements. Internal Service funds are never reported as major funds, but are combined and presented in a separate column.

The Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance are shown for governmental funds, such as the general fund and special revenue funds for bus depreciation, retirement, and interlocal activities. These funds use the modified accrual basis of accounting and represent the majority of the district's activities and programs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund statements include a reconciliation of the governmental fund statements to the district-wide statements. Most significant differences result from the use of different presentation bases. The district-wide statements are presented using the accrual basis of accounting and the fund statements for governmental funds use the modified accrual basis. In addition, capital assets and long-term debt are reported in the district-wide statements but not in the fund statements.

REPORTING THE DISTRICT'S TRUST AND FIDUCIARY RESPONSIBILITIES

The district is the trustee, or fiduciary, for the student extracurricular fund. This report includes the activities in a separate Statement of Fiduciary Net Position and Changes in Fiduciary Net Position. The district is responsible for ensuring these assets are used for their intended purpose.

BUDGET –TO-ACTUAL COMPARISONS

The budgetary comparison schedule shows how actual expenditures compared to the original and final budgeted expenditures for the general, elementary bus depreciation, high school bus depreciation and high school retirement funds.

THE DISTRICT AS A WHOLE

One important question asked about school district finances is, "Is the District, as a whole, in a better or worse financial position as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the district as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the basis of accounting used by most private-sector companies.

The change in net position over time is one indicator of whether the District's financial health is improving or deteriorating. However, there are other non-financial factors that influence the financial health of the school district, such as enrollment changes, changes in how the State of Montana funds educational costs, and changes in the tax base of the school district.

This report includes two district-wide statements that focus on operations of the district as a whole. These statements measure inputs and outflows using an economic resources measurement focus, and use the accrual basis of accounting. Activities that are fiduciary in nature are not included in these statements.

A. The Statement of Net Position shows the assets, liabilities, and the net assets of the school district. The statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes of reserved for emergencies and cash flow purposes. Some assets are invested in fixed or capital assets, such as buildings, equipment and other long-lived property; and some assets are available to fund budgets of the following year. Assets exceed liabilities by \$7,559,141. Capital assets and restricted net position comprise 96% of total net assets at the end of the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

B. The Statement of Activities shows the amounts of program specific and general school district revenues used to support the various functions of the school district. General revenues from property taxes, federal and state aid and other general sources represent 74% of total revenue.

Shepherd School District #37 is reported under the category of Governmental Activities: These funds provide a short-term view of the district's operations. Basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other short-term assets and liabilities (receivables and payables) that can readily be converted to cash or will soon be paid with cash. The governmental fund statements provide a detailed short-term view of the general government operations and the basic services it provides.

CONDENSED STATEMENT OF NET POSITION

	<u>2014</u>	<u>2013</u>
<u>Net Position:</u>		
Current assets	3,793,823	3,472,402
Capital assets - net	4,800,119	4,705,359
Total assets	<u>8,593,942</u>	<u>8,177,761</u>
Current liabilities	149,271	133,348
Non-current liabilities	885,530	962,304
Total liabilities	<u>1,034,801</u>	<u>1,095,652</u>
Net position:		
Net investment in capital assets	4,055,119	3,865,359
Restricted for:		
Compensated absences	27,668	27,668
Other fund activities	2,530,139	1,130,068
Capital projects	223,482	303,049
Debt service	390,970	323,051
Unrestricted	331,763	1,432,914
Total net position	<u><u>7,559,141</u></u>	<u><u>7,082,109</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

CHANGES IN NET POSITION

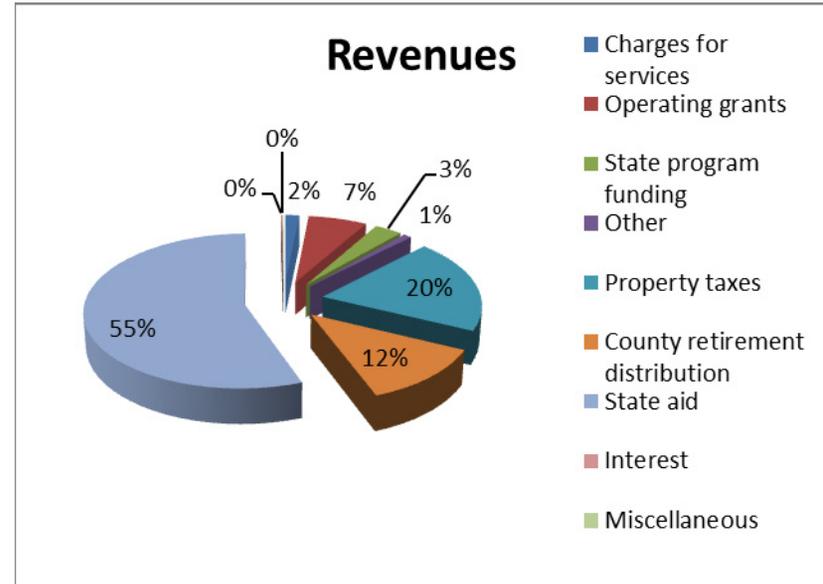
Revenues:

Program revenues:

	2014	2013
Charges for services	130,383	120,766
Operating grants	543,865	505,257
State program funding	254,834	254,859
Other	76,604	79,243
Total program revenues	1,005,686	960,125

General revenues:

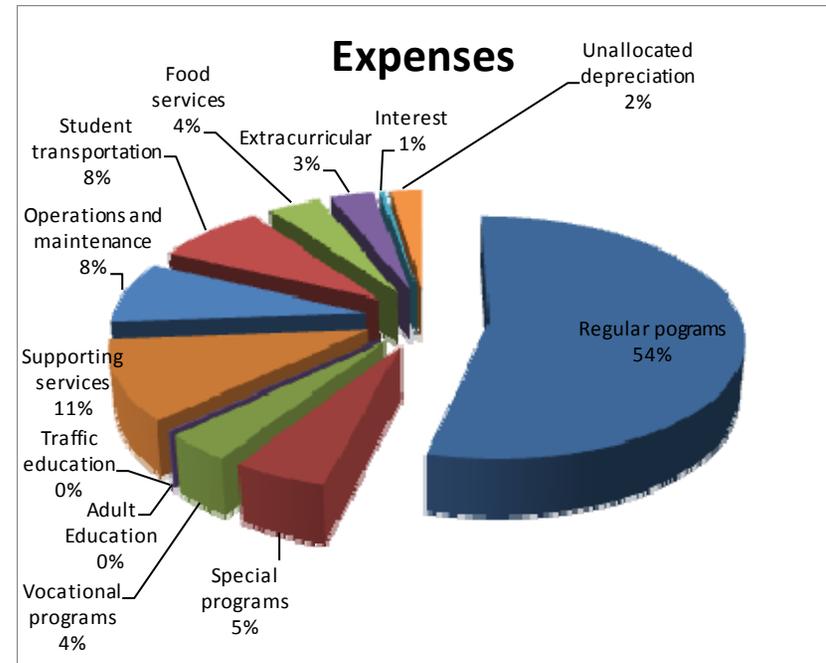
Property taxes	1,612,671	1,704,375
County retirement distribution	987,805	603,343
State aid	4,518,390	4,493,564
Interest	12,528	11,778
Miscellaneous	7,909	8,863
Special Items	48,889	0
Total general revenues	7,188,192	6,821,923
Total Revenues	8,193,878	7,782,048



MANAGEMENT'S DISCUSSION AND ANALYSIS

Expenses:

	2014	2013
Regular programs	4,162,753	3,988,679
Special programs	404,083	474,070
Vocational programs	286,938	317,328
Adult Education	12,086	12,072
Traffic education	0	18,955
Supporting services	825,334	776,196
Operations and maintenance	640,317	655,126
Student transportation	624,320	640,479
Food services	298,530	312,941
Extracurricular	247,703	224,064
Interest	31,025	33,875
Debt issuance cost	900	900
Unallocated depreciation	182,857	161,814
Total expenses	7,716,846	7,616,499



The districts total revenues for the fiscal year ended June 30, 2014 were \$8.194 million, while in 2013 they were \$7.782 million. The total cost of all programs and services was \$7.717 million for 2014, which generated an increase in net position of \$477,032. District taxpayers paid approximately \$1.613 million of the \$8.194 million in revenues. The remainder was financed through charges for services, operating grants and contributions, other state revenues and investment earnings.

SPENDING LEVELS COMPARED TO RESOURCE LEVELS

The financial position of the school district has increased over fiscal year 2014. This is substantiated by an overall increase in net assets of \$477,032 as compared to \$165,549 in 2013.

Shepherd School District did not pass either an elementary and high general fund levy.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ANALYSIS OF FINANCIAL INFORMATION

The government funds provide a short-term view of the District's operations. They are reported using an accounting method called modified accrual accounting which measures amounts using only cash and other short-term assets and liabilities (receivables and payables) that will soon be converted to cash or will soon be paid with cash. Only the general, transportation, bus depreciation, technology, and debt service funds are required to have budgets.

Most funds saw a decrease in their expenses this past year. Most of this is due to the decrease in staffing that we have incurred the past year to keep costs down to match the funds provided by the State and Federal Governments.

CAPITAL ASSETS

As of June 30, 2014, the District had invested about \$9,105,180 in capital assets including land, buildings, and machinery and equipment. This represents a net increase of \$363,870 prior to depreciation. The following schedule presents net capital assets of depreciation for the fiscal years ended June 30, 2014.

	<u>2014</u>	<u>2013</u>
Land	267,436	267,436
Land improvements	264,952	264,952
Buildings and improvements	6,405,834	6,053,313
Machinery and equipment	2,157,183	2,145,834
Construction in progress	9,776	0
Total	<u><u>9,105,181</u></u>	<u><u>8,731,535</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

DEBT ADMINISTRATION

The District's only significant change in long-term debt was the principal payments on its general obligation bonds.

On June 30, 2014, the District had \$745,000 in general obligation bonds and other long-term debt outstanding. On June 30, 2013, the District had \$840,000 in general obligation bonds and other long-term debt outstanding. On June 30, 2014, the District had \$282,976 obligated in compensated absences. A summary of both the elementary and District's outstanding long-term debts for the year ended June 30, 2014 are presented below:

	<u>2014</u>	<u>2013</u>
General obligation bonds	745,000	840,000
Compensated absences	<u>282,976</u>	<u>255,652</u>
Total	<u><u>1,027,976</u></u>	<u><u>1,095,652</u></u>

Shepherd School District #37 maintains an "A" rating from "Standard and Poor's" for general obligation debt.

THE DISTRICT'S FUTURE

The following will be major factors in the future of the District:

A major funding factor will be the consistency of our student population numbers. Any drop in enrollment will reflect a proportionate drop in State funding to Shepherd Schools. Although Shepherd Schools had not seen the student decline of most schools in Montana, this coming year we are expecting to see an increase in the high school that will cause an increase in State funding to the general fund. We also run the possibility of having growth take place in the next few years as the many developments within the district start to mature and fill with homes. This would require upgrades to all our facilities to accommodate the growth if it were to occur. The District has completed a long-range facility plan with the desire to run a bond issue to upgrade and remodel all of the district schools.

The district does have a long-range funding plan for technology replacement and intends to fund all technology needs. The District will be implementing a plan to introduce Professional Learning Communities to assist in the continual evaluation and refinement of our instructional plans. The District is implementing curriculum standards for all curricular areas as well as developing assessments for each of the curriculums. Staff will continue to work together to improve student learning.

CONTACT FOR ADDITIONAL INFORMATION

If you have questions about this report or need additional information, contact the Business Manager/Clerk at Shepherd School District #37, 7842 Shepherd Road, Shepherd, Montana 59079, 406-373-5461.



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INDEPENDENT AUDITOR'S REPORT

December 19, 2014

Board of Trustees
Shepherd Public School District No. 37
Yellowstone County
Shepherd, Montana

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 Shepherd Public School District No. 37, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Shepherd Public School District No. 37's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Shepherd Public School District No. 37's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Shepherd Public School District No. 37, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 inquiries 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 Shepherd Public School District No. 37's basic financial statements. The extracurricular fund – schedule of cash receipts, disbursements, transfers and changes in net position, schedule of reported enrollment and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The extracurricular fund – schedule of cash receipts, disbursements, transfers and changes in net position, schedule of reported enrollment, and schedule of expenditures of federal awards are the responsibility of management and were derived from and relates 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 extracurricular fund – schedule of cash receipts, disbursements, transfers and changes in net position, schedule of reported enrollment, and schedule of expenditures of federal awards 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 December 19, 2014 on our consideration of Shepherd Public School District No. 37's 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 Shepherd Public School District No. 37 's internal control over financial reporting and compliance.

Galusha, Higgins & Galusha, PC

GALUSHA, HIGGINS & GALUSHA PC
Billings, Montana

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements:

STATEMENT OF NET POSITION

June 30, 2014

ASSETS:	
Cash and Equivalents	3,739,405
Taxes Receivable	46,941
Due from Other Governments	7,477
Capital Assets:	
Land	267,436
Construction in Progress	9,775
Other Capital Assets, net of depreciation	4,522,908
Total Capital Assets	<u>4,800,119</u>
Total Assets	<u>8,593,942</u>
LIABILITIES:	
Accounts payable and accrued expenses	6,825
Long-term liabilities:	
Due within one year:	
Bonds	100,000
Compensated absences	42,446
Due in more than one year:	
Bonds	645,000
Compensated absences	240,530
Total liabilities	<u>1,034,801</u>
NET POSITION:	
Net investment in capital assets	4,055,119
Restricted for:	
Compensated absences	27,668
Other fund activities	2,530,139
Capital projects	223,482
Debt Service	390,970
Unrestricted	331,763
Total net position	<u>7,559,141</u>

The accompanying notes are an integral part of these financial statements.

BASIC FINANCIAL STATEMENTS

STATEMENT OF ACTIVITIES

June 30, 2014

	Expenses	Program Revenue		Net (Expense) Revenue
		Charges for Services	Operating Grants	
Primary government				
Instruction:				
Regular Programs	4,162,753	3,600	384,323	(3,774,830)
Special Programs	404,083	0	162,003	(242,080)
Vocational Programs	286,938	0	0	(286,938)
Adult Education	12,086	1,235	0	(10,851)
Traffic Education	0	13,400	6,903	20,303
Supporting Services	825,334	0	0	(825,334)
Operations & Maintenance	640,317	0	0	(640,317)
Student Transportation	624,320	0	161,566	(462,754)
Food Services	298,530	112,148	160,508	(25,874)
Extracurricular	247,703	0	0	(247,703)
Interest on Long-term debt	31,025	0	0	(31,025)
Debt issuance cost	900	0	0	(900)
Unallocated Depreciation	182,857	0	0	(182,857)
Total governmental activities	<u>7,716,846</u>	<u>130,383</u>	<u>875,303</u>	<u>(6,711,160)</u>
General revenues:				
Property taxes				1,612,671
County Retirement Distribution				987,805
State Aid				4,518,390
Interest				12,528
Miscellaneous				7,909
Special items:				
Insurance proceeds on impaired asset				108,800
Loss on impaired asset				(59,911)
Total general revenues				<u>7,188,192</u>
Change in net assets				477,032
Net position - beginning				<u>7,082,109</u>
Net position - ending				<u><u>7,559,141</u></u>

The accompanying notes are an integral part of these financial statements.

BASIC FINANCIAL STATEMENTS

Fund Financial Statements

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2014

	<u>General Fund</u>	<u>Elementary Bus Depreciation</u>	<u>High School Bus Depreciation</u>	<u>Elementary Interlocal Agreement</u>	<u>High School Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS							
Cash and cash equivalents	591,012	421,564	418,075	660,031	406,697	1,242,026	3,739,405
Taxes receivable	23,727	4,307	4,177	0	0	14,730	46,941
Due from other governments	0	0	0	0	0	7,477	7,477
Total assets	<u>614,739</u>	<u>425,871</u>	<u>422,252</u>	<u>660,031</u>	<u>406,697</u>	<u>1,264,233</u>	<u>3,793,823</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES							
Liabilities:							
Accounts payable	0	0	0	6,825	0	0	6,825
Total liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,825</u>	<u>0</u>	<u>0</u>	<u>6,825</u>
Deferred inflows of resources:							
Unavailable tax revenues	23,727	4,307	4,177	0	0	14,730	46,941
Total deferred inflows of resources	<u>23,727</u>	<u>4,307</u>	<u>4,177</u>	<u>0</u>	<u>0</u>	<u>14,730</u>	<u>46,941</u>
Fund balances:							
Restricted for:							
Compensated absences	0	0	0	0	0	27,668	27,668
Other fund activities	0	267,441	263,952	653,206	406,697	592,928	2,184,224
Capital projects funds	0	0	0	0	0	223,482	223,482
Debt service funds	0	0	0	0	0	387,839	387,839
Assigned for:							
Encumbrances	32,866	154,123	154,123	0	0	17,586	358,698
Unassigned	558,146	0	0	0	0	0	558,146
Total fund balances	<u>591,012</u>	<u>421,564</u>	<u>418,075</u>	<u>653,206</u>	<u>406,697</u>	<u>1,249,503</u>	<u>3,740,057</u>
Total liabilities, deferred inflows of resources and fund balances	<u>614,739</u>	<u>425,871</u>	<u>422,252</u>	<u>660,031</u>	<u>406,697</u>	<u>1,264,233</u>	<u>3,793,823</u>

The accompanying notes are an integral part of these financial statements.

BASIC FINANCIAL STATEMENTS

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

June 30, 2014

Total fund balance, governmental funds	3,740,057
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	4,800,119
Property taxes receivable that are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	46,941
Some liabilities, (such as Compensated Absences and Bonds Payable), not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.	(1,027,976)
Net Position of Governmental Activities in the Statement of Net Position	<u><u>7,559,141</u></u>

The accompanying notes are an integral part of these financial statements.

BASIC FINANCIAL STATEMENTS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

For the Year Ended June 30, 2014

	General	Elementary Bus Depreciation	High School Bus Depreciation	Elementary Interlocal Agreement	High School Retirement	Other Governmental Funds	Total Governmental Funds
REVENUES							
Property Taxes for General Purposes	1,019,096	149,815	146,558	0	0	523,562	1,839,031
Tuition	3,600	0	0	0	0	14,635	18,235
Intergovernmental:							
County	0	0	0	0	542,508	521,902	1,064,410
State	4,299,161	0	0	0	0	474,064	4,773,225
Federal	0	0	0	0	0	543,865	543,865
Interest on Investments	3,962	2,080	1,872	0	1,107	3,505	12,526
Food Services	0	0	0	0	0	112,148	112,148
Other	0	0	0	0	0	7,909	7,909
Total revenues	<u>5,325,819</u>	<u>151,895</u>	<u>148,430</u>	<u>0</u>	<u>543,615</u>	<u>2,201,590</u>	<u>8,371,349</u>
EXPENDITURES							
Current:							
Instruction	3,480,159	0	0	0	209,990	1,155,499	4,845,648
Supporting Services	719,134	0	0	0	36,163	56,376	811,673
Operations and Maintenance	567,090	0	0	0	20,472	28,186	615,748
Student Transportation	0	0	0	0	16,211	455,454	471,665
Food Services	12,534	0	0	0	46	285,949	298,529
Extracurricular	223,270	0	0	0	19,528	4,120	246,918
Capital Outlay	151,793	57,041	57,041	64,740	0	191,468	522,083
Debt Service	0	0	0	0	0	126,925	126,925
Total Expenditures	<u>5,153,980</u>	<u>57,041</u>	<u>57,041</u>	<u>64,740</u>	<u>302,410</u>	<u>2,303,977</u>	<u>7,939,189</u>
Excess (deficiency) of revenues over expenditures	<u>171,839</u>	<u>94,854</u>	<u>91,389</u>	<u>(64,740)</u>	<u>241,205</u>	<u>(102,387)</u>	<u>432,160</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	0	0	0	316,000	0	90,000	406,000
Transfers out	(160,000)	(81,000)	(45,000)	0	0	(120,000)	(406,000)
Total other financing sources and uses	<u>(160,000)</u>	<u>(81,000)</u>	<u>(45,000)</u>	<u>316,000</u>	<u>0</u>	<u>(30,000)</u>	<u>0</u>
SPECIAL ITEM							
Compensation for loss of asset	<u>0</u>	<u>54,400</u>	<u>54,400</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>108,800</u>
Net change in fund balances	11,839	68,254	100,789	251,260	241,205	(132,387)	540,960
Fund balances - beginning	579,173	353,310	317,286	401,946	165,492	1,381,890	3,199,097
Fund balances - ending	<u>591,012</u>	<u>421,564</u>	<u>418,075</u>	<u>653,206</u>	<u>406,697</u>	<u>1,249,503</u>	<u>3,740,057</u>

The accompanying notes are an integral part of these financial statements.

BASIC FINANCIAL STATEMENTS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds:	540,960
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.	(367,412)
Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the cost of the asset lost	(59,911)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.	(226,364)
Statement of activities report expenses that the governmental funds do not and are not reported as expenditures in the governmental funds:	
Compensated absences expense	(27,324)
Governmental funds report expenses that the statement of activities do not and are not reported as expenditures in statement of activities:	
Capital outlays	522,083
Principal payments on debt	95,000
Change in net position of governmental activities	<u><u>477,032</u></u>

The accompanying notes are an integral part of these financial statements.

BASIC FINANCIAL STATEMENTS

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

For the Year Ended June 30, 2014

	<u>Private Purpose Trust</u>	
	<u>EXTRACURRICULAR</u>	<u>SCHOLARSHIPS</u>
ASSETS		
Cash	77,990	20,341
Total assets	<u>77,990</u>	<u>20,341</u>
NET POSITION		
Held in trust for student activities	77,990	0
Reserved for scholarships	0	20,341
Total net position	<u>77,990</u>	<u>20,341</u>
CHANGE IN FIDUCIARY NET POSITION		
ADDITIONS		
Revenue from student activities	256,425	0
Contributions	0	2,650
Interest	128	0
Total additions	<u>256,553</u>	<u>2,650</u>
DEDUCTIONS		
Expenses for student activities	265,986	0
Scholarships	0	4,250
Total deductions	<u>265,986</u>	<u>4,250</u>
Change in net position	(9,433)	(1,600)
Net position - beginning	<u>87,423</u>	<u>21,941</u>
Net position - ending	<u>77,990</u>	<u>20,341</u>

The accompanying notes are an integral part of these financial statements.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

Note A Description of the School District and Reporting Entity

1 Reporting Entity

Shepherd Public School District No. 37 was established under Montana law to provide educational services below the college and university level to residents of the District. The District actually consists of two separate legal entities, High School and Elementary districts. Accounting records of both districts must be maintained separately per State Law because of differences in funding and tax base. Yet, both are managed by one central Board of Trustees elected by the citizens, and by a central administration appointed by and responsible to the Board.

The criteria for including organizations within the District's reporting entity are set forth in Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity." This statement defines the financial reporting entity as the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the District. The District has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a component unit in the District's financial statements. In addition, the District is not aware of any entity that would exercise such financial accountability that would result in the District being considered a component unit of the entity.

Yellowstone County provides substantial services to the District; tax billings, cash collections, debt payments and warrant redemption all flow through the office of the County Treasurer. This office also maintains the District's cash and invests funds at the direction of the District. The County Commissioners have the legal obligation to set levy amounts to finance the budget of the District, as directed by the Board of Trustees. Despite the degree of services rendered, the District has determined that neither Yellowstone County nor any other outside agency meets the criteria set forth in the preceding paragraph and therefore, no other agency has been included as a component unit of the District's financial statements.

The District functions in a fiduciary capacity relating to the Student Extracurricular Funds and the High School Scholarship Fund.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS CONTINUED

For the Year Ended June 30, 2014

Note B Summary of Significant Accounting Policies

The financial statements of Shepherd Public School District No. 37 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District's significant accounting policies are described below:

1. Basis of Presentation

a. Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities show information about the overall financial position and activities of the District with the exception of the extracurricular and scholarship funds. The extracurricular fund, which accounts for the extracurricular activities of the District's students, is reported as a private purpose trust fund in the statement of fiduciary net position and changes in fiduciary net position. The scholarship fund which accounts for amounts contributed and disbursed for student scholarships is reported in the same statement.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to students or the public who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues.

b. Fund Financial Statements

The District uses funds to report on its financial position and results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate 'fund types.'

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category) for the determination of major funds.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS CONTINUED

For the Year Ended June 30, 2014

2 Governmental Funds

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It accounts for resources traditionally associated with government operations which are not required to be accounted for in another fund. The District maintains the General Fund to account for most of the instructional and administrative aspects of the District's operations and to account for repair and maintenance of District property.

Elementary Bus Depreciation – The bus depreciation fund is used for the purpose of financing the replacement of buses and two-way radio equipment owned by the district. The fund may be used to replace route buses or athletic/activities buses and to purchase additional yellow school buses for routes. However, the Bus Depreciation Fund may not be used to purchase additional athletics/activities buses.

High School Bus Depreciation – The bus depreciation fund is used for the purpose of financing the replacement of buses and two-way radio equipment owned by the district. The fund may be used to replace route buses or athletic/activities buses and to purchase additional yellow school buses for routes. However, the Bus Depreciation Fund may not be used to purchase additional athletics/activities buses.

Elementary Interlocal Agreement Fund – The Interlocal Agreement Fund is authorized by Sections 20-7-457, 20-9-511, 20-7-801, and 20-9-701, MCA, for the purpose of accounting for revenues and expenditures related to an interlocal agreement between Shepherd Elementary and High School districts.

High School Retirement Fund – The retirement fund is authorized by Section 20-9-501, MCA, for the purpose of financing the employer's contributions to the Teachers Retirement System (TRS), the Public Employees' Retirement System (PERS), Unemployment Compensation, Social Security and Medicare. Funded by a countywide levy for retirement.

3 Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee capacity for others and are therefore not available to support District programs. The reporting focus is on net position and changes in net position and are reported using generally accepted accounting principles similar to business in the private sector.

The District's fiduciary funds are presented in the statement of fiduciary net position and statement of changes in fiduciary net position by type (private purpose and agency). Because by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide financial statements.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS CONTINUED

For the Year Ended June 30, 2014

4 Basis of Accounting and Measurement Focus

a. Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. 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 as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

b. Fund Financial Statements

Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The District recognizes property taxes as a receivable at the time an enforceable legal claim is established and considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Those revenues susceptible to accrual are property taxes, special assessments, grants, interest revenue, and charges for services. Capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The District reports unavailable revenues as deferred inflows of resources and advances from grantors as a liability on its balance sheet - governmental funds. Unavailable revenues arise when potential revenue does not meet both the 'measurable' and 'available' criteria for recognition in the current period. Unavailable revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to resources, the deferred inflow of resources for unavailable revenue and liability for advances from grantors are removed from the balance sheet and revenue is recognized. Unavailable revenues are not reflected in the government-wide Statement of Net Position as these amounts are recognized under the accrual basis of accounting. Advances from grantors are reflected as a liability on the government-wide Statement of Net Position.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS CONTINUED

For the Year Ended June 30, 2014

5 Cash and Investments

Cash resources of the District for all funds other than the Extracurricular Fund, are combined with cash resources of other school districts within Yellowstone County to form a pool of cash and cash equivalents that is managed by the Yellowstone County Treasurer. Investments of the pooled cash consist primarily of certificates of deposit and repurchase agreements and are carried at cost, which approximates fair value. Among the instruments which state statutes authorize the District to invest in are direct obligations of the United States government; in savings or time deposits in a state or national bank, building or loan association, savings and loan association, or credit union insured by the FDIC, FSLIC, or NCUA located in the state; in a repurchase agreement or Montana short-term investment pool. Interest income received as a result of pooling is distributed to the appropriate district utilizing a formula based on the respective district's previous month's ending balance of cash and cash equivalents. The County Treasurer then distributes interest income to each fund utilizing a formula based on the fund's previous month's ending balance cash and cash equivalents.

The District issues warrants in payment of its obligations. When the warrants are presented to the County Treasurer, the District's cash balance is reduced to pay the warrant. The cash and warrants payable for the payroll and claims clearing agency funds are netted for reporting purposes.

The cash and warrants payable in the payroll and claims clearing accounts are as follows:

	<u>Payroll Clearing</u>	<u>Claims Clearing</u>
Cash	<u>186,794</u>	<u>26,111</u>
Warrants payable	<u>186,794</u>	<u>26,111</u>

Information regarding the collateral and security for cash and cash equivalents is not available to the District. Montana state statute requires that collateral to secure deposits of public funds be held in direct obligations of the United States government or its agencies.

Extracurricular Fund cash of \$82,416 at June 30, 2014 is held at First Interstate Bank. The account is insured by the FDIC up to \$250,000.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS CONTINUED

For the Year Ended June 30, 2014

6 Capital Assets

Capital assets, including land, buildings, improvements, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an initial useful life of one year or more. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Buildings, improvements, and equipment are depreciated using the straight-line depreciation method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15-50 Years
Buildings and Building Improvements	15-50 Years
Machinery and Equipment	5-20 Years

7 Compensated Absences

All full-time District employees accumulate vacation and/or sick leave hours for later use or for payment upon termination, death or retirement. Vacation and sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the District will compensate the employees for the benefits through paid time off or some other means. The compensated absence liability fund is used to pay the accumulated vacation and/or sick leave of a non-teaching employee upon termination, death or retirement. Such reserve may not exceed 30% of the District's recorded liability for accumulated sick leave and 30% of accumulated vacation leave for non-teaching or administrative employees.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS CONTINUED

For the Year Ended June 30, 2014

8 Deferred Inflows of Resources

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

9 Fund Balances

The Governmental Accounting Standards Board (GASB) has issued Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*, requires the fund balance amounts to be reported within one of the fund balance categories listed below.

Nonspendable - Amounts that cannot be spent because they are either (1) not in spendable form (e.g. inventories and prepaid amounts) or (2) legally or contractually required to be maintained intact (e.g. the corpus or principal of a permanent fund).

Restricted – Amounts that can be spent only for a specific purpose pursuant to state law, enabling legislation, grant agreement, or donor agreement.

Committed – Amounts that can be used only for specific purposes determined by a formal action of the School District's Board of Trustees (the District's highest level of decision making authority).

Assigned – Amounts that are intended to be used by the government for specific purposes under the direction of the District Clerk by authority granted by the Board of Trustees.

Unassigned – The residual classification for the government's general fund that includes all amounts that are not contained in the other classifications.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS CONTINUED

For the Year Ended June 30, 2014

It is the District's policy that for purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance.

Encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. All encumbrances are classified as Assigned fund balance. At June 30, 2014, \$32,866, \$154,123, \$154,123 and \$17,586 was assigned for encumbrances in the General, Elementary Bus Depreciation, High School Bus Depreciation and remaining aggregate non-major funds, respectively.

10 Net Position

Net position represents the residual of assets plus deferred outflows less liabilities and deferred inflows. Net investment in capital assets represents net position in the form of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

11 Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

12 Date of Management Review

Management has evaluated the activities and transactions subsequent to June 30, 2014 to determine the need for any adjustments to and/or disclosure within the audited financial statements for the year ended June 30, 2014. Management has performed this evaluation through December 19, 2014, the date the financial statements were available to be issued.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS CONTINUED

For the Year Ended June 30, 2014

Note C Property Taxes

Property taxes are collected by Yellowstone County who remits to the District their respective share of the collections. The 2013 property tax levy, which was perfected and became a receivable in October 2013, was levied to finance District operations during the year ended June 30, 2014. The tax levy was collectible in November 2013 and May 2014. As of May 31, 2014, uncollected property taxes became delinquent. Property taxes are attached as an enforceable lien on the underlying property. After a period of three years, Yellowstone County, the collecting agent, may begin foreclosure proceedings and sell the property at auction. The District receives its share of the sale proceeds from Yellowstone County.

All property taxes are recognized in compliance with GASB Interpretation “Property Tax Revenue Recognition in Government Funds” which states that such revenue is recorded when it becomes measurable and available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS CONTINUED

For the Year Ended June 30, 2014

Note D Capital Assets

A summary of changes in capital assets for the year ended June 30, 2014 is as follows:

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>
CAPITAL ASSETS BEING DEPRECIATED AT COST:				
Land Improvements	264,952	0	0	264,952
Buildings and Improvements	6,053,313	352,521	0	6,405,834
Machinery and Equipment	2,145,834	159,787	148,438	2,157,183
	<u>8,464,099</u>	<u>512,308</u>	<u>148,438</u>	<u>8,827,969</u>
OTHER CAPITAL ASSETS:				
Land	267,436	0	0	267,436
Construction in Progress	0	9,775	0	9,775
	<u>267,436</u>	<u>9,775</u>	<u>0</u>	<u>277,211</u>
Total	<u>8,731,535</u>	<u>522,083</u>	<u>148,438</u>	<u>9,105,180</u>
LESS ACCUMULATED DEPRECIATION FOR:				
Land Improvements	102,657	19,245	0	121,902
Buildings and Improvements	2,962,903	171,667	0	3,134,570
Machinery and Equipment	960,616	176,500	88,527	1,048,589
Total accumulated depreciation	<u>4,026,176</u>	<u>367,412</u>	<u>88,527</u>	<u>4,305,061</u>
Total	<u>4,705,359</u>			<u>4,800,119</u>

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS CONTINUED

For the Year Ended June 30, 2014

Depreciation expense was charged to the functions of the District as follows:

Instruction	6,548
Operations & Maintenance	24,567
Student Transportation	152,655
Extracurricular	785
Facilities	182,857
	<u>367,412</u>

Note E Note E - Long-Term Debt

The summary of activity in bonds payable (including current maturities) is as follows:

General Obligation Bonds:	Bonds Payable July 01, 2013	Debt Principal Issued	Debt Principal Retired	Bonds Payable June 30, 2014
Elementary 2002 issue, variable interest rate 4.75% - 5.0%, original issue of \$614,000, final maturity on June 30, 2022	350,000	-	30,000	320,000
Elementary 2010 issue, variable interest rate 2.5% - 4.0%, original issue of \$195,000, final maturity on June 30, 2020	145,000	-	20,000	125,000
High School 2010 issue, variable interest rate 2.5% - 4.0%, original issue of \$475,000, final maturity on June 30, 2020	345,000	-	45,000	300,000
	<u>840,000</u>	<u>-</u>	<u>95,000</u>	<u>745,000</u>

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS CONTINUED

For the Year Ended June 30, 2014

At June 30, 2014 the annual cash flow requirements for retirement of bond principal and interest are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2015	100,000	28,050	128,050
2016	100,000	24,815	124,815
2017	105,000	21,220	126,220
2018	110,000	17,440	127,440
2019	115,000	12,255	127,255
thereafter	<u>215,000</u>	<u>14,700</u>	<u>229,700</u>
Total	<u><u>745,000</u></u>	<u><u>118,480</u></u>	<u><u>863,480</u></u>

The District is subject to the Montana Code Annotated which limits the amount of bonded indebtedness to the greater of:

1. 50% of the taxable value of property subject to taxation by the District as ascertained by the last assessment for property taxes, or
2. 50% of the statewide Facility Guaranteed Mill Value per ANB multiplied by 1,000, multiplied by the number of students enrolled in a particular district (based on the current year average number of students belonging "ANB").

As of June 30, 2014 the statutory debt limit for the District was as follows:

	<u>Elementary</u>	<u>High School</u>	<u>Combined</u>
Statutory debt limit	9,225,090	10,305,140	19,530,230
Outstanding debt	<u>(445,000)</u>	<u>(300,000)</u>	<u>(745,000)</u>
Remaining debt capacity	<u><u>8,780,090</u></u>	<u><u>10,005,140</u></u>	<u><u>18,785,230</u></u>

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS CONTINUED

For the Year Ended June 30, 2014

The following is a summary of changes in current and long-term obligations for the year ended June 30, 2014:

	July 1, 2013	Additions	Reductions	June 30, 2014	Due Within One Year	Due Within More Than One Year
Compensated Absences Payable	255,652	27,324	0	282,976	42,446	240,530
Bonds Payable	840,000	0	95,000	745,000	100,000	645,000
Total	<u>1,095,652</u>	<u>27,324</u>	<u>95,000</u>	<u>1,027,976</u>	<u>142,446</u>	<u>885,530</u>

Payments on bonds are made by the debt service funds. The compensated absences liability will be liquidated by several of the governmental funds.

Note F Employee Benefit Plans

1. Plan Description and Provisions

All full-time District employees participate in one of two state-wide, cost-sharing, multiple-employer retirement benefit plans. Contributions to the two plans are as required by state statute. Information about the two plans is presented below. Total payroll for all District employees for the year ended June 30, 2014 was \$4,405,234.

Public Employees' Retirement System (PERS) - All District employees, except employees who teach on a full-time basis or who are employed in a position in which instructional services are expected to be rendered, are provided pension benefits by a multi-employer plan administered by the State of Montana. Funding is provided by participating units of government and their employees. The District's contribution to this plan for the year ended June 30, 2014 was \$58,431 (7.80% of eligible payroll). The State of Montana contributes .37% of the PERS employees' monthly compensation which is considered to be an "on behalf" payment. Although not a significant amount, the contribution is a part of the PERS funding policy. The District's contribution to this plan represented less than 1% of total contributions required of all participating employers. Required employee contributions to this plan were \$59,180 (7.90% of eligible payroll). Total payroll for employees covered by PERS was \$749,116. One hundred percent of the required contributions were made for the current year and the preceding two years. They were \$117,611, \$112,815, and \$107,696, for the fiscal years ended June 30, 2014, 2013 and 2012, respectively.

Participants become eligible for benefits after age 60 and 5 years of service, after age 65 regardless of service, or 30 years of service regardless of age. The benefit is 1/56 of the final compensation for each year of credited service, paid as a modified cash refund annuity. A participant is eligible for early retirement benefits after age 50 and 5 years of service or after 25 years of service regardless of age. Rights become vested after 5 years of service. The authority to establish, amend, and provide cost of living adjustments for the plan is assigned to the State Legislature.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS CONTINUED

For the Year Ended June 30, 2014

Teachers' Retirement System (TRS) - All District employees who teach on a full-time basis or are employed in a position in which instructional services are expected to be rendered, are provided pension benefits by a multi-employer plan administered by the State of Montana. Funding is provided by participating units of government and their employees. The District's contribution to this plan for the year ended June 30, 2014 was \$300,719 (8.47% of eligible payroll). The State of Montana contributes 2.49% of the TRS employees' monthly compensation which is considered to be an "on behalf" payment. Although not a significant amount, the contribution is a part of the TRS funding policy. The District's contribution represented less than one percent of total contributions required of all participating employers. Required employee contributions to this plan were \$287,536 (8.15% of eligible payroll). Total payroll for teaching employees was \$3,478,623. One hundred percent of the required contributions were made for the current year and the preceding two years. They were \$588,255, \$505,608, and \$481,213, for the fiscal years ended June 30, 2014, 2013 and 2012, respectively.

Participants become eligible for benefits after age 60 or 25 years of service. The benefit is 1/60 of the final compensation for each year of credited service. A participant is eligible for early retirement, with reduced benefits, after age 50 and 5 years of service. Rights become vested after 5 years of service. The authority to establish, amend, and provide cost of living adjustments for the plan is assigned to the State Legislature.

The PERS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report for the fiscal year end. It is available from the PERD at 100 North Park Avenue, Suite 200, P.O. Box 200131, Helena, Montana 59620-0131, (406) 444-3154.

The TRS financial information is reported in the Teachers' Retirement Board's Actuarial Valuation for the fiscal year end. It is available from the TRB at 1500 E. Sixth Avenue, Helena, Montana 59620-0139, (406) 444-3134.

Note G Risk Management

The District faces a considerable number of risks 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. A variety of methods are used to provide insurance for these risks. A commercial policy with Western States Insurance, Inc., transferring all risks of loss, except for relatively small deductible amounts, was purchased for property and content damage, employee torts and professional liabilities. Employee medical insurance is provided through Blue Cross/Blue Shield of Montana. The District does not carry coverage for environmental damages. The risk of potential loss is low and coverage is not cost beneficial. Finally, the District participates in the State Fund for its Workers' Compensation coverage. There are no deductibles or maximum coverage limits in the plan.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS CONTINUED

For the Year Ended June 30, 2014

Note H Due From Other Governments

Due from other governments at June 30, 2014 consists of amounts owed to the District from other governmental entities. These consist of the following:

Elementary School Food	966
State Drivers' Ed Reimbursement - June distribution	6,511
Total	<u>7,477</u>

Note I Non-Monetary Transactions

The District received \$15,381 in USDA Commodities during the 2013-2014 fiscal year. The commodities received are valued at the average wholesale price as determined by the distributing agency. All commodities received by the District were treated as revenue and an expense of the fund receiving the commodities.

Note J Resource Transfers

During the year ended June 30, 2014, the District made resource transfers of \$30,000, \$5,000, \$50,000 and \$5,000 from the Elementary General, Elementary Lease Rental, High School General, and the High School Lease Rental funds for the purpose of updating school safety and security measures. These transfers are allowable pursuant to Senate Bill 348 that was passed by the Montana Legislature. The District also made resource transfers of \$20,000, \$40,000, \$81,000, \$10,000, \$60,000, \$50,000, \$45,000 and \$10,000, from the Elementary General, Elementary Transportation, Elementary Bus Depreciation, Elementary Tuition, High School General, High School Transportation, High School Bus Depreciation, and High School Tuition Funds to the Elementary Interlocal Agreement fund pursuant to Montana Code Annotated Section 20-9-704.

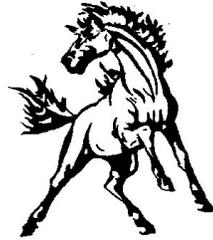
BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS CONTINUED

For the Year Ended June 30, 2014

Note K Contingent Liabilities

The District participates in a number of federally assisted grant programs that are subject to audit and adjustment by the grantors. Such grantor audits of these programs, if any, for or including the year ended June 30, 2014, have not yet been conducted. Accordingly, the District's compliance with applicable grant requirements for those programs if audited by grantor agencies will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.



REQUIRED SUPPLEMENTAL INFORMATION

Shepherd Public School District No. 37

Yellowstone County
Shepherd, Montana
June 30, 2014

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2014

	GENERAL FUND		ELEMENTARY BUS DEPRECIATION		HIGH SCHOOL BUS DEPRECIATION		HIGH SCHOOL RETIREMENT	
	ORIGINAL AND FINAL BUDGET		ORIGINAL AND FINAL BUDGET		ORIGINAL AND FINAL BUDGET		ORIGINAL AND FINAL BUDGET	
	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	
REVENUES								
Taxes	917,108	1,019,096	138,958	149,815	138,940	146,558	0	0
Tuition	0	3,600	0	0	0	0	0	0
Intergovernmental revenues								
County	0	0	0	0	0	0	542,508	542,508
State	4,304,142	4,299,161	0	0	0	0	0	0
Interest on investments	2,557	3,962	0	2,080	0	1,872	0	1,107
Total revenues before reappropriations	<u>5,223,807</u>	<u>5,325,819</u>	<u>138,958</u>	<u>151,895</u>	<u>138,940</u>	<u>148,430</u>	<u>542,508</u>	<u>543,615</u>
Budgeted reappropriations	8,607		296,270		260,246		47,492	
Total revenues and reappropriations	<u>5,232,414</u>		<u>435,228</u>		<u>399,186</u>		<u>590,000</u>	
EXPENDITURES								
Current:								
Instruction	5,232,414	3,463,132	0	0	0	0	590,000	209,990
Supporting services	0	717,728	0	0	0	0	0	36,163
Operations and maintenance	0	572,233	0	0	0	0	0	20,472
Student transportation	0	0	0	0	0	0	0	16,211
Food services	0	12,534	0	0	0	0	0	46
Extracurricular	0	223,261	0	0	0	0	0	19,528
Capital outlay	0	152,396	435,228	154,123	399,186	154,123	0	0
Total expenditures	<u>5,232,414</u>	<u>5,141,284</u>	<u>435,228</u>	<u>154,123</u>	<u>399,186</u>	<u>154,123</u>	<u>590,000</u>	<u>302,410</u>
Excess (deficiency) of revenues over expenditures	<u>0</u>	<u>184,535</u>	<u>0</u>	<u>(2,228)</u>	<u>0</u>	<u>(5,693)</u>	<u>0</u>	<u>241,205</u>
OTHER FINANCING SOURCES (USES)								
Resource transfers in (out)		(160,000)		(81,000)		(45,000)		0
Total other financing sources (uses)		<u>(160,000)</u>		<u>(81,000)</u>		<u>(45,000)</u>		<u>0</u>
Special Item								
Compensation for loss of asset		0		54,400		54,400		0
Excess (deficiency) of revenues and other sources over expenditures		24,535		(28,828)		3,707		241,205
Fund balances, beginning (Non-GAAP budgetary basis)		533,611		296,269		260,245		165,492
Fund balances, ending (Non-GAAP budgetary basis)		<u>558,146</u>		<u>267,441</u>		<u>263,952</u>		<u>406,697</u>
Adjustments to generally accepted accounting principles								
Current year encumbrances included in expenditures		32,866		154,123		154,123		0
Fund balances, ending (GAAP basis)		<u>591,012</u>		<u>421,564</u>		<u>418,075</u>		<u>406,697</u>

REQUIRED SUPPLEMENTAL INFORMATION

NOTES TO BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2014

1. Budgetary Process

State Law requires that the District adopt budgets for certain funds, generally those supported by property taxes. Budgeted and non-budgeted funds are as follows:

<u>Fund</u>	<u>Budgeted</u>	<u>Non-Budgeted</u>
Governmental Funds		
General	X	
Transportation	X	
Bus Depreciation	X	
School Food Services		X
Tuition	X	
Retirement	X	
Miscellaneous Programs		X
Adult Education	X	
Traffic Education		X
Compensated Absences		X
Impact Aid		X
Technology	X	
Flex Fund	X	
Interlocal		X
Debt Service	X	
Building		X
Building Reserve	X	
Endowment		X
Fiduciary Funds		
Extracurricular		X
Payroll Clearing		X
Claims Clearing		X
High School Endowment		X

REQUIRED SUPPLEMENTAL INFORMATION

NOTES TO BUDGETARY COMPARISON SCHEDULE - CONTINUED

For the Year Ended June 30, 2014

The District's budget is prepared on the modified accrual basis of accounting, including encumbrances, which results in the accounting for certain transactions to be on a basis other than accounting principles generally accepted in the United States of America (modified accrual). The District's accounting records are maintained on the basis of cash receipts and disbursements during the year. At year end, certain adjustments are made to the District's accounting records to reflect the basis of accounting described above. Reported budget amounts represent the originally adopted budget. Total fund expenditures may not legally exceed the budgeted expenditures. The budget lapses at the end of each year. The results of operations, on the budget basis of accounting, described above, are presented in the Budgetary Comparison Schedule to provide a meaningful comparison of actual results with the budget.

General Fund budgets are based on the State of Montana's Foundation Program, which is based primarily on enrollment. Budgets of other funds are based on expected revenues and expenditures. Budgeted fund expenditures are limited by State Law to budgeted amounts which may be amended for emergencies as defined by State Law. Budget authority may be transferred between expenditure classifications within the same fund. The original budget as adopted was not amended.

a. Budgetary policy follows:

- 1) By the second Monday in July, the County Assessor transmits a statement of the assessed valuation and taxable valuation of all property to the County Superintendent of Schools.
- 2) Before the second Monday in August, the County Superintendent estimates revenue by fund and provides this information to the Board of Trustees prior to the final budget meeting.
- 3) On the second Monday in August, the Board of Trustees must meet to legally adopt the final budget. This budget is adopted consistent with the District's basis of accounting, except for encumbrances discussed below.

Upon adoption of the final budget, expenditures and operating transfers are limited to the total fund budget. Unexpended and unencumbered appropriations lapse at year end. Under State Law and District Policy, management may amend the budget without seeking Board approval as long as the total individual fund budget is not exceeded.

Individual fund budgets may only be increased with Board approval, in a manner prescribed by State Law (MCA 20-9-161 through MCA 20-9-166).

REQUIRED SUPPLEMENTAL INFORMATION

NOTES TO BUDGETARY COMPARISON SCHEDULE - CONTINUED

For the Year Ended June 30, 2014

Encumbrances outstanding at year-end represent the estimated amount of expenditures ultimately to result if unperformed purchase orders or contracts in process at year-end were completed. They do not constitute expenditures or liabilities, and will not until performance is essentially complete. The encumbrances have been reported as an assignment of fund balance of the Balance Sheet-Governmental Funds. Because inclusion of these obligations is required for budgetary purposes they have been included in expenditures in the Budgetary Comparison Schedule. The difference between this basis of presentation and GAAP basis is reconciled on the face of this statement.



SUPPLEMENTAL INFORMATION

Shepherd Public School District No. 37

Yellowstone County

Shepherd, Montana

June 30, 2014



SUPPLEMENTAL INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2014

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Disbursements or Expenditures
U.S. Department of Education:		
Passed through the Montana Office of Public Instruction:		
Title I Grants to Local Educational Agencies	84.010A	130,657
Improving Teacher Quality State Grants	84.367	39,472
Improving Teacher Quality State Grants	84.367	1,688
Rural Education	84.358A	1,205
Rural Education	84.358A	23,473
Rural Education	84.358A	13,903
Rural Education	84.358A	34,370
Rural Education	84.358A	19,407
Rural Education	84.358A	3,743
Special Education_State Personnel Development	84.323A	2,000
Career and Technical Education-Basic Grants to States	84.048A	3,553
Career and Technical Education-Basic Grants to States	84.048A	9,375
Total passed through Montana Office of Public Instruction		<u>282,846</u>
Passed through the Eastern Yellowstone Special Service Cooperative		
Special Education Cluster		
Special Education_Preschool Grants	84.173A	5,690
Special Education_Grants to States	84.027A	94,582
Total Special Education Cluster		<u>100,272</u>
Total passed through Eastern Yellowstone Special Service Cooperative		<u>100,272</u>
Total Department of Education		<u>383,118</u>

SUPPLEMENTAL INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the Year Ended June 30, 2014

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Disbursements or Expenditures
U.S. Department of Agriculture:		
Passed through the Montana Office of Public Instruction:		
Child Nutrition Cluster:		
National School Lunch Program		
School Breakfast Program	10.553	20,935
National School Lunch Program	10.555	123,226
Non-Cash Assistance (Commodities):	10.555	15,381
Total Child Nutrition Cluster		<u>159,542</u>
Total passed through Montana Office of Public Instruction		<u>159,542</u>
Total Department of Agriculture		<u>159,542</u>
Total Federal Financial Assistance		<u><u>542,660</u></u>

SUPPLEMENTAL INFORMATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2014

Note A Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Shepherd Public School District No. 37 and is presented on the modified accrual basis of accounting including encumbrances. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule differ from amounts presented in or used in the preparation of the financial statements.

Note B Nonmonetary Transactions

The District received \$15,381 in USDA Commodities during the 2013-2014 fiscal year. The commodities received are valued at the average wholesale price as determined by the distributing agency. All commodities received by the District were treated as an expense of the Fund receiving the commodities.

SUPPLEMENTAL INFORMATION

EXTRACURRICULAR FUND - SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, TRANSFERS AND CHANGES IN NET POSITION For the Year Ended June 30, 2014

Student Activity	Net Position July 1, 2013	Receipts	Disbursements	Transfers	Net Position June 30, 2014
Advanced Biology	3,953	4,988	6,633	0	2,308
Art/General	1,238	557	704	0	1,091
Athletics	22,462	63,363	78,684	9,702	16,843
Art Club	939	2,091	1,388	0	1,642
BPA	1	12,835	9,988	(195)	2,653
Band/General	3,547	13,169	9,955	(467)	6,294
Band/Honor Band Trip	853	2,332	2,917	717	985
Cheerleaders	1,777	3,480	1,893	310	3,674
Chorus/General	4,703	396	160	0	4,939
Class of 2013	0	15	15	0	0
Class of 2014	1,385	414	1,315	0	484
Class of 2015	2,658	3,199	4,117	0	1,740
Class of 2016	1,107	310	38	0	1,379
Class of 2017	0	772	2	0	770
Close-Up	1,744	13,921	12,675	0	2,990
Elementary Student Council	4,693	11,675	11,757	(455)	4,156
Elementary Library Club	1,000	5,338	5,513	(25)	800
Grade 6 Student Council	1,021	256	417	636	1,496
Subtotal	53,081	139,111	148,171	10,223	54,244

SUPPLEMENTAL INFORMATION

EXTRACURRICULAR FUND - SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, TRANSFERS AND CHANGES IN NET POSITION - CONTINUED

For the Year Ended June 30, 2014

<u>Student Activity</u>	<u>Net Position July 1, 2013</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Transfers</u>	<u>Net Position June 30, 2014</u>
Subtotal from previous page	53,081	139,111	148,171	10,223	54,244
F.F.A.	7,929	42,182	48,870	(100)	1,141
FCCLA	3,201	38,690	42,628	935	198
Girls/Boys State	350	0	0	0	350
Honor Society	3,065	4,095	5,129	(85)	1,946
Jr. High Cheerleader	2,115	2	1,204	250	1,163
Jr. High Yearbook	590	2,546	1,468	186	1,854
Jr. High Student Council	9,582	4,063	4,228	(186)	9,231
Key Club	980	281	266	0	995
Library Club	2,551	1,014	1,344	(570)	1,651
Revolving/General	0	11,500	452	(11,048)	0
Student Council	2,272	7,369	6,217	0	3,424
V.I.C.A.	228	378	0	(200)	406
Yearbook	1,479	5,322	5,874	595	1,522
Miscellaneous Charges	0	0	135	0	(135)
Totals	<u>87,423</u>	<u>256,553</u>	<u>265,986</u>	<u>0</u>	<u>77,990</u>

SUPPLEMENTAL INFORMATION

SCHEDULE OF REPORTED ENROLLMENT

For the Year Ended June 30, 2014

Grade	Fall		Winter		Spring	
	Enrollment Per FR-4	Enrollment Per District Record	Enrollment Per FR-4	Enrollment Per District Record	Enrollment Per FR-4	Enrollment Per District Record
K-6	434	434	434	434	433	433
7-8	136	136	139	139	138	138
9-12	254	254	249	249	246	246
Totals	824	824	822	822	817	817



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INDEPENDENT AUDITOR'S 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*

December 19, 2014

Board of Trustees
Shepherd Public School District No. 37
Shepherd, Montana

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shepherd Public School District No. 37 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Shepherd Public School District No. 37's basic financial statements, and have issued our report thereon dated December 19, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Shepherd Public School District No. 37'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 Shepherd Public School District No. 37's internal control. Accordingly, we do not express an opinion on the effectiveness of Shepherd Public School District No. 37's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shepherd Public School District No. 37's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Galusha, Higgins & Galusha, PC

GALUSHA, HIGGINS & GALUSHA, PC
Billings, Montana



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

December 19, 2014

Board of Trustees
Shepherd Public School District No. 37
Shepherd, Montana

Report on Compliance for Each Major Federal Program

We have audited Shepherd Public School District No. 37's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Shepherd Public School District No. 37's major federal programs for the year ended June 30, 2014. Shepherd Public School District No. 37's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Shepherd Public School District No. 37's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Shepherd Public School District No. 37's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Shepherd Public School District No. 37's compliance.

Opinion on Each Major Federal Program

In our opinion, Shepherd Public School District No. 37 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of Shepherd Public School District No. 37 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Shepherd Public School District No. 37's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Shepherd Public School District No. 37's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Galusha, Higgins & Galusha, PC

GALUSHA, HIGGINS & GALUSHA PC
Billings, Montana

SUPPLEMENTAL INFORMATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor’s Results

Financial Statements

Unmodified

Type of auditors’ report issued:

Internal control over financial reporting:

-Are any material weaknesses identified?

_____ Yes X No

-Are any significant deficiency(ies) identified that are not considered to be material weaknesses?

_____ Yes X No

Yes

Is any noncompliance material to financial statements noted?

_____ X No

Federal Awards

Unmodified

Type of auditors’ report issued on compliance for major programs:

Internal control over major programs:

-Are any material weaknesses identified?

_____ Yes X No

-Are any significant deficiency(ies) identified that are not considered to be material weaknesses?

_____ Yes X No

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

_____ Yes X No

Identification of Major Programs:

Name of Federal Program or Cluster

CFDA Number(s)

84.010

Title I

84.027, 84.173

Special Education Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

 X Yes _____ No

SUPPLEMENTAL INFORMATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Section II - Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Auditees Summary Schedule of Prior Audit Findings

2013-001 Implemented.