

SHIELDS VALLEY SCHOOL DISTRICT NUMBERS J12 AND 5  
PARK COUNTY  
WILLSALL AND CLYDE PARK, MONTANA

FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014

**Shields Valley School District Numbers J12 and 5**  
**Wilsall and Clyde Park, Montana**  
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**Shields Valley School District Numbers J12 and 5  
Wilsall and Clyde Park, Montana  
Organization  
JUNE 30, 2014**

**BOARD OF TRUSTEES**

Dale Dominick	Chairperson
Jamie Lannen	Trustee
Cleve Swandal	Trustee
Dean Flatt	Trustee
Ned Zimmerman	Trustee

**OFFICIALS**

Mr. Erik Wilkerson	District Superintendent
Ms. Rhonda Lahaye	District Clerk
Mr. Harold E. Barich	County Superintendent
Mr. Brent Linneweber	County Attorney

**Shields Valley School District Numbers J12 and 5**  
**Wilsall and Clyde Park, Montana**  
**Management's Discussion and Analysis**  
**June 30, 2014**

This section of the Shields Valley School District Financial Statements presents the management's discussion and analysis of the district's financial performance during the fiscal year (FY) ending June 30, 2014. This narrative overview and analysis of the financial activities of the Shields Valley District includes a comparison of prior year financial statements as per compliance with Governmental Accounting Standards Board Statement #34. Readers of the management's discussion and analysis are encouraged to consider the information presented in this section as well as other areas of the financial statements.

**Financial Highlights**

- ✚ The Shields Valley School District assets exceeded the district liabilities at the close of the FY 2014 by \$2,404,766.
- ✚ Current and capital assets in the district increased 4% while liabilities increased 5.3% which resulted in a net position increase of 3.7% in FY 2014 for the district.
- ✚ The overall revenues from all sources for the Shields Valley School District for FY 2014 were \$3,022,371 which represented a 2% increase from FY 2013.
- ✚ The district purchased and installed a new boiler system for heat in the school buildings.
- ✚ State revenue is the largest source of revenue for the district and was up 1.8% or \$23,486 in FY 2014.
- ✚ Property tax revenue collected at the local level increased 9.7% or \$105,120 in FY 2014.
- ✚ In FY 2014, 44.1% (44.2% in FY 2013) of the total district revenue was collected from state sources and 39.4% (36.7% in FY 2013) was collected from property taxes at the local level.
- ✚ The District expenses for FY14 were \$2,937,491 which was a 4.8% increase from FY13.
- ✚ The Shields Valley School District revenues exceeded expenses for FY 2014 by \$84,880.
- ✚ Expenses for instruction account for approximately 50.5% (47.7% in FY 2013) of the district expenses in FY 2014.
- ✚ The largest increase in expenditures was instruction with a 10.9% increase or \$145,738.
- ✚ The district had total governmental fund balances of \$478,449 at the end of FY 2014 which was a 3.1% increase from FY 2013.

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✚ The Shields Valley District is in very good financial condition and continued to improve in FY 2014.

**Overview of the Shields Valley School District Financial Statements**

The management's discussion and analysis report is intended to serve as an introduction to the basic financial statements of the Shields Valley K-12 Schools. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. It also, contains other supplementary information in addition to the basic financial statements.

**Government-wide Financial Statements**

The *government-wide financial statements* are designed to provide readers with a broad overview of the Shields Valley School District finances in a manner similar to a private-sector business. This broad overview will be accomplished using a *statement of net position* and a *statement of activities*. Each statement will distinguish between governmental and business type activities and between the total governmental and business type activities of the school district.

The *statement of net position* presents information on all of the assets and liabilities of the Shields Valley School District, 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 Shields Valley School District is improving or deteriorating.

The *statement of activities* presents information showing how the government'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 vacation leave).

Both of the government-wide financial statements distinguish functions of the Shields Valley School District principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Most services normally associated with school government fall into the governmental activity category including instruction, support services, general, school and business administrative services, operation and maintenance, student transportation, community services, and other expenditures. The Shields Valley District does not operate any business-type activities.

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**Fund-based Financial Statements**

Fund-based financial statements, consisting of a series of statements, provide information about government's major and non-major governmental funds. These governmental fund financial statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The governmental fund statements consist of the balance sheet and statement of revenues, expenditures, and change in fund balance.

A *fund* is a group of related accounts used to maintain control over resources segregated for specific activities or objectives. The Shields Valley District, like other state and local governments, use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Shields Valley District can be divided into three categories: governmental, proprietary, and fiduciary funds.

**Governmental funds**

*Governmental funds* are used to account for essentially the same function 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 and outflows 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 a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the near-term financing decisions of the Board of Trustees of the Shields Valley Schools. 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*.

The Shields Valley Elementary District and High School district are recognized by state law as two separate entities, but for this discussion they will be considered together. Major governmental funds are reported separately and all other funds are combined for this report. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Elementary Retirement Fund and High School Building Reserve Fund because they were considered to be the major funds in 2014. The other governmental funds are combined into a single aggregated presentation.

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The Shields Valley District adopts an annual appropriated budget for its general funds, select special revenue, debt service, and building reserve funds as required by state law. A budgetary comparison is provided for all budgeted funds later in this report.

**Fiduciary funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds may include pension and employee benefit trust funds where resources are held in trust for employee benefit plans. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the programs of the Shields Valley School District. Student activity accounts and scholarship trusts are the most common fiduciary funds in school districts. The Shields Valley School District has fiduciary funds in the Student Activity Account Fund.

**Notes to the Financial Statements**

The notes to the financial statements provide additional information that can be very helpful 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 later in this report.

**Other information**

In addition to the basic financial statements and the accompanying notes, this report also presents certain *supplementary information* concerning the official student enrollment. The supplementary information can found later in this report.

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of the financial position of the district. The Shields Valley School District, assets exceeded liabilities by \$2,404,766 at the close of FY 2014. Net position for the district at the end of FY 2014 showed a 3.7% increase from the close of FY 2013. This change was mainly due to an increase of 3.5% in current and other assets (\$18,399) along with an increase of 4.1% in the net investment of capital assets (\$98,597). The increase in capital assets was mainly due to the purchase and installation of a new boiler system for heat in the school buildings. Long term liabilities in the district decreased 5.8% or \$23,179 while current liabilities increased 28.8% or \$54,095, which resulted in a 5.3% increase in total liabilities. The increase in total liabilities was mostly due to an InterCap loan from the State of Montana (Board of Investments) for the new boiler system of \$197,000. The district did make a payment of \$150,000 on the general obligation bonds reducing the amount still owed to \$325,000. District revenue increased 2% and expenditures increased 4.8% in FY 2014, however, the net result was a 3.7% increase in net position for the district. State revenue is the largest source of revenue for the district and it was up 1.8% in FY 2014 while district property tax is the second largest source of revenue in the district and it was up 9.7% or \$105,120. County revenue was up 35.3% or \$77,564.

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Charges for services revenue was up 21.6% or \$9,822 in FY 2014. Revenue from operating/capital grants was down 52.4% in FY 2014 or \$149,706. The increases in state revenue, district property taxes, charges for services, and county revenue were reduced by the decrease in operating grants/capital contributions, but still resulted in a 2% total increase in revenue for the district in FY 2014.

**Overall Financial Position of the District for FY 2014**

The overall financial position of the Shields Valley School District is very good and during FY 2014 continued to improve. The net position of the district improved 3.7% mainly due to an increase of 3.5% in current and other assets (\$18,399) along with an increase of 4.1% in capital assets (\$98,597). The following chart presents information on the districts net position for FY 2014 and FY 2013 with the percentage change shown in the right hand column.

**Net Position of the Shields Valley School District**

	Governmental Activities		Percent Change
<b>Assets</b>	FY 2013	FY 2014	
Current and Other Assets	\$518,591	\$536,990	3.5%
Capital Assets	\$2,388,940	\$2,487,537	4.1%
<b>Total Assets</b>	<b>\$2,907,531</b>	<b>\$3,024,527</b>	<b>4.0%</b>
<b>Liabilities</b>			
Current Liabilities	\$187,948.00	\$242,043	28.8%
Non-Current Liabilities	\$400,897.00	\$377,718	-5.8%
<b>Total Liabilities</b>	<b>\$588,845</b>	<b>\$619,761</b>	<b>5.3%</b>
<b>Net Position</b>			
Net investment in capital assets	\$1,913,940	\$1,976,363	3.3%
Restricted	\$175,918	\$207,170	22.4%
Unrestricted	\$228,828	\$221,233	-6.0%
<b>Total net position</b>	<b>\$2,318,686</b>	<b>\$2,404,766</b>	<b>3.7%</b>

At the close of FY 2014, a portion of the net position of the Shields Valley District, \$1,976,363 (82.1% in FY 2014 and 82.5% in FY 2013) reflects the investment by the school district in capital assets (net of related debt and depreciation) such as land, buildings, machinery, and equipment. The capital assets of the Shields Valley District have related debt. The Shields Valley School District uses these capital assets to provide educational and related services to students; and as a result, these assets are not available for future spending.

A portion of the net position of the Shields Valley School District represents resources that are subject to external restrictions on how they may be used. These *restricted* assets represent

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8.6% (7.3% in FY 2013) or \$207,170 of the district net position in FY 2014. The restricted assets increased by 22.4% from FY 2013 to FY 2014. Another portion of the net position of the Shields Valley School District (9.2% in FY 2014 and 10.1% in FY 2013) represents *unrestricted assets* which may be used to meet the ongoing obligations of the school district to citizens and creditors. The unrestricted portion of the net position decreased 6% from FY 2013 to FY 2014. Shields Valley School District was able to report a positive balance for the net position in both the government as a whole, as well as for governmental activities. The net position of the Shields Valley School District increased \$86,080 during FY 2014 after showing an increase of \$163,606 during FY 2013.

**Governmental activities**

The total net position derived from governmental activities for the Shields Valley district at the beginning of FY 2014 was \$2,318,696. The net position for the Shields Valley School District at the end of FY 2014 was \$2,404,766 which was an increase of \$86,080 which included a prior adjustment of \$1,200.

**District Wide - Statement of Activities**

	Governmental Activities		Percent Change	Dollar Change
	FY 2013	FY 2014		
<b>Program revenues:</b>				
Charges for Services	\$45,454	\$55,276	\$9,822	21.6%
Operating/Capital Grants & Contributions	\$285,655	\$135,949	(\$149,706)	-52.4%
<b>General revenues</b>				
District Property Taxes	\$1,087,381	\$1,192,501	\$105,120	9.7%
County Revenue	\$219,512	\$297,076	\$77,564	35.3%
State Revenue	\$1,310,494	\$1,333,980	\$23,486	1.8%
Federal Revenue	\$0	\$0	(\$4,926)	-42.4%
Other Revenue	\$11,605	\$6,679	(\$719)	-44.1%
Investment Earnings	\$1,629	\$910	\$60,641	2.0%
<b>Total Revenues</b>	<b>\$2,961,730</b>	<b>\$3,022,371</b>	<b>\$9,822</b>	<b>21.6%</b>
<b>Expenses:</b>				
Instruction	\$1,338,465	\$1,484,203	2.74%	\$35,721
General Administration	\$66,267	\$110,083	-34.68%	(\$35,183)
School Administration	\$211,729	\$217,430	8.27%	\$16,175
Business Services	\$135,821	\$99,170	-2.91%	(\$4,067)
Operation and Maintenance	\$284,070	\$317,043	5.58%	\$15,004
Educational Media	\$9,253	\$0	-73.88%	(\$26,175)

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Transportation	\$336,291	\$284,485	(\$51,806)	-15.4%
Support Service Students	\$65,245	\$67,027	\$1,782	2.7%
Support Service Staff	\$1,090	\$500	(\$590)	-54.1%
Extracurricular	\$97,782	\$81,183	(\$16,599)	-17.0%
School Food	\$133,198	\$152,080	\$18,882	14.2%
Interest	\$29,158	\$23,626	(\$5,532)	-19.0%
Unallocated Depreciation	\$93,998	\$100,661	\$6,663	7.1%
Other Expenses	\$0	\$0	\$0	0%
<b>Total Expenses</b>	<b>\$2,802,367</b>	<b>\$2,937,491</b>	<b>\$135,124</b>	<b>4.8%</b>
Increase (Decrease) net position	\$159,363	\$84,880	(\$74,483)	-46.7%
Beginning Net Position	\$2,155,080	\$2,318,686	\$163,606	7.6%
Prior Period Adjustment	\$4,243	\$1,200	(\$3,043)	-71.7%
Ending Net Position	\$2,318,686	\$2,404,766	\$86,080	3.7%

**Governmental Activities – Summary from FY 2013 to FY 2014**

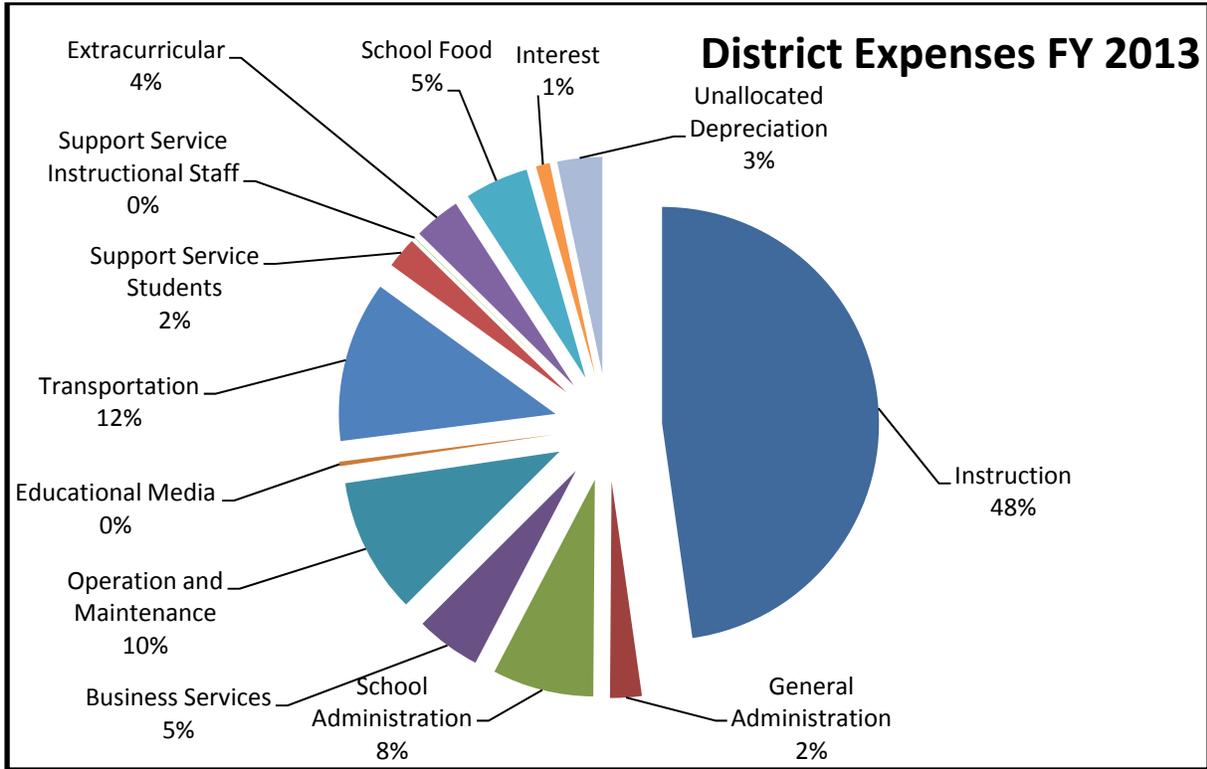
Changes in district wide governmental activities from FY 2012 to FY 2013 include:

- ✚ State revenue was up 1.8% or \$23,486 in FY 2014.
- ✚ Revenue from operating/capital grants and contributions was down 52.4% or \$149,706.
- ✚ Revenue from charges for services was up 21.6% or \$9,822.
- ✚ County revenue was up 35.3% or \$77,564.
- ✚ Interest earnings decreased by 44.1% or \$719.
- ✚ District instruction expenses were up 10.9% or \$145,738.
- ✚ Support service expenses for school administration were up \$5,701 or 2.7%.
- ✚ Support service expenses for students were up 2.7% or \$1,782.
- ✚ Support service expenses for general administration were up 66.1% or \$43,816.
- ✚ Business Service expenses decreased 27% or \$36,651 in FY 2014.
- ✚ Student transportation expenses decreased by 15.4% or \$51,806.
- ✚ Operation and maintenance costs were up 11.6% or \$32,973.
- ✚ Food services expenditures were up 14.2% or \$18,882.
- ✚ Extracurricular costs were down 17% or \$16,599.
- ✚ Unallocated depreciation expenses were up 7.1% or \$6,663 in FY 2014.
- ✚ Net position of the district increased 3.7% from FY 2013 to FY 2014.

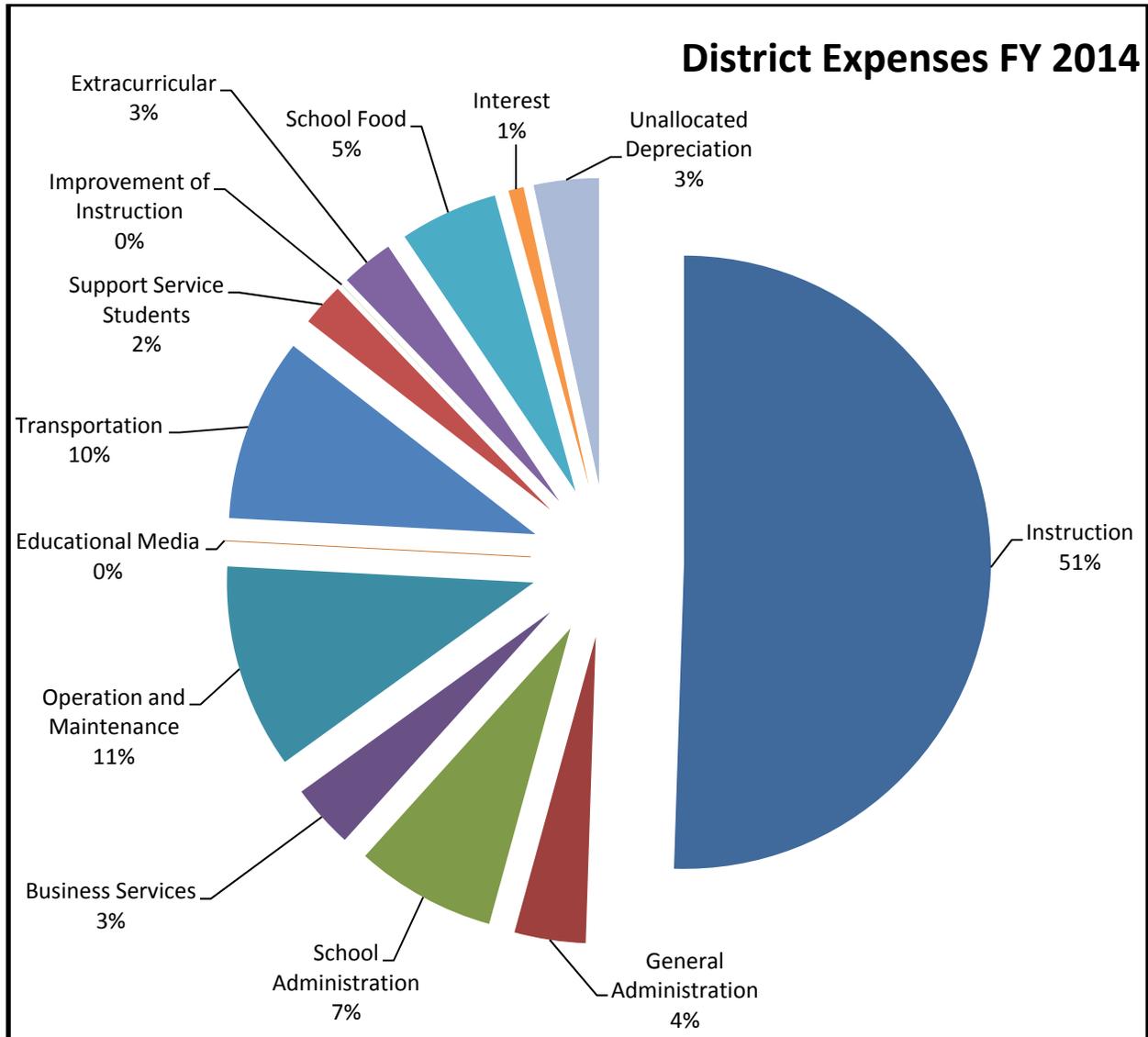
**District Expenses**

The following charts present district expenses by category.

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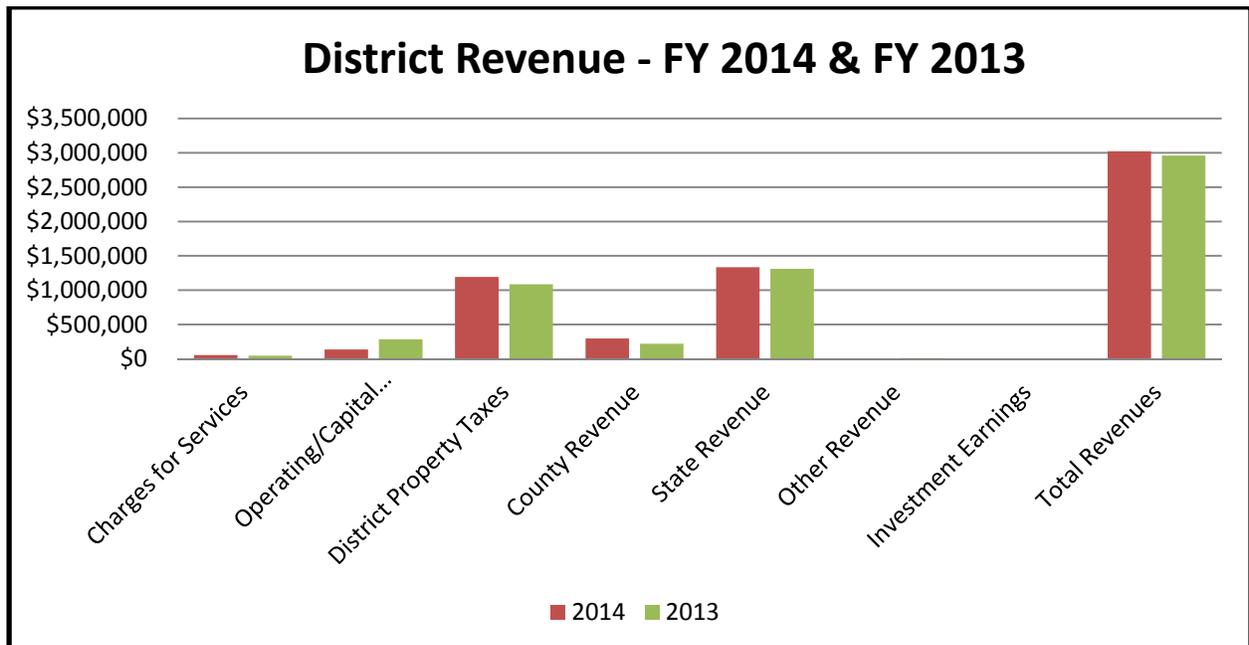


The pie graphs for district expenses show the allocation of resources for specific purposes in the Shields Valley Schools during FY 2013 and FY 2014. The graphs illustrates the major expenditure areas, with instruction costs accounting for 48% & 51% of the district expenses, operation & maintenance accounting for 10% & 11%, and transportation accounting for 12% & 10% of the district expenses. Changes for FY 2014 showed instructional costs up 3%, transportation costs down 2%, general administration up 2%, business services were down 2%, school administration down 1%, extracurricular costs were down 1%, and operation & maintenance was down 1%. The top three expenditure areas in FY 2014 were instruction, operation and maintenance, and transportation.

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**Revenue by Source – Governmental Activities**

The following bar graph shows that state sources are the largest source of revenue for the Shields Valley District followed by district property taxes. County revenue was the third highest source of revenue for the district. The changes from FY 2013 to FY 2014 were an increase in state revenue, county revenue, revenue from district property taxes, and total revenue. Revenue from operating/capital grants and contributions decreased in FY 2014. Generally, since state law requires levied fund budgets to be “balanced,” the changes in expenditures matched the changes in the revenues of these funds.



**Financial Analysis of the Government’s Funds**

**Governmental funds**

The focus of the *governmental funds* of the Shields Valley School District is to provide information on near-term inflows, outflows, and balances of *spendable* resources. The funds are separated into *restricted, committed, assigned, and unsigned* categories. Information from these areas is useful in assessing the financial requirements of the school district. In particular, *unassigned fund balance* may serve as a useful measure of the net resources available for spending at the end of the year. At the end of FY 2013, the governmental funds of the school district reported a combined ending fund balance of \$464,239 and at the end of FY 2014 the fund balance was \$478,449 which represents a 3.1% increase. Approximately 37% (36.6% in FY 2013) of this total amount constitutes *unassigned fund balance*, which is available for spending at the discretion of the Board of Trustees.

The general fund is the main operating fund of the Shields Valley School District. At the end of FY 2013, the General Fund had a balance of \$195,209 and at the close of FY 2014 the balance

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was \$186,167. The total fund balances in the district increased \$14,210 from the end of FY 2013 to the end of FY 2014. The actual Fund Balance sheet can be found later in this report.

**Statement of Revenues, Expenditures, and Changes in Fund Balances**

The statement of revenues, expenditures, and changes in fund balances presents revenue and expenditures in each of the major fund categories. The major fund categories for analysis in FY 2014 were the General Fund, Elementary Retirement Fund, and High School Building Reserve Fund. The other funds category includes all the remaining governmental funds that the district is utilizing. State revenue is the major revenue source for the district general fund category at 60.8% (61% in FY 2013) of the total revenue in the general fund in FY 2014. The major expenditure in the general fund is instruction. Instruction expenditures make up 55.2% (53.6% in FY 2013) of the general fund total cost for FY 2014. Operation and maintenance along with school administration rank 2 and 3 respectively for general fund expenditures. Total fund balances increased 3.1% from FY 2013 to FY 2014. The statement of revenues, expenditures, and changes in fund balances can be found later in this report.

**General Fund Budgetary Highlights**

During FY 2014 the General Fund received \$2,039,476 in revenue and had \$2,038,738 in expenditures. The district received \$1,241,305 of state revenue in the general fund which was 60.9% of the total revenue collected for the general fund in FY 2014. Revenue from local property taxes (\$792,021) made up 38.8% of the total general fund revenue collected in FY 2014. The largest expenditure in the general fund in FY 2014 was instruction at \$1,125,116 which was 55.2% of the total expenditures in the general fund. The second and third highest ranked expenditures in the general fund for FY 2014 were operation and maintenance (\$292,808 or 14.3% of total expenditures) and school administration (\$195,191 or 9.5% of the total expenditures in the general fund in FY 2014. The general fund in FY 2014 had \$9,042 more expenditures than revenue which resulted in a decrease of that amount in the general fund. The general fund had \$177,160 or 95.1% of the fund balance classified as unassigned.

**Capital Asset and Debt Administration**

***Capital assets***

The investment by the Shields Valley School District in capital assets for governmental activities as of June 30, 2014, was \$2,487,537 after depreciation was subtracted. This investment in capital assets included land, building improvements, buildings, furniture, and equipment. The value of the capital assets for the Shields Valley District showed a 4.1% increase for FY 2014 when compared to FY 2013 after depreciation was subtracted. The capital assets increase was mainly due to the purchase and installation of a new boiler system for heat in the school buildings.

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**Capital Assets of the Shields Valley School District**

Capital Assets	Governmental Activities				
	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013	% Change
Land	\$183,736			\$183,736	0.0%
Land Improvements	\$225,602			\$225,602	0.0%
Buildings & Improvements	\$3,210,620	\$209,316		\$3,419,936	6.5%
Work in Progress	\$0			\$0	0.0%
Machinery & Equipment	\$469,838			\$469,838	5.1%
Totals at Historical Cost	\$4,089,796	\$209,316		\$4,299,112	0.0%
Less Accumulated Depreciation:					
Total Accumulated	(\$1,700,856)	(\$110,719)		(\$1,811,575)	6.5%
Capital Assets net of Depreciation	\$2,388,940			\$2,487,537	4.1%

**Long-term debt**

At the end of FY 2014, Shields Valley School District had bonded debt outstanding of \$325,000 and an Intercap loan for \$186,174 from the board of investments for the state of Montana. The district had long-term liabilities of \$108,587 for compensated absences of employees.

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**Economic Factors for Fiscal Year Budgets for FY 2013 and FY 2014**

- ✚ The population of Park County increased by .3% or about 46 residents from 2010 to 2013. This compares to the Montana average of a 2.6% increase.
- ✚ Residents of Park County under the age of 18 made up 19.1% of the population in 2013 compared to the state at 22.1%.
- ✚ District enrollment increased by 10 students overall from the 2012-13 school year to 2013-14 school year with the elementary up 10 and the high school down 5 students.
- ✚ The unemployment rate for Park County was 4.1% in June of 2014 compared to Montana at 4.5%.
- ✚ The poverty rate for Park County was 11% from 2008-2012, when Montana was at 14.8%.
- ✚ The median income for Park County was \$40,781 with Montana at \$45,456 in 2008-2012.

**Requests for Information**

The information and data included in this management's discussion and analysis report is designed to provide a general overview of the finances of Shields Valley School District for all those with an interest in the government's finances. Questions concerning the information contained in this report should be addressed to the Shields Valley administration and business office located in Wilsall, Montana.

## **Independent Auditor's Report**

To the Board of Trustees  
Shields Valley School District Numbers J12 & 5  
Park County  
Wilsall & Clyde Park, Montana

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

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shields Valley School District Numbers J12 & 5, Park County, Wilsall & Clyde Park, Montana (The School), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Basis for Qualified Opinion on Governmental Activities**

The School has not recorded the other post-employment benefit (OPEB) liability and related expense in the governmental activities. Accounting principles generally accepted in the United States of America require that the OPEB liability and related expense be recorded, which would increase the liabilities and expenses and decrease net position for the governmental activities. The amount by which this departure would affect the liabilities, net position and expenses is not reasonably determinable.

### **Qualified Opinion**

In my opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the School, 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.

### **Unmodified Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the government, and the aggregate remaining fund information as of June 30, 2014, 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*

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic

financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The supplemental schedules on pages 42-44 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, I have also issued my report dated December 11, 2014, on my consideration of the District's internal control over financial reporting and on my 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 my 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 School's internal control over financial reporting and compliance.

Philip Emmons, CPA  
Miles City, MT

December 11, 2014

**Shields Valley School District Numbers J12 and 5  
Wilsall and Clyde Park, Montana  
June 30, 2013**

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**Shields Valley School District Numbers J12 and 5  
Wilsall and Clyde Park, Montana  
Statement of Net Position  
June 30, 2014**

**ASSETS**

Current assets	
Cash and investments	\$ 287,772
Property taxes receivable	39,842
Due from other governments	2,206
Restricted	
Cash and investments	188,471
Property taxes receivable	18,699
Total current assets	<u>536,990</u>
Land	183,736
Capital assets, net of accumulated depreciation	<u>2,303,801</u> 2,487,537
Total assets	<u>\$ 3,024,527</u>

**LIABILITIES**

Current liabilities	
Compensated absences	\$ 36,192
Current portion of long-term debt	<u>205,851</u> 242,043
Non-current liabilities	
Compensated absences	72,395
Bonds and loans payable	<u>305,323</u> 377,718
Total liabilities	<u>\$ 619,761</u>

**NET POSITION**

Net investment in capital assets	\$ 1,976,363
Restricted net position	
Transportation	22,933
Bus depreciation	4,825
School food	3,545
Retirement benefits	64,749
Adult education	3,636
Technology equipment and training	2,016
Debt service	27,613
Building	77,853
Unrestricted net position	<u>221,233</u>
Total net position	<u>\$ 2,404,766</u>

**Shields Valley School District Numbers J12 and 5  
Wilsall and Clyde Park, Montana  
Statement of Activities  
For the Year Ended June 30, 2014**

	Program Revenue				Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities
<b>Government operations</b>					
Instruction	\$ 1,484,203	\$ 7,748	\$ 121,252		\$ (1,355,203)
Students	67,027				(67,027)
Improvement of instruction	500				(500)
General administration	110,083				(110,083)
School administration	217,430				(217,430)
Business	99,170				(99,170)
Operation and maintenance	317,043			10,552	(306,491)
Student transportation	284,485				(284,485)
School food	152,080	47,528	4,145		(100,407)
Extracurricular activities	81,183				(81,183)
Interest	23,626				(23,626)
Unallocated depreciation	100,661				(100,661)
Total government activities	<u>\$ 2,937,491</u>	<u>\$ 55,276</u>	<u>\$ 125,397</u>	<u>\$ 10,552</u>	<u>\$ (2,746,266)</u>
<b>General revenues</b>					
District property taxes				\$ 1,192,501	
State revenue				1,333,980	
County revenue				297,076	
Other revenues				6,679	
Investment earnings				910	
Total general revenues				<u>\$ 2,831,146</u>	
Increase (decrease) in net position				\$ 84,880	
<b>Net position</b>					
Beginning of year, as previously reported				2,318,686	
Prior period adjustments				1,200	
End of year				<u>\$ 2,404,766</u>	

**Shields Valley School District Numbers J12 and 5  
Wilsall and Clyde Park, Montana  
Balance Sheet - Governmental Funds  
June 30, 2014**

	Major Funds				Total Governmental Funds
	General Fund	Elementary Retirement Fund	High School Building Reserve Fund	Other Governmental Funds	
<b>ASSETS</b>					
Cash and investments	\$ 186,167	\$	\$	\$ 101,605	\$ 287,772
Taxes receivable	39,842				39,842
Due from other governments				2,206	2,206
Restricted					
Cash and investments		56,762	53,350	78,359	188,471
Taxes receivable			918	17,781	18,699
Due from other funds				7,944	7,944
Total assets	<u>\$ 226,009</u>	<u>\$ 56,762</u>	<u>\$ 54,268</u>	<u>\$ 207,895</u>	<u>\$ 544,934</u>
<b>LIABILITIES &amp; DEFERRED INFLOWS OF RESOURCES</b>					
Liabilities					
Due to other funds	\$	\$	\$ 7,944	\$	\$ 7,944
Total liabilities	<u>0</u>	<u>0</u>	<u>7,944</u>	<u>0</u>	<u>7,944</u>
Deferred inflows of resources					
Unavailable revenue	39,842		918	17,781	58,541
Total deferred inflows of resources	<u>39,842</u>	<u>0</u>	<u>918</u>	<u>17,781</u>	<u>58,541</u>
Total liabilities & deferred inflows of resources	<u>\$ 39,842</u>	<u>\$ 0</u>	<u>\$ 8,862</u>	<u>\$ 17,781</u>	<u>\$ 66,485</u>
<b>FUND BALANCE</b>					
Restricted					
Transportation	\$	\$	\$	\$ 16,183	\$ 16,183
Bus depreciation				4,684	4,684
School Food				3,545	3,545
Retirement		56,762		7,987	64,749
Adult education				3,611	3,611
Technology				549	549
Debt service				18,555	18,555
Building			45,406	31,189	76,595
Committed					
Instruction				59,732	59,732
Compensated absences				4,245	4,245
Rental				20,755	20,755
Building				19,079	19,079
Assigned					
Instruction	9,007				9,007
Unassigned	177,160				177,160
Total fund balance	<u>\$ 186,167</u>	<u>\$ 56,762</u>	<u>\$ 45,406</u>	<u>\$ 190,114</u>	<u>\$ 478,449</u>
Total liabilities and fund balance	<u>\$ 226,009</u>	<u>\$ 56,762</u>	<u>\$ 46,324</u>	<u>\$ 207,895</u>	<u>\$ 544,934</u>
Reconciliation to the Statement of Net Position:					
Total fund balance from above				\$ 478,449	
Add capital assets not reported above				4,299,112	
Less accumulated depreciation				(1,811,575)	
Less long-term debt not reported above				(511,174)	
Less compensated absences				(108,587)	
Deferred inflows of resources for property taxes recognized as revenue in the government-wide statements				<u>58,541</u>	
Net position				<u>\$ 2,404,766</u>	

**Shields Valley School District Number J12 and 5  
Wilsall and Clyde Park, Montana  
Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds  
For the Year Ended June 30, 2014**

	Major Funds				Total Governmental Funds
	General Fund	Elementary Retirement Fund	High School Building Reserve Fund	Other Governmental Funds	
<b>Revenues</b>					
Property taxes	\$ 792,021	\$	\$ 26,335	\$ 369,956	\$ 1,188,312
Federal revenue				121,252	121,252
State revenue	1,241,305			92,675	1,333,980
County revenue		146,508		150,568	297,076
Investment earnings	430	91	62	327	910
Charges for services	5,198			55,538	60,736
Other income	522	622		14,772	15,916
Total revenue	<u>2,039,476</u>	<u>147,221</u>	<u>26,397</u>	<u>805,088</u>	<u>3,018,182</u>
<b>Expenditures</b>					
Current operations					
Instruction	\$ 1,125,116	\$ 132,062	\$	\$ 232,283	\$ 1,489,461
Students	58,586	5,065		3,376	67,027
Improvement of instruction	500				500
General administration	97,926	6,005		6,152	110,083
School administration	195,191	12,565		9,674	217,430
Business	94,124	2,540		2,506	99,170
Operation and maintenance	292,808	5,957		18,278	317,043
Student transportation	40,093			238,200	278,293
School food services	59,400	7,702		81,112	148,214
Extracurricular	74,994	960		5,229	81,183
Current charges	<u>2,038,738</u>	<u>172,856</u>	<u>0</u>	<u>596,810</u>	<u>2,808,404</u>
Capital outlay	9,780		129,449	70,087	209,316
Debt service			8,115	176,337	184,452
	2,048,518	172,856	137,564	843,234	3,202,172
Excess (Deficiency) of revenue over expenditures	\$ (9,042)	\$ (25,635)	\$ (111,167)	\$ (38,146)	\$ (183,990)
Other financing sources (uses)					
Face amount of notes payable	\$ 0	\$ 0	\$ 137,900	\$ 59,100	\$ 197,000
Resources transfer (to) from other funds	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Net change in fund balances	\$ (9,042)	\$ (25,635)	\$ 26,733	\$ 20,954	\$ 13,010
Beginning fund balance, as previously reported	195,209	82,397	18,673	167,960	464,239
Prior period adjustments				1,200	1,200
Ending fund balance	<u>\$ 186,167</u>	<u>\$ 56,762</u>	<u>\$ 45,406</u>	<u>\$ 190,114</u>	<u>\$ 478,449</u>

See Accompanying Notes to the Financial Statements

**Shields Valley School District Numbers J12 and 5**  
**Wilsall and Clyde Park, Montana**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2014**

Excess (deficiency) of revenues over expenditures and changes in fund balances as reported on the governmental funds statement	\$ 13,010
Revenues on the government-wide statement not reflected in revenue in the governmental funds statement:	
Increase (decrease) in property taxes receivable	4,189
Expenditures on the government-wide statement not reported on the government funds statement:	
Depreciation	(110,719)
(Increase) decrease in compensated absences	5,258
Revenues on the government funds statement not reported on the government-wide statement:	
Face amount of notes payable	(197,000)
Expenditures on the government funds statement not reported on the government-wide statement:	
Principal payments on long-term debt	160,826
Acquisition of capital assets	<u>209,316</u>
Change in net position on the government-wide statement of activity	<u>\$ 84,880</u>

**Shields Valley School District Numbers J12 and 5**  
**Wilsall and Clyde Park, Montana**  
**Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position**  
**As of and For the Year Ended June 30, 2014**

	<u>Private Purpose Trust Fund - Extracurricular</u>
<b>Fiduciary net position:</b>	
Assets	
Cash and investments	\$ <u>95,985</u>
Net position held in trust	
Student activities	\$ <u>95,985</u>
 <b>Changes in fiduciary net position</b>	
Additions	
Revenue from student activities	\$ 148,612
Deductions	
Student activities	<u>138,289</u>
Changes in net position held in trust	\$ 10,323
Net Position	
Beginning of the year	\$ <u>85,662</u>
End of the year	\$ <u>95,985</u>

See Accompanying Notes to the Financial Statements

**Shields Valley School District Numbers J12 and 5**  
**Wilsall and Clyde Park, Montana**  
**Notes to the Financial Statements**  
**June 30, 2014**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Shields Valley School District Numbers J12 & 5 (the School District) 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 applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The School District's significant accounting policies are described below.

**Reporting Entity** – Shields Valley School District Numbers J12 & 5 were established under Montana law to provide elementary and secondary educational services to residents of the School District. The School District consists of two legally separate entities; an elementary district and a high school district.

Both School Districts are managed by one central Board of Trustees elected in a district-wide election, and by a central administration appointed by and responsible to the Board of Trustees. Both School Districts must be maintained separately as required by state law because of differences in funding provided by the State Legislature. The elementary district provides education from kindergarten through the eighth grade. The high school covers grades nine through twelve.

The government of Park County provides substantial services to the School District. Taxes are levied and collected by the County. Cash is maintained and invested by the County Treasurer. The County Commissioners have a legal right to review and approve the budget adopted by the School District. However, management policies and day-to-day control of the School District are the sole responsibility of the Board of Trustees.

The County does not significantly influence the operations of the School District; therefore the School District is being treated as a separate and independent local government unit.

**Government-Wide Statements** – The statement of net position and the statement of activities show information about the overall financial position and activities of the School District with the exception of the fiduciary fund.

**Shields Valley School District Numbers J12 and 5**  
**Wilsall and Clyde Park, Montana**  
**Notes to the Financial Statements**  
**June 30, 2014**

These statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the School District are generally financed through property taxes, state equalization funding, and federal and state grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place.

On the accrual basis of accounting, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which eligibility requirements have been met.

The statement-of-activities presents a comparison between direct expenses and program revenues for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function. The School District does not charge indirect expenses to programs or functions. Program revenues include fees for services and grants and contributions that are restricted to a particular program. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

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

These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. State and other governmental revenues applicable to the current fiscal year and collected soon after year-end are recognized as revenue. Most current property taxes receivable are delinquent at June 30 and the amount collected soon after year-end is not significant. Deferred revenues are recorded for these receivables.

Expenditures are recorded when the related fund liability is incurred, except for payments for compensated absences which are recognized as expenditures when paid. General capital asset acquisitions are reported as expenditures in governmental funds.

Under the terms of the School District's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues.

**Shields Valley School District Numbers J12 and 5**  
**Wilsall and Clyde Park, Montana**  
**Notes to the Financial Statements**  
**June 30, 2014**

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

**General Fund** – This is the School District’s primary operating fund and it accounts for all financial resources of the School District except those required to be accounted for in other funds.

**Elementary Retirement Fund** – This fund accounts for revenues used for the purpose of financing the District’s contribution to the Teachers’ Retirement System, the Public Employees Retirement System, Unemployment Compensation and Social Security.

**High School Building Reserve Fund** – This fund accounts for tax revenues received for the purpose of financing voter approved building or construction projects.

**Fiduciary Fund** – The School District also has a private-purpose trust fund, Extracurricular, which accounts for extracurricular activities of its students. The fund is reported using the economic resources measurement focus and accrual basis of accounting.

**Cash and Investments** – Except for the private purpose trust funds and petty cash, all cash and investments are held by the County Treasurer. State Law permits investment of school funds in insured savings or time deposits, bank repurchase agreements, direct obligations of the U.S. Government, and the State’s unified investment program. Investments are stated at estimated fair value, which approximates cost. Interest earned on investments is allocated on a pro rata basis. Cash on hand, demand, savings and time deposits, STIP and short-term investments with original maturities of three months or less from the date of acquisition are considered cash equivalents.

**Inventories** – Inventories are considered to be immaterial and are not recorded.

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

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

**Shields Valley School District Numbers J12 and 5**  
**Wilsall and Clyde Park, Montana**  
**Notes to the Financial Statements**  
**June 30, 2014**

**Capital Assets** – Capital assets are carried at actual cost or estimated historical cost based on appraisals. Major additions and betterments with a cost in excess of \$5,000 are recorded as additions to fixed assets. Donated capital assets are recorded at the estimated fair market value at the date of donation. Repair and maintenance costs are not capitalized.

Depreciation is computed using the straight-line method and the useful lives have been estimated as follows:

Land Improvements	20 years
Buildings and Improvements	7-50 years
Machinery and Equipment	8-20 years

**Compensated Absences** – Non-certified employees earn vacation leave at the rate of 15 days per year during the first ten 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 two times the maximum number of days earned annually. At termination, employees are paid for any accumulated vacation leave at the current rate of pay.

Non-certified employees earn sick leave at a rate of one day per month. There is no limit on the accumulation of unused sick leave. However, upon termination, only 25 percent of the accumulated sick leave is paid.

Certified employees earn 12 sick days per year. Sick leave can be accumulated up to 100 days and is paid at \$60 per day.

The current and long-term liabilities for accumulated vacation and sick leave are reported on the government-wide financial statements. In governmental funds, sick leave and vacation leave are recorded as expenditures in the year paid, as it is the School District's policy to satisfy any unpaid amounts at year-end from future resources, not expendable available resources.

The School District, in accordance with section 20-9-512 of the Montana Code Annotated (MCA), transfers money, within the adopted budget, (through an operating transfer) from the General Fund to maintain the Compensated Absences Fund. The purpose of this fund is to pay any accumulated sick leave and vacation leave that a non-teaching or administrative employee is entitled to upon termination of employment. The balance is restricted to 30 percent of the School District's recorded liability for accumulated sick and vacation leave for non-teaching or administrative employees at the end of the fiscal year. Compensated absences have been liquidated using the Compensated Absences Fund and General Fund.

**Shields Valley School District Numbers J12 and 5**  
**Wilsall and Clyde Park, Montana**  
**Notes to the Financial Statements**  
**June 30, 2014**

**Long-term Obligations** – In the government-wide financial statements, long-term debt and other long-term debt obligations are reported as liabilities on the statement of net position.

**Interfund Transfers and Balances** – Interfund transfers are inflows and outflows of current financial resources between funds and are to be distinguished from a government’s regular revenues. Interfund transfers are reported as other financing sources rather than revenue. Advances between funds are accounted for as interfund receivables and payables. Interfund transfers and balances are eliminated in the government-wide financial statements. Interfund transfers are made and balances are held, as needed, for the support of programs throughout the School District.

**Net Position and Fund Balance** – The Statement of Net Position includes the following components of net position: Net Investment in Capital Assets – which reports capital assets less accumulated depreciation and related debt, Restricted Net Position – which reports net position that is subject to enabling legislation, or external restrictions imposed by creditors, grantors, laws or regulations of other governments, Unrestricted Net Position – the difference between assets and liabilities not reported in either of the other two classes of net position.

In accordance with Government Accounting Standards Board (GASB) Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the School District classifies governmental fund balances as follows:

**Nonspendable** – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

**Restricted** – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

**Committed** – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government. These commitments may be made, rescinded or modified by resolution of the Board of Trustees, the highest level of decision making authority, and do not lapse at year-end.

**Assigned** – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Board of Trustees at its discretion.

**Shields Valley School District Numbers J12 and 5**  
**Wilsall and Clyde Park, Montana**  
**Notes to the Financial Statements**  
**June 30, 2014**

Unassigned - includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The School District uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents or contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the School District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made. The School District does not have a formal minimum fund balance policy.

**NOTE 2: CASH AND INVESTMENTS**

The School District participates in the County Treasurer's investment program. Funds deposited with the County Treasurer are pooled and invested in accordance with State Law. Funds are withdrawn from the investment program as needed to pay warrants. Earnings are allocated to the School District based on average month-end cash balances and are distributed monthly. It is not practical to determine the investment risk, collateral, or insurance coverage for the School District's share of these pooled investments. This external investment pool is audited as part of the County's financial statements. This investment pool is not registered with the Securities and Exchange Commission (SEC).

The extracurricular trust funds are deposited in FDIC insured, interest bearing checking accounts or certificates of deposit. At year-end, the carrying amount of the bank balances for the Extracurricular Fund was \$95,985. Of these bank balances, 100% was covered by Federal Deposit Insurance.

Concentration of Credit Risk – The investment policy of the School District contains no limitations on the amount that can be invested in any one issuer. Deposits held in the School District's name or the County's name are held as authorized by the State of Montana.

**Shields Valley School District Numbers J12 and 5  
Wilsall and Clyde Park, Montana  
Notes to the Financial Statements  
June 30, 2014**

**NOTE 3: CAPITAL ASSETS**

Capital asset activity during the year was as follows:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Cost of assets				
Land	\$ 183,736	\$	\$	\$ 183,736
Land improvements	225,602			225,602
Buildings & improvements	3,210,620	209,316		3,419,936
Machinery and equipment	<u>469,838</u>			<u>469,838</u>
<b>Total</b>	<b>\$ <u>4,089,796</u></b>	<b>\$ <u>209,316</u></b>	<b>\$ <u>0</u></b>	<b>\$ 4,299,112</b>
Accumulated depreciation, beginning				\$ 1,700,856
Depreciation expense				<u>110,719</u>
Accumulated depreciation, ending				<u>\$ 1,811,575</u>
Capital assets, net of depreciation				<u>\$ <u>2,487,537</u></u>

Depreciation expense was charged to functions as follows:

Transportation	\$ 6,192
School food	3,866
Unallocated	<u>100,661</u>
<b>Total depreciation expense</b>	<b>\$ <u>110,719</u></b>

**Shields Valley School District Numbers J12 and 5  
Wilsall and Clyde Park, Montana  
Notes to the Financial Statements  
June 30, 2014**

**NOTE 4: LONG-TERM LIABILITIES**

A summary of long-term liabilities for the year follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Compensated absences	\$ 113,845	\$	\$ (5,258)	\$ 108,587	\$ 36,192
Intercap loan	0	197,000	(10,826)	186,174	45,851
General obligation bond	475,000		(150,000)	325,000	160,000
Total	<u>\$ 588,845</u>	<u>\$ 197,000</u>	<u>\$ (166,084)</u>	<u>\$ 619,761</u>	<u>\$ 242,043</u>

General Obligation Bonds – The School District has 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.

General obligation bonds are secured by the general credit and revenue raising powers of the School District. The bonds are payable from amounts available in the Debt Service Funds and from revenues from future years' debt service property tax levies, which are restricted by state law to the payment of general obligation bond principal and interest. The interest rate on the bonds increases 0.10% each year between 2010 and 2015, and then increases 0.05% in 2016 to end at a rate of 4.75%.

Intercap Loans – The School District received loans from the Montana Board of Investments through intercap loan program for the purchase and installation of a new boiler system. The loans were issued for the terms and payment schedules indicated in the following schedule. The interest rate may be adjusted annually by the Montana Board of Investments.

Debt	Issue Date	Interest Rate	Term	Maturity Date	Original Loan
Elementary GO Bond 2001	07-2001	4 - 5%	15 years	07-2016	\$ 720,000
High School GO Bond 2001	07-2001	4 - 5%	15 years	07-2016	\$ 1,080,000
Elementary Intercap Loan 2014	01-2014	1%	4 years	06-2018	\$ 59,100
High School Intercap Loan 2014	01-2014	1%	4 years	06-2018	\$ 137,900

**Shields Valley School District Numbers J12 and 5  
Wilsall and Clyde Park, Montana  
Notes to the Financial Statements  
June 30, 2014**

Principal payments and interest payments due on the bonds outstanding are as follows:

Dates	General Obligation Bonds	
	Principal	Interest
2015	\$ 160,000	\$ 15,357
2016	165,000	7,837
2017	0	0
2018	0	0
2019	0	0

Principal payments and interest payments due on the InterCap loans outstanding are as follows:

Dates	InterCap Loans	
	Principal	Interest
2015	\$ 45,851	\$ 1,862
2016	46,310	1,403
2017	46,773	940
2018	47,240	472
2019	0	0

**NOTE 5: RETIREMENT PLANS**

The School District participates in two state-wide, mandatory, cost-sharing, multiple employer, defined benefit retirement plans which cover all employees, except certain substitute teachers and part-time, nonteaching employees. The Montana Teachers' Retirement System (MTRS) covers teaching employees, including principals and superintendents. The Montana Public Employees' Retirement System (MPERS) covers other non-teaching employees. The plans are established by State Law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. Both plans issue a publicly available financial report that includes financial statements and required supplementary information for the plans.

Those reports may be obtained from the following:

Teachers Retirement System  
P.O. Box 200319  
1500 Sixth Avenue  
Helena, MT 59620-0139  
Phone: (406) 444-3134

Public Employees Retirement System  
P.O. Box 200131  
1712 Ninth Avenue  
Helena, MT 59620-0131  
Phone: (406) 444-3154

**Shields Valley School District Numbers J12 and 5  
Wilsall and Clyde Park, Montana  
Notes to the Financial Statements  
June 30, 2014**

Contribution rates for both plans are required and determined by State Law. Effective July 1, 2002, the Montana Public Employees Retirement System (MPERS) permits plan members to elect to transfer a portion of their plan entitlement to a defined contribution plan and have their share of plan contributions deposited to a separate account in a defined contribution plan. There is no change in the required contributions from employers, employees, or the State.

The contribution rates expressed as a percentage of covered payroll, were as follows:

	<u>Employer</u>	<u>Employee</u>	<u>State</u>	<u>Total</u>
TRS	8.47 %	8.15 %	2.49 %	19.11 %
PERS	7.80 %	7.90 %	0.37 %	16.07 %

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
TRS	\$ 195,819	\$ 170,836	\$ 168,685
PERS	<u>32,834</u>	<u>28,330</u>	<u>42,096</u>
Total	<u>\$ 228,653</u>	<u>\$ 199,166</u>	<u>\$ 210,781</u>

The State of Montana is required to contribute .37% per year to the PERS Plan and 2.49% (\$29,338 for 2014) to the TRS Plan. The State's contribution to the TRS Plan terminates when the amortization period for the system's unfunded liability is 10 years or less according to the system's latest actuarial valuation. The State of Montana's contribution to PERS has not been recorded in the financial statements.

**NOTE 6: RISK OF LOSS**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; professional liability (i.e. errors and omissions); workers' compensation (i.e. employee injuries); natural disasters; and environmental damages. A variety of 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 theft, damage or destruction of assets, professional liabilities, natural disasters, and employee medical costs.

**Shields Valley School District Numbers J12 and 5**  
**Wilsall and Clyde Park, Montana**  
**Notes to the Financial Statements**  
**June 30, 2014**

The School District participates in the Montana School Group's Workers' Compensation Risk Retention Program, a statewide pool currently operating as a common risk insurance coverage. The agreement for formation of the pool provides that it will be self-sustaining through member premiums. There are no deductibles or maximum coverage limits in the plan. The pool issued audited financial statements. Information about the amount of claim liabilities, changes in claims liabilities, amount of claims paid, operating results and other information is available at 1 South Montana Avenue, Helena, Montana 59601. Given the lack of coverage available, the School District has no coverage for potential losses from environmental damages.

**NOTE 7: NON-MONETARY TRANSACTIONS**

The School District received \$5,063 in USDA Commodities during the current fiscal year. The commodities received are valued at the average wholesale price as determined by the distributing agency. All commodities received by the School District were treated as revenue and expense of the fund receiving the commodities.

**NOTE 8: GRANT PROGRAMS**

The government participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies, therefore, to the extent that the government has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the government, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

**NOTE 9: OTHER POSTEMPLOYMENT BENEFITS**

Plan Description – The School District allows eligible retirees to remain in the School District's Health Insurance Plan (Plan) in accordance with State Law. This single-employer plan does not issue a publicly available financial report.

Funding Policy – The School District is required to allow eligible retirees to remain in the Plan by State Law. Since the Plan provides for a single blended-premium, the School District is providing an implicit rate subsidy to retirees.

**Shields Valley School District Numbers J12 and 5  
Wilsall and Clyde Park, Montana  
Notes to the Financial Statements  
June 30, 2014**

No other contribution is made by the School District to the Plan. Each retiree is required to contribute his or her entire insurance premium. The Plan is funded on a pay-as-you-go basis.

The School District has not recorded the other post employment benefit (OPEB) liability and related expense; because it feels the costs outweigh the benefits. Accounting principles generally accepted in the United States of America require that the other post employment benefit liability and related expense be recorded, which would increase the liabilities and expenses and decrease net position for the governmental activities and the aggregate remaining fund information. The amount by which this departure would affect the liabilities, net position and expenses is not reasonably determinable.

**NOTE 11: PRIOR PERIOD ADJUSTMENTS**

A prior period adjustment was made during the year. Fund balance in the high school miscellaneous programs fund was increased by \$1,200 for an adjustment to expenditures that was related to encumbrances made in a prior year.

**NOTE 12: COMMITMENTS**

The School District has also encumbered \$9,007 in the General Fund for personal property that had been ordered by year end, but not received.

**NOTE 13: BUDGET AND ACTUAL VARIANCES**

The School District incorrectly prepared the budgets for both the Elementary and High School Building Reserve Funds. The School District did not include revenue or expenditures related to the boiler replacement project. Consequently, the School District made expenditures in excess of its budget in the Elementary and High School Building Reserve Funds in the amounts of \$27,410 and \$91,311, respectively.

SHIELDS VALLEY SCHOOL DISTRICT NUMBERS J12 AND 5  
PARK COUNTY  
WILLSALL AND CLYDE PARK, MONTANA

REQUIRED SUPPLEMENTAL INFORMATION  
YEAR ENDED JUNE 30, 2014

**Shields Valley School District Numbers J12 and 5  
Wilsall and Clyde Park, Montana  
Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual  
Elementary and High School General Funds  
For the Year Ended June 30, 2014**

	Elementary General Fund			High School General Fund			Combined
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Actual
<b>REVENUES</b>							
District property taxes	\$ 485,860	\$ 485,860	\$ 481,255	\$ 314,395	\$ 314,395	\$ 310,766	\$ 792,021
Federal revenue							0
State revenue	608,235	608,235	608,236	603,731	603,731	603,731	1,211,967
Interest	415	415	277	300	300	153	430
Charges for services						5,198	5,198
Other revenue				5	5	522	522
<b>Total revenues</b>							
Before reappropriations	\$ 1,094,510	\$ 1,094,510	\$ 1,089,768	\$ 918,431	\$ 918,431	\$ 920,370	\$ 2,010,138
Budget reappropriations							
<b>Total revenue and reappropriations</b>	<u>\$ 1,094,510</u>	<u>\$ 1,094,510</u>	<u>\$ 1,089,768</u>	<u>\$ 918,431</u>	<u>\$ 918,431</u>	<u>\$ 920,370</u>	<u>\$ 2,010,138</u>
<b>Total expenditures</b>	<u>\$ 1,094,510</u>	<u>\$ 1,094,510</u>	<u>\$ 1,093,583</u>	<u>\$ 918,431</u>	<u>\$ 918,431</u>	<u>\$ 917,960</u>	<u>\$ 2,011,543</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (3,815)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,410</u>	<u>\$ (1,405)</u>
<b>Other Uses:</b>							
Operating transfers (to) from			\$ 0				\$ 0
<b>Net change in fund balances, (budgetary basis)</b>			\$ (3,815)			\$ 2,410	\$ (1,405)
<b>Fund balance, beginning of year, as previously reported (budgetary basis)</b>			\$ 100,361			\$ 118,436	\$ 218,797
<b>Fund balance, end of year (budgetary basis)</b>			\$ 96,546			\$ 120,846	\$ 217,392
<b>Reconciliation to GAAP basis</b>							
<b>Net change in fund balances, (budgetary basis)</b>							\$ (1,405)
<b>Prior period revenue adjustments</b>							
On-behalf payments revenue							29,338
On-behalf payments expense							(29,338)
Change in encumbrances							\$ (7,637)
<b>Fund balance, beginning of year, as previously reported (GAAP basis)</b>							195,209
<b>Fund balance, end of year (GAAP basis)</b>							<u>186,167</u>

See Accompanying Notes to Required Supplemental Information

**Shields Valley School District Numbers J12 and 5  
Wilsall and Clyde Park, Montana  
Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual  
Elementary and High School Transportation Funds  
For the Year Ended June 30, 2014**

	Elementary Retirement Fund			High School Building Reserve Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES						
District property taxes	\$	\$	\$	\$ 27,580	\$ 27,580	\$ 26,335
Federal revenue						
State revenue						
County revenue	145,200	145,200	146,508			
Interest			91			62
Other revenue			622			
Total revenues						
Before reappropriations	\$ 145,200	\$ 145,200	\$ 147,221	\$ 27,580	\$ 27,580	\$ 26,397
Budget reappropriations	53,357	53,357		18,673	18,673	
Total revenue and reappropriations	\$ 198,557	\$ 198,557	\$ 147,221	\$ 46,253	\$ 46,253	\$ 26,397
Total expenditures	\$ 198,557	\$ 198,557	\$ 172,856	\$ 46,253	\$ 46,253	\$ 137,564
Other financing sources (uses)						
Face amount of notes payable	\$	\$	\$	\$	\$	\$ 137,900
Excess (deficiency) of revenues over expenditures	\$ 0	\$ 0	\$ (25,635)	\$ 0	\$ 0	\$ 26,733
Net change in fund balances			\$ (25,635)			\$ 26,733
Fund balance, beginning of year			\$ 82,397			\$ 18,673
Fund balance, end of year			\$ 56,762			\$ 45,406

See Accompanying Notes to Required Supplemental Information

**Shields Valley School District Numbers J12 and 5  
Wilsall and Clyde Park, Montana  
Notes to Required Supplemental Information  
For the Year Ended June 30, 2014**

**BUDGETS**

Budgets are adopted on a basis consistent with the State of Montana budget laws which are, for the most part, consistent with generally accepted accounting principles (GAAP). Annual appropriated budgets are adopted for the general fund and budgeted special revenue funds, including the elementary retirement and high school building reserve funds. 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. The high school building reserve fund reported an excess of expenditures over appropriations. See the related finding.

**GENERAL POLICIES**

The School District's funds are either budgeted or unbudgeted 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 nonbudgeted, meaning a legal budget is not required. 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 budgeted funds.

**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:

1. By the first Monday in August, the Department of Revenue submits the certification of taxable values.
2. On or before August 20, the trustees shall meet to consider all budget information and any attachments required by law.
3. By August 25<sup>th</sup>, the Board of Trustees must meet to legally adopt the final budget.
4. Once adopted, the budget can be amended by subsequent Board action. An increase of total budget of a given fund requires the adoption of an amended budget in accordance with State statutes.
5. According to State statutes, the expenditures of a budgeted fund may not legally exceed the adopted budget.
6. At the end of a fiscal year, unencumbered appropriations lapse unless specifically obligated by the School District.

SHIELDS VALLEY SCHOOL DISTRICT NUMBERS J12 AND 5  
PARK COUNTY  
WILLSALL AND CLYDE PARK, MONTANA

OTHER SUPPLEMENTAL INFORMATION  
YEAR ENDED JUNE 30, 2014

**Shields Valley School District Numbers J12 and 5  
Wilsall and Clyde Park, Montana  
Other Supplemental Information  
Year Ended June 30, 2014**

**SCHOOL DISTRICT ENROLLMENT**

	District Enrollment Reports October 2013	Fall Report October 2013	District Enrollment Reports December 2013	Winter Report December 2013	District Enrollment Reports February 2014	Spring Report February 2014
Kindergarten	17	17	17	17	17	17
Grade 1	9	9	9	9	9	9
Grade 2	17	17	16	16	15	15
Grade 3	8	8	9	9	9	9
Grade 4	18	18	19	19	19	19
Grade 5	15	15	15	15	15	15
Grade 6	17	17	17	17	17	17
	101	101	102	102	101	101
Grade 7	11	11	11	11	11	11
Grade 8	23	23	23	23	22	22
	34	34	34	34	33	33
Grade 9	17	17	18	18	18	18
Grade 10	18	18	19	19	19	19
Grade 11	18	18	18	18	19	19
Grade 12	19	19	20	20	20	20
	72	72	75	75	76	76
Total	207	207	211	211	210	210

**Shields Valley School District Numbers J12 and 5  
Wilsall and Clyde Park, Montana  
Elementary Extracurricular Funds  
Schedule of Revenues, Expenditures,  
and Changes in Fund Balances  
Year Ended June 30, 2014**

Fund Account	Beginning Balance	Revenues Collected	Expenditures Paid	Transfers In (Out)	Ending Balance
Athletics	\$ 2833	\$ 1,134	\$ 567	\$	\$ 3,400
Class of 2019	785	0	785		0
Class of 2020	0	3,190	1,867		1,323
Class of 2021	0	254	0		254
Library fund	235	898	884		249
Music fund	0	0	0		0
Playground fund	2920	986	447		3,459
Pop fund	1165	428	129		1,464
Revolving fund	0	6,627	6,627		0
Student council fund	123	405	305		223
Wellness committee	0	400	399		1
Totals	<u>\$ 8,061</u>	<u>\$ 14,322</u>	<u>\$ 12,010</u>	<u>\$ 0</u>	<u>\$ 10,373</u>

**Shields Valley School District Numbers J12 and 5  
Wilsall and Clyde Park, Montana  
High School Extracurricular Funds  
Schedule of Revenues, Expenditures,  
and Changes in Fund Balances  
Year Ended June 30, 2014**

Fund Account	Beginning Balance	Revenues Collected	Expenditures Paid	Transfers In (Out)	Ending Balance
Annual	\$ 3780	\$ 6,663	\$ 6,843	\$	\$ 3,600
Art	1966	2,026	2,886	700	1,806
Athletics - high school	3100	16,222	15,237		4,085
Athletics - junior high	1505	2,151	3,098	(103)	455
BPA	10696	20,255	15,174	85	15,862
Careers class	311	1,535	1,409	(309)	128
Christmas kids	0		350	470	120
Class of 2014	15709	1,013	16,608	(114)	0
Class of 2015	3762	2,099	302	10,130	15,689
Class of 2016	2016	457		25	2,498
Class of 2017	555	1,431		25	2,011
Class of 2018	1466	60			1,526
Class of 2019	0	812	26		786
Close-up	3752	11,374	10,037		5,089
Concessions	0	17,651	7,794	(9,857)	0
Costco cash card	0	349	1,000	1,329	678
Drama fund	3102	1,982	765	(1,181)	3,138
FFA	16292	29,635	28,776	1,879	19,030
FFA grant	2014			(2,014)	0
Home economics	35	545	543		37
Library	1103	62	25		1,140
Music	346	5,407	4,266		1,487
Robotics	348			(348)	0
Shop	109	25			134
Soda machine	377	936	576	(21)	716
Special projects	129	1,021	1,014	774	910
Sponsorship	4000	10,300	9,516	(1,000)	3,784
Student council	1128	279	34	(470)	903
Totals	\$ <u>77,601</u>	\$ <u>134,290</u>	\$ <u>126,279</u>	\$ <u>0</u>	\$ <u>85,612</u>

**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***

To the Board of Trustees  
Shields Valley School District Numbers J12 & 5  
Park County  
Wilsall & Clyde Park, Montana

I 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 *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 Shields Valley School District Numbers J12 & 5 (the School District), Park County, Wilsall and Clyde Park, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued my report thereon dated December 11, 2014. The report on the governmental activities was qualified because the other post employment benefit (OPEB) liability and related expense (GASB No. 45) was not recorded.

**Internal Control Over Financial Reporting**

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

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable probability that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

I consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. See finding numbers 14-1 and 14-3 through 14-6.

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. I consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency. See finding number 14-2.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs. See finding numbers 14-3, 14-5 and 14-6.

### **School District's Response to Findings**

The School District's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit the School District's response and, accordingly, 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.

Philip Emmons, CPA  
Miles City, MT

December 11, 2014

**Shields Valley School District Numbers J12 and 5  
Wilsall and Clyde Park, Montana  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2014**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued:	Qualified
Internal control over financial reporting:	
Material weakness (es) identified?	Yes
Significant deficiency (ies) identified not considered to be material weaknesses?	Yes
Noncompliance material to the financial statements noted?	Yes

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding 14-1:**

**Criteria:** The School District did not record the other post employment benefit (OPEB) liability and related expense in the financial statements in accordance with GASB Statement Number 45.

**Condition:** U.S. generally accepted accounting principles require the OPEB liability and related expense be recorded in the financial statements.

**Cause:** The School District did not engage an actuarial firm to assist in determining the OPEB liability and related expense.

**Effects of Condition:** The governmental activities and internal service fund liabilities are understated, net assets are overstated and expenses are understated.

**Recommendation:** Management and the Board of Trustees should consider the cost/benefit of contracting with an actuarial firm to determine the OPEB liability and related expense.

**Management Response:** Management and the Board of Trustees do not believe the cost of contracting with an actuary is worth the benefit, but will reconsider this annually.

**Shields Valley School District Numbers J12 and 5  
Wilsall and Clyde Park, Montana  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2014**

**Finding 14-2:**

**Criteria:** The District does not have specific controls in place to review the selection and application of accounting principles and resulting disclosures within the financial statements.

**Condition:** I was engaged to assist in the preparation of the District's financial statements. The government ensures the quality of its financial statements by engaging a qualified audit firm with expertise in governmental audits and by reading a preliminary draft of the financial statements.

**Cause:** The condition occurred due to the District having a limited number of personnel available.

**Effects of Condition:** It is common within the governmental sector to rely on the audit firm to prepare the financial statements; however, an audit firm cannot be considered part of the government's internal control by professional standards. Since some presentations and disclosures may be material to the financial statements, this weakness in internal control is classified as material.

**Recommendation:** The District should continue to read its draft financial statements and ensure the quality of the document and preparer.

**Management Response:** The District will continue to read its draft financial statements and ensure the quality of the document and preparer.

**Finding 14-3:**

**Criteria:** The Montana Code Annotated requires that the accounting system for the extracurricular fund provide for internal control of the cash receipts and expenditures of that fund.

**Condition:** The School District is not using prenumbered admission tickets for extracurricular activities.

**Cause:** The School District personnel responsible for this were not aware this was required.

**Effects of Condition:** Internal controls have been diminished with regard to cash receipts from extracurricular activities where admission is charged.

**Recommendation:** The School should consider implementing a policy that will strengthen internal controls for extracurricular activities where admission is charged.

**Shields Valley School District Numbers J12 and 5  
Wilsall and Clyde Park, Montana  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2014**

**Management Response:** The School will consider implementing a policy that will strengthen internal controls for extracurricular activities where admission is charged.

**Finding 14-4:**

**Criteria:** The School District's accounting policies and procedures specify that bank reconciliations are to be completed for each extracurricular bank account.

**Condition:** A bank statement reconciliation was not completed by School District personnel for the high school extracurricular bank account in the month of June 2014.

**Cause:** The School District personnel responsible for this did not complete the required task.

**Effects of Condition:** The failure to complete bank statement reconciliations severely diminishes internal controls.

**Recommendation:** The School District should complete bank statement reconciliations for each bank account every month.

**Management Response:** The employee responsible for this task terminated employment prior to completing all year end reports. A new employee is now responsible for the task and will be notified of this requirement.

**Finding 14-5:**

**Criteria:** The Montana Code Annotated allows the use of a facsimile signature device, but stipulates that the device cannot be available to the countersigner of the warrants.

**Condition:** Currently, the facsimile signature device of the countersigner is available to the School Clerk.

**Cause:** The device was stored by in the Clerk's office.

**Effects of Condition:** Making the facsimile signature device available to the countersigner greatly diminishes the effectiveness of the School's internal controls and does not comply with State Law.

**Recommendation:** The School should consider making the facsimile signature device of the countersigner unavailable to the School Clerk.

**Shields Valley School District Numbers J12 and 5  
Wilsall and Clyde Park, Montana  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2014**

**Management Response:** The School District will consider how to best resolve the situation to comply with State Law.

**Finding 14-6:**

**Criteria:** The Montana Code Annotated limits expenditures to the total amount of each fund's budget.

**Condition:** The School District incorrectly prepared the budgets for both the Elementary and High School Building Reserve Funds. The School District did not include revenue or expenditures related to the boiler replacement project. Consequently, the School District made expenditures in excess of its budget for each fund.

**Cause:** Unknown.

**Effects of Condition:** The School District made expenditures in excess of its budget for each fund.

**Recommendation:** The School District should correctly prepare its budget and make budget amendments if necessary and appropriate.

**Management Response:** The School District will revise its budgeting procedures to comply with State Law.

**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**      N/A

**Shields Valley School District Numbers J12 and 5  
Wilsall and Clyde Park, Montana  
Prior Year Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2014**

**PRIOR YEAR FINANCIAL STATEMENT FINDINGS**

**Finding:** 13-1 – Other Post Employment Benefits not recorded.

**Status:** Continued Disclosure

**Finding:** 13-2 – Financial Statement Preparation

**Status:** Continued Disclosure

**Finding:** 13-3 – Extracurricular Fund Admission Tickets

**Status:** Continued.