

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2015

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

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*Wahlenberg
Ritzman & Co., LLC*
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the School Board
Bennett County School District No. 3-1
Bennett County, South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Bennett County School District No. 3-1 (the School District)** as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bennett County School District No. 3-1, as of June 30, 2015, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Adoption of New Accounting Standard

As described in Notes 2 and 10 to the financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions and Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of American require that the budgetary comparison information, schedule of funding progress, schedule of employer's share of net pension asset, and schedule of employer's contributions on pages 38 through 46, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated March 20, 2016, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Wohlensberg Ritzman + Co., LLC

Yankton, South Dakota
March 20, 2016

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

STATEMENT OF NET POSITION
JUNE 30, 2015

	Primary Government		Total
	Governmental Activities	Business- Type Activities	
ASSETS			
Cash and cash equivalents	\$ 1,280,100	\$ 21,607	\$ 1,301,707
Investments	8,088,429		8,088,429
Certificates of deposit	3,913,289	-	3,913,289
Taxes receivable	492,881	-	492,881
Due from other governments	538,977	-	538,977
Interest receivable	3,558	-	3,558
Inventory	25,755	5,201	30,956
Net pension asset	924,881	-	924,881
Capital assets:			
Not being depreciated	87,585	-	87,585
Being depreciated, net of depreciation	11,241,292	72,036	11,313,328
Total capital assets	11,328,877	72,036	11,400,913
 Total assets	 26,596,747	 98,844	 26,695,591
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows	814,628	-	814,628
LIABILITIES			
Accounts payable	59,234	-	59,234
Contracts payable	402,844	9,777	412,621
Other accrued liabilities	108,991	2,243	111,234
Long-term liabilities:			
Portion due or payable within one year:			
Compensated absences	142,375	1,573	143,948
Portion due or payable after one year:			
Compensated absences	94,917	1,048	95,965
Net OPEB obligation	144,015	-	144,015
 Total liabilities	 952,376	 14,641	 967,017
DEFERRED INFLOWS OF RESOURCES			
Pension related deferred inflows	1,071,168	-	1,071,168
Taxes levied for future period	512,777	-	512,777
 Total deferred inflows of resources	 1,583,945	 -	 1,583,945
NET POSITION			
Net investment in capital assets	11,328,877	72,036	11,400,913
Restricted for:			
Capital outlay	374,764	-	374,764
Special education	4,561	-	4,561
Capital projects	5,422	-	5,422
Pension	25,389	-	25,389
SDRS pension purposes	668,341	-	668,341
Unrestricted	12,467,700	12,167	12,479,867
 Total net position	 \$ 24,875,054	 \$ 84,203	 \$ 24,959,257

The accompanying notes are an
integral part of these financial statements

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

STATEMENT OF ACTIVITIES
JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Instruction	\$ 3,161,701	\$ 1,495	\$ 1,193,153	\$ -	\$ (1,967,053)		\$ (1,967,053)
Support services	2,409,590	-	157,891	51,444	(2,200,255)		(2,200,255)
Cocurricular activities	217,371	27,007	-	-	(190,364)		(190,364)
Total governmental activities	<u>5,788,662</u>	<u>28,502</u>	<u>1,351,044</u>	<u>51,444</u>	<u>(4,357,672)</u>		<u>(4,357,672)</u>
Business-type activities:							
Food service	<u>208,644</u>	<u>27,679</u>	<u>171,427</u>	<u>-</u>		<u>(9,538)</u>	<u>(9,538)</u>
Total school district	<u>\$ 5,997,306</u>	<u>\$ 56,181</u>	<u>\$ 1,522,471</u>	<u>\$ 51,444</u>	<u>(4,357,672)</u>	<u>(9,538)</u>	<u>(4,367,210)</u>
General revenues:							
Taxes:							
Property taxes					1,262,205	-	1,262,205
Revenue from state sources:							
State aid					2,072,553	-	2,072,553
Revenue from federal sources							
Earnings on investments					3,072,154	-	3,072,154
Miscellaneous					11,725	-	11,725
Miscellaneous					97,192	-	97,192
Total general revenues					<u>6,515,829</u>	<u>-</u>	<u>6,515,829</u>
Change in net position					2,158,157	(9,538)	2,148,619
Net position - beginning					22,220,259	93,741	22,314,000
Prior period adjustment					496,638	-	496,638
Net position - beginning, restated					<u>22,716,897</u>	<u>93,741</u>	<u>22,810,638</u>
Net position - ending					<u>\$ 24,875,054</u>	<u>\$ 84,203</u>	<u>\$ 24,959,257</u>

The accompanying notes are an integral part of these financial statements

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	Major Funds				Nonmajor Fund	Total Governmental Funds
	General	Capital Outlay	Special Education	Football/Track Capital Project	Pension Fund	
ASSETS						
Cash and cash equivalents	\$ 784,392	\$ 394,298	\$ 68,057	\$ 6,545	\$ 26,808	\$ 1,280,100
Investments	8,088,429	-	-	-	-	8,088,429
Certificates of deposit	3,913,289	-	-	-	-	3,913,289
Taxes receivable - current	331,800	-	113,484	-	23,037	468,321
Taxes receivable - delinquent	18,808	1,519	3,525	-	708	24,560
Due from other governments	496,123	504	41,593	-	757	538,977
Interest receivable	3,558	-	-	-	-	3,558
Inventory	25,755	-	-	-	-	25,755
Total assets	\$ 13,662,154	\$ 396,321	\$ 226,659	\$ 6,545	\$ 51,310	\$ 14,342,989
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 25,566	\$ 20,038	\$ 12,507	\$ 1,123	\$ -	\$ 59,234
Contracts payable	337,844	-	65,000	-	-	402,844
Employee benefits payable	92,129	-	16,862	-	-	108,991
Total liabilities	455,539	20,038	94,369	1,123	-	571,069
Deferred Inflows of Resources:						
Taxes levied for future period	363,360	-	124,204	-	25,213	512,777
Unavailable revenue - Property taxes	18,808	1,519	3,525	-	708	24,560
Unavailable revenue - Utility taxes	86,087	-	-	-	-	86,087
Total deferred inflows of resources	468,255	1,519	127,729	-	25,921	623,424
Fund Balances:						
Nonspendable:						
Inventory	25,755	-	-	-	-	25,755
Restricted:						
Capital outlay	-	374,764	-	-	-	374,764
Special education	-	-	4,561	-	-	4,561
Capital projects	-	-	-	5,422	-	5,422
Pension	-	-	-	-	25,389	25,389
Unassigned	12,712,605	-	-	-	-	12,712,605
Total fund balances	12,738,360	374,764	4,561	5,422	25,389	13,148,496
Total liabilities, deferred inflows of resources and fund balances	\$ 13,662,154	\$ 396,321	\$ 226,659	\$ 6,545	\$ 51,310	\$ 14,342,989

The accompanying notes are an integral part of these financial statements

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2015

Total fund balances for governmental funds		\$ 13,148,496
Total net position reported for governmental activities in the statement of net position is different because:		
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.		924,881
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	\$ 87,585	
Building and improvements, net of \$2,128,119 accumulated depreciation	10,239,308	
Equipment, net of \$1,404,923 accumulated depreciation	<u>1,001,984</u>	
Total capital assets		11,328,877
Some of the School District's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows of resources in the funds.		110,647
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.		814,628
Long-term liabilities applicable to the School District's governmental activities are not due and payable in current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position. Balances at June 30, 2015 are:		
Compensated absences	237,292	
Net OPEB Obligation	<u>144,015</u>	
Total long-term liabilities		(381,307)
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.		<u>(1,071,168)</u>
Total net position of governmental activities		<u>\$ 24,875,054</u>

The accompanying notes are an integral part of these financial statements

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015**

	Major Funds				Nonmajor Fund	Total Governmental Funds
	General	Capital Outlay	Special Education	Football/Track Capital Project	Pension Fund	
REVENUES						
Revenue from local sources:						
Taxes	\$ 887,356	\$ 3,710	\$ 237,585	\$ -	\$ 47,177	\$ 1,175,828
Tuition and fees	1,495	-	-	-	-	1,495
Interest	11,725	-	-	-	-	11,725
Cocurricular activities	27,007	-	-	-	-	27,007
Other local revenue	45,649	30,475	2,305	-	-	78,429
Revenue from intermediate sources	62,752	-	-	-	-	62,752
Revenue from state sources	2,112,032	-	166,641	-	-	2,278,673
Revenue from federal sources	3,969,992	21,250	192,493	-	-	4,183,735
Total revenues	<u>7,118,008</u>	<u>55,435</u>	<u>599,024</u>	<u>-</u>	<u>47,177</u>	<u>7,819,644</u>
EXPENDITURES						
Instruction:						
Regular programs	1,898,197	111,902	-	-	45,951	2,056,050
Special programs	600,616	-	483,418	-	-	1,084,034
Support services:						
Pupils	128,569	-	95,039	-	-	223,608
Instructional staff	140,313	4,553	-	-	-	144,866
General administration	235,622	-	-	-	-	235,622
School administration	410,163	-	-	-	5,387	415,550
Business	1,042,374	74,867	-	-	-	1,117,241
Central	2,400	-	-	-	-	2,400
Special education	-	-	188,620	-	-	188,620
Cocurricular activities:						
Male activities	48,750	9,245	-	-	-	57,995
Female activities	34,123	-	-	-	-	34,123
Transportation	9,589	-	-	-	-	9,589
Combined activities	31,979	3,501	-	-	-	35,480
Capital outlay	-	483,652	-	844,578	-	1,328,230
Total expenditures	<u>4,582,695</u>	<u>687,720</u>	<u>767,077</u>	<u>844,578</u>	<u>51,338</u>	<u>6,933,408</u>
Excess (deficiency) of revenues over expenditures	<u>2,535,313</u>	<u>(632,285)</u>	<u>(168,053)</u>	<u>(844,578)</u>	<u>(4,161)</u>	<u>886,236</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	900,000	82,000	850,000	-	1,832,000
Transfers out	(1,832,000)	-	-	-	-	(1,832,000)
Sale of surplus property	-	3,505	-	-	-	3,505
Compensation for loss of capital assets	4,854	-	-	-	-	4,854
Total other financing sources (uses)	<u>(1,827,146)</u>	<u>903,505</u>	<u>82,000</u>	<u>850,000</u>	<u>-</u>	<u>8,359</u>
Net change in fund balances	708,167	271,220	(86,053)	5,422	(4,161)	894,595
Fund balances - beginning	<u>12,030,193</u>	<u>103,544</u>	<u>90,614</u>	<u>-</u>	<u>29,550</u>	<u>12,253,901</u>
Fund balances - ending	<u>\$ 12,738,360</u>	<u>\$ 374,764</u>	<u>\$ 4,561</u>	<u>\$ 5,422</u>	<u>\$ 25,389</u>	<u>\$ 13,148,496</u>

The accompanying notes are an integral part of these financial statements

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

RECONCILIATION OF STATEMENT OF THE REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

Net change in fund balances - total governmental funds	\$ 894,595
The change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$1,328,230) exceeded depreciation (\$336,500) in the current period.	991,730
In fund financial statements, gains (\$0) and losses (\$5,003) on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds (\$1,625) from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized.	(6,628)
In both the government wide and fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the fund's statement differs from the accounting in the government wide statements in that the fund financial statements require the amounts to be "available". This amount reflects the application of both the application period and "availability criteria".	86,377
Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment is the net change in compensated absences.	44,998
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This adjustment is the pension revenue related to the South Dakota Retirement System (SDRS) pension plan.	39,068
Changes in the pension related deferred outflows/inflows are direct components of pension asset and are not reflected in the governmental funds.	132,636
The accrual of OPEB costs are not reflected in the governmental funds, but the statement of activities reflects the change in this liability from one year to the next.	<u>(24,619)</u>
Change in net position of governmental activities	<u>\$ 2,158,157</u>

The accompanying notes are an
integral part of these financial statements

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2015

	<u>Enterprise Fund Food Service</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 21,607
Inventory:	
Resale	2,465
Donated food	<u>2,736</u>
Total current assets	<u>26,808</u>
Noncurrent assets:	
Capital assets:	
Machinery and equipment	218,576
Less accumulated depreciation	<u>(146,540)</u>
Total noncurrent assets	<u>72,036</u>
Total assets	<u>98,844</u>
LIABILITIES	
Current liabilities:	
Contracts payable	9,777
Employee benefits payable	2,243
Current portion of accrued compensated absences	<u>1,573</u>
Total current liabilities	<u>13,593</u>
Noncurrent liabilities:	
Accrued compensated absences	<u>1,048</u>
Total liabilities	<u>14,641</u>
NET POSITION	
Net investment in capital assets	72,036
Unrestricted	<u>12,167</u>
Total net position	<u>\$ 84,203</u>

The accompanying notes are an
 integral part of these financial statements

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2015

	<u>Enterprise Fund</u>
	<u>Food Service</u>
OPERATING REVENUES	
Charges for services	\$ 27,679
OPERATING EXPENSES	
Personal expense	73,120
Cost of Materials	5,584
Cost of sales - purchased food	103,425
Cost of sales - donated food	14,035
Depreciation	12,480
Total operating expenses	<u>208,644</u>
Operating (loss)	<u>(180,965)</u>
NONOPERATING REVENUES	
State sources:	
Cash reimbursements	1,109
Federal sources:	
Cash reimbursements	156,485
Donated food	13,833
Total nonoperating revenues	<u>171,427</u>
(Loss) before transfers	(9,538)
Transfers in	<u>-</u>
Change in net position	(9,538)
Total net position - beginning	<u>93,741</u>
Total net position - ending	<u>\$ 84,203</u>

The accompanying notes are an
integral part of these financial statements

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2015

	<u>Enterprise Fund</u>
	<u>Food Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 27,679
Payments to suppliers	(115,984)
Payments to employees	<u>(82,755)</u>
Net cash (used in) operating activities	<u>(171,060)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash reimbursements - state sources	1,109
Cash reimbursements - federal sources	<u>162,014</u>
Net cash provided by noncapital financing activities	<u>163,123</u>
Net (decrease) in cash and cash equivalents	(7,937)
Balances - beginning of year	<u>29,544</u>
Balances - end of year	<u>\$ 21,607</u>
Reconciliation of operating (loss) to net cash (used in) operating activities:	
Operating (loss)	\$ (180,965)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:	
Depreciation	12,480
Value of donated commodities used	13,833
Change in assets and liabilities:	
Inventory	(1,027)
Accounts payable	(5,746)
Contracts payable	(2,190)
Employee benefits payable	(1,167)
Accrued compensated absences	<u>(6,278)</u>
Net cash (used in) operating activities	<u>\$ (171,060)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Value of commodities received	<u>\$ 13,833</u>

The accompanying notes are an
 integral part of these financial statements

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015**

	<u>Private- Purpose Trust Funds</u>	<u>Agency Funds</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ -	\$ 59,989	\$ 59,989
Total assets	<u>-</u>	<u>59,989</u>	<u>59,989</u>
LIABILITIES			
Amount held for others	<u>-</u>	<u>59,989</u>	<u>59,989</u>
Total liabilities	<u>-</u>	<u>59,989</u>	<u>59,989</u>
NET POSITION			
Held in trust for scholarships	<u>-</u>	<u>-</u>	<u>-</u>
Total net position	<u>\$ -</u>	<u>\$ 59,989</u>	<u>\$ 59,989</u>

The accompanying notes are an
integral part of these financial statements

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2015

	<u>Private- Purpose Trust Funds</u>
ADDITIONS:	
Interest earned	\$ -
Total additions	<u>-</u>
DEDUCTIONS:	
Trust deductions for scholarships	<u>4,568</u>
Total deductions	<u>4,568</u>
Change in net position	(4,568)
Net position - beginning	<u>4,568</u>
Net position - ending	<u>\$ -</u>

The accompanying notes are an
integral part of these financial statements

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District conform to generally accepted accounting principles as applicable to government entities in the United States of America.

Reporting Entity

The reporting entity of Bennett County School District No. 3-1 (School District), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The School District participates in a cooperative service unit with several other school districts. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the School District.

Basis of Presentation

Government-wide Statements

The Statement of Net Position and the Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Position reports all financial and capital resources, in a net position form (assets minus liabilities equal net position). Net position is displayed in three components, as applicable, net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Basis of Presentation, continued

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the School District or it meets the following criteria:

1. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and
2. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

The funds of the School District financial reporting entity are described below within their respective fund types:

Governmental Funds:

General Fund – A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the school district, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

Special Revenue Funds - Special revenue funds are used to account for and report the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Outlay Fund – A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant or equipment, textbooks and instructional software. This fund is financed by property taxes. This is a major fund.

Special Education Fund – A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the School District. This fund is financed by grants and property taxes. This is a major fund.

Pension Fund – A fund established by SDCL 13-10-6 for the purpose of paying pensions to retired employees of school districts, which have established such systems, paying the School District's share of retirement plan contributions, and for funding early retirement benefits to qualifying employees. This fund is financed by property taxes. This is not a major fund.

Capital Projects Funds – Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). The Football/Track Capital Projects Fund is the only capital projects fund maintained by the School District. This is a major fund.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges of the activity and the full faith and credit of a related primary government or component unit – even if that government is not expected to make any payments – is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity.)
- b. Laws or regulations require that the activity’s costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Food Service Fund – A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

Fiduciary Funds:

Fiduciary funds consist of the following subcategories and are never considered to be major funds.

Private-Purpose Trust Funds – Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations or other governments. The funds are used for the purpose of providing scholarships to students. School District maintains a private-purpose trust fund for providing scholarships to students.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Basis of Presentation, continued

Agency Funds – Agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The School District maintains agency funds to hold assets as an agent in a trustee capacity for various classes, clubs and other such purposes.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the “current financial resources” measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary fund types.

Basis of Accounting

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Measurement Focus and Basis of Accounting, continued

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the School District, the length of that cycle is 45 days. The revenues which are accrued at June 30, 2015 are property taxes.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred inflows of resources are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets, continued

Government-Wide Statements:

All purchased capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

For governmental activities capital assets, construction-period interest is not capitalized, in accordance with US GAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction-period interest is capitalized in accordance with US GAAP.

The total June 30, 2015 balance of capital assets for governmental activities includes approximately 45% for which the costs were determined by estimates of the original costs. The total June 30, 2015 balance of capital assets for business-type activities includes approximately 5% for which the values were determined by estimates of the original cost). These estimated original costs were established by deflated current replacement cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	All	---	---
Buildings	\$ 50,000	Straight-line	15-50 yrs.
Site improvements	\$ 10,000	Straight-line	10-50 yrs.
Machinery and equipment	\$ 5,000	Straight-line	3-20 yrs.
Food service equipment	\$ 1,000	Straight-line	3-15 yrs.
Technology equipment	\$ 2,000	Straight-line	3-5 yrs.

Land, an inexhaustible capital asset, is not depreciated.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Capital Assets, continued

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide financial statements.

Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist of compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

Program Revenues

In the government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the School District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Program Revenues, continued

3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Revenues, Expenses and Changes in Fund Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

Cash and Cash Equivalents

The School District pools its cash resources for depositing and investing purposes. Accordingly, the enterprise fund has access to its cash resources on demand. Accordingly, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows. Certificates of deposit, regardless of maturity, are not considered to be cash equivalents.

Equity Classifications

Government-wide Statements:

Equity is classified as Net Position and is displayed in three components

1. Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position – All other net position that does not meet the definition of "restricted" or "net investment in capital assets".

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Equity Classifications, continued

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and is distinguished between Nonspendable, Restricted, Committed, Assigned and Unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net position held in trust for other purposes.

Deferred Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources (expenses) until the applicable future period. Deferred outflows consist of pension activity.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to future period or periods. These items will not be recognized as an inflow of resources (revenue) until the applicable future period. Deferred inflows of resources consist primarily of property taxes and pension activity.

Pension

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, the pension revenue, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. School District contributions and net pension asset are recognized on an accrual basis of accounting.

Application of Net Position

It is the School District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Balance Classification Policies and Procedures

In accordance with Government Accounting Standards Board (GASB) No. 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 through formal action of the highest level of decision making authority and does 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 Business Manager.
- 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 first when both restricted and unrestricted fund balance is available unless there are legal documents/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.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

2. IMPLEMENTATION OF GASB STATEMENT NO. 68 AND GASB STATEMENT NO. 71

As of July 1, 2014, the School District adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The implementation of these standards requires governments to calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension liability (asset), deferred outflows of resources, deferred inflows of resources, and pension expense (revenue). The effect of the implementation of these standards on beginning net position is disclosed below and the additional disclosures required by these standards are included in Note 10.

Beginning net position was restated to retroactively report the beginning net position liability and deferred outflows of resources related to contributions made after the measurement date as follows:

Net Position - June 30, 2014, as previously reported	\$22,220,259
Restatement for pension accounting:	
Net pension asset	361,944
Pension related deferred outflows	<u>134,694</u>
Net Position - July 1, 2014, as restated	<u>\$22,716,897</u>

3. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The School District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The School District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1 and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

3. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK, continued

Investments - In general, SDCL 4-5-6 permits school district funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Credit Risk – State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices.

As of June 30, 2015, the School District had the following investment.

<u>Investment</u>	<u>Credit Rating</u>	<u>Maturities</u>	<u>Fair Value</u>
External Investment Pools:			
SDFIT	Unrated	8,088,429	<u>8,088,429</u>

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing purposes. It is regulated by a nine member board with representation from municipalities, school districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the School District’s deposits may not be returned to it. The School District does not have a deposit policy for custodial risk. As of June 30, 2015, the School District’s deposits were fully insured or collateralized and were not exposed to custodial credit risk.

Custodial Credit Risk – Investments – The risk that, in the event of the counterparty to a transaction, the School District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments in external investment pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

3. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK, continued

Concentration of Credit Risk – The School District places no limit on the amount that may be invested in any one issuer. As of June 30, 2015, the School District's investments were with SDFIT.

Interest Rate Risk – The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from investments to the fund making the investment.

4. INVENTORY

Inventory held for consumption is stated at cost.

Inventory for Resale is stated at the lower of cost or market. The cost valuation method is the first-in, first-out method. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

In the government-wide and enterprise fund financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the governmental fund financial statements, inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories are equally offset by Nonspendable Fund Balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

5. PROPERTY TAXES

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, and become due and payable as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the School District's taxes and remits them to the School District.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

5. PROPERTY TAXES, continued

School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is not intended to be used to finance the current year's appropriations and therefore are not susceptible to accrual has been reported as deferred inflows of resources in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "available period."

6. CHANGES IN CAPITAL ASSETS

A summary of changes in governmental activities' capital assets for the year ended June 30, 2015, is as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 83,389	\$ 4,196	\$ -	\$ 87,585
Construction in progress	145,592	-	(145,592)	-
Total capital assets not being depreciated	<u>228,981</u>	<u>4,196</u>	<u>(145,592)</u>	<u>87,585</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	11,161,033	1,206,394	-	12,367,427
Equipment	2,194,887	263,232	(51,212)	2,406,907
Total capital assets being depreciated	<u>13,355,920</u>	<u>1,469,626</u>	<u>(51,212)</u>	<u>14,774,334</u>
Less accumulated depreciation for:				
Buildings and improvements	1,937,778	190,341	-	2,128,119
Equipment	1,303,349	146,159	(44,585)	1,404,923
Total accumulated depreciation	<u>3,241,127</u>	<u>336,500</u>	<u>(44,585)</u>	<u>3,533,042</u>
Total capital assets being depreciated, net	<u>10,114,793</u>	<u>1,133,126</u>	<u>(6,627)</u>	<u>11,241,292</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 10,343,774</u>	<u>\$ 1,137,322</u>	<u>\$ (152,219)</u>	<u>\$ 11,328,877</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:	
Instruction	\$ 143,673
Support Services	110,255
Cocurricular Activities	<u>82,572</u>
 Total Depreciation Expense - Governmental Activities	 <u>\$ 336,500</u>

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

6. CHANGES IN CAPITAL ASSETS, continued

A summary of changes in business-type activities' capital assets for the year ended June 30, 2015, is as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Capital assets being depreciated:</i>				
Equipment	\$ 218,576	\$ -	\$ -	\$ 218,576
Total capital assets being depreciated	<u>218,576</u>	<u>-</u>	<u>-</u>	<u>218,576</u>
Less accumulated depreciation for:				
Equipment	134,060	12,480	-	146,540
Total accumulated depreciation	<u>134,060</u>	<u>12,480</u>	<u>-</u>	<u>146,540</u>
Total capital assets being depreciated, net	<u>84,516</u>	<u>(12,480)</u>	<u>-</u>	<u>72,036</u>
<i>Business type activities capital assets, net</i>	<u>\$ 84,516</u>	<u>\$ (12,480)</u>	<u>\$ -</u>	<u>\$ 72,036</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:

 Food Service Fund \$ 12,480

Total Depreciation Expense - Business-Type Activities \$ 12,480

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

7. LONG-TERM LIABILITIES

A summary of changes in governmental activities' long-term liabilities for the year ended June 30, 2015 is as follows:

Governmental Activities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated Absences	\$ 282,290	\$ 124,376	\$ (169,374)	\$ 237,292	\$ 142,375
Total	<u>\$ 282,290</u>	<u>\$ 124,376</u>	<u>\$ (169,374)</u>	<u>\$ 237,292</u>	<u>\$ 142,375</u>

Compensated absences for governmental activities typically have been liquidated from the General Fund and Special Education Fund as follows:

Compensated absences payable from General Fund	\$ 220,346
Compensated absences payable from Special Education Fund	<u>16,946</u>
	<u>\$ 237,292</u>

A summary of changes in business-type activities' long-term liabilities for the year ended June 30, 2015 is as follows:

Business-Type Activities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated Absences	\$ 8,899	\$ 841	\$ (7,119)	\$ 2,621	\$ 1,573
Total	<u>\$ 8,899</u>	<u>\$ 841</u>	<u>\$ (7,119)</u>	<u>\$ 2,621</u>	<u>\$ 1,573</u>

Compensated absences for business-type activities are liquidated from the Food Service Fund.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

8. OPERATING LEASES

The School District leases copiers under an operating lease which is paid from the Capital Outlay Fund. Lease expense for the year ended June 30, 2015 was \$13,570.

The following are the minimum payments on the operating lease:

<u>Year</u>	<u>Amount</u>
2016	\$ 13,570
2017	13,570
2018	<u>13,570</u>
	<u>\$ 40,710</u>

9. RESTRICTED NET POSITION

Restricted Net Position for the year ended June 30, 2015 was as follows:

<u>Major Purpose</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay Purposes	Law	\$ 374,764
Special Education Purposes	Law	4,561
Capital Projects Purposes	Law	5,422
Pension Purposes	Law	25,389
SDRS Pension Purposes	Law	<u>668,341</u>
Total Restricted Net Position		<u>\$ 1,078,477</u>

10. PENSION PLAN

Plan Information

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued JUNE 30, 2015

10. PENSION PLAN, continued

Benefits Provided

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more – 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
 - 90.0% to 99.9% funded — 2.1% minimum and 2.8% maximum COLA
 - 80.0% to 90.0% funded — 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% -- 2.1% COLA

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2015, 2014, and 2013 were \$132,636, \$134,694, and \$128,980, respectively, equal to the required contributions each year.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

10. PENSION PLAN, continued

Pension Assets, Pension Revenue, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2014, SDRS is 104.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the School District as of June 30, 2014 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 13,617,321
Less proportionate share of total pension liability	<u>12,692,440</u>
Proportionate share of net pension asset	<u>\$ 924,881</u>

At June 30, 2015, the School District reported an asset of \$924,881 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014 and the total pension asset used to calculate the net pension asset was based on a projection of the School District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2014, the School District's proportion was 0.1283738%.

For the year ended June 30, 2015, the School District recognized pension revenue of \$39,068. At June 30, 2015 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 78,257	\$ -
Changes in assumption	603,735	-
Net difference between projected and actual earnings on pension plan investments	-	1,071,168
School District's contributions subsequent to the measurement date	<u>132,636</u>	<u>-</u>
Total	<u>\$ 814,628</u>	<u>\$ 1,071,168</u>

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

10. PENSION PLAN, continued

\$132,636 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension revenue as follows:

Year Ended June 30:

2016	\$ 48,445
2017	48,445
2018	48,445
2019	<u>111,205</u>
	<u>\$ 256,540</u>

Actuarial Assumptions

The total pension asset in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Investment Rate of Return	7.25 percent through 2016 and 7.50 percent thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2010. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

10. PENSION PLAN, continued

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	64.0%	4.7%
Fixed Income	26.0%	1.8%
Real Estate	8.0%	5.5%
Cash	<u>2.0%</u>	0.8%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension asset was 7.25 percent through 2016 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

10. PENSION PLAN, continued

Sensitivity of liability (asset) to changes in the discount rate

The following presents the School District's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2016 and 7.50 percent thereafter, as well as what the School District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net pension liability (asset)	913,956	(924,881)	(2,424,644)

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

11. RETIREMENT PLAN

The School District has established the Bennett County School District 403(B) Plan for the purpose of purchasing annuity contracts for its noncertified employees pursuant to Section 403(b) of the Internal Revenue Code of 1986, as amended. After a 30 day probationary period all noncertified employees shall be eligible to make elective deferrals with the employer under this plan. Employer contributions shall be made at a rate equal to a uniform percentage of the compensation of each employee who is eligible for employer contributions. The uniform rate for the fiscal years ending June 30, 2015, 2014, and 2013 was 3%. The School District's share of contributions to the 403(B) Plan for the fiscal years ended June 30, 2015, 2014, and 2013 were \$27,284, \$27,833, and \$23,156, respectively.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

12. JOINT VENTURE

The School District participates in the Three Rivers Special Services Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special education and other services to the member school districts. The members of the co-op and their relative percentage of participation are as follows:

Bennett County	29%
Jones County	9%
Kadoka Area	20%
Lyman	20%
White River	<u>22%</u>
	<u>100%</u>

The co-op's governing board is composed of one representative from each member school district who is a school board member. The board is responsible for adopting the co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The School District retains no equity in the net position of the co-op, but does have a responsibility to fund deficits of the co-op in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the Three Rivers Special Services Cooperative, Midland, South Dakota. As of June 30, 2015, this joint venture had total assets and deferred outflows of resources of \$1,255,052, liabilities and deferred inflows of resources of \$226,095 and net position of \$1,028,957.

13. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2015, the School District managed its risks as follows:

Employee Health Insurance

The School District purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

13. **RISK MANAGEMENT, continued**

Liability Insurance

The School District joined the Associated School Boards of South Dakota Property and Liability Fund (ASBSD-PLF), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota school districts. The objective of the ASBSD-PLF is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The School District's responsibility is to promptly report to and cooperate with the ASBSD-PLF to resolve any incident which could result in a claim being made by or against the School District. The School District pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the ASBSD-PLF member, based on their exposure or type of coverage. The school district pays an annual premium to the pool to provide coverage for: 1) property, 2) automobile, 3) general liability, 4) crime, 5) boiler and machinery, 6) umbrella liability, 7) School Board liability and 8) employee benefits liability.

The agreement with ASBSD-PLF provides that the above coverage's will be provided to a \$2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$100,000 to the upper limit. The School District carries a \$500 deductible for the property and automobile coverage and \$1,000 deductible for the boiler and machinery coverage.

The School District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

13. **RISK MANAGEMENT, continued**

Worker's Compensation

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provided workers' compensation insurance coverage for participating members of the pool. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The School District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The school district may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs.

The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to \$1,000,000 per individual per incident.

The School District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits

The School District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended June 30, 2015, \$-0- in claims for unemployment benefits were paid. At June 30, 2015, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

14. OTHER POST EMPLOYMENT BENEFITS - HEALTHCARE PLAN

Plan Description – The Bennett County School District No. 3-1 Other Post Employment Benefit Plan (the OPEB Plan) is a single-employer defined benefit healthcare plan administered by the School District. The OPEB Plan provides a medical and prescription drug plan to eligible retirees and their spouses as permitted by South Dakota Codified Law 6-1-16 and 13-10-3. Benefit provisions were established and may be amended during the negotiated agreement process between district certified staff and the governing board. The OPEB Plan does not issue separately stated stand-alone financial statements.

Funding Policy – The contribution requirements of plan members and the School District are established and may be amended during the negotiated agreement process between district certified staff and the governing board. An individual is eligible to elect medical coverage upon retiring under the South Dakota Retirement System after reaching the age of 55 and with at least 30 years of service. Coverage ceases when the retiree or dependent attains the age of 65. The retiree is responsible for 100% of the full active premium rates for either single or family coverage (The pay-as-you-go basis).

Annual OPEB Cost and Net OPEB Obligation – the School District’s annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the financial components of the plan:

Annual Required Contribution (ARC)	\$ 25,769
Interest on Net OPEB Obligation	3,157
Adjustments to Annual Required Contribution	<u>(4,307)</u>
Annual OPEB Cost	24,619
Contributions Made	<u>-</u>
Increase (Decrease) in Net OPEB Obligation	24,619
Net OPEB Obligation - Beginning of year	<u>119,396</u>
Net OPEB Obligation (Asset) - End of Year	<u><u>\$ 144,015</u></u>

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

14. OTHER POST EMPLOYMENT BENEFITS - HEALTHCARE PLAN, continued

The School District's annual OPEB cost data and net OPEB obligation was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2010	\$ 28,570	\$ 11,742	41.1%	\$ 16,828
6/30/2011	\$ 28,570	\$ 412	1.4%	\$ 44,986
6/30/2012	\$ 28,570	\$ 3,398	11.9%	\$ 70,158
6/30/2013	\$ 24,619	\$ -	0.0%	\$ 94,777
6/30/2014	\$ 24,619	\$ -	0.0%	\$ 119,396
6/30/2015	\$ 24,619	\$ -	0.0%	\$ 144,015

Funded Status and Funding Progress – As of June 30, 2012, the most recent actuarial valuation date, the plan's statistics were as follows:

Actuarial Accrued Liability	\$ 167,832
Actuarial Value of Benefit Assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 167,832</u>
Funded Ratio	0.0%
Covered Payroll	\$ 2,658,262
Unfunded Actuarial Accrued Liability As a Percentage of Covered Payroll	6.3%

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

14. OTHER POST EMPLOYMENT BENEFITS - HEALTHCARE PLAN, continued

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Using the Alternative Measurement Method (AMM) permitted under GASB Statement 45, a simplified version of the Projected Unit Credit Actuarial Cost Method was used to determine the annual required contribution. The actuarial assumptions included a 4.5% rate of return and an annual healthcare cost trend rate of 10.0% initially, reduced by decrements to an ultimate rate of 5.0% after 6 years. Both rates include a 1% inflation assumption. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

REQUIRED SUPPLEMENTARY INFORMATION

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND - PAGE 1 OF 2
 YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance With
	Original	Final	(Budgetary - Modified Accrual Basis)	Final Budget Positive (Negative)
REVENUES				
Revenues from local sources:				
Taxes:				
Ad valorem taxes	\$ 738,424	\$ 738,424	\$ 726,821	\$ (11,603)
Prior years ad valorem taxes	8,000	8,000	13,013	5,013
Gross receipts tax	160,000	160,000	175,104	15,104
Penalties and interest	2,000	2,000	3,978	1,978
Tuition and fees	-	-	1,495	1,495
Earning on investments and deposits	-	-	197	197
Cocurricular activities:				
Admissions	22,000	22,000	22,555	555
Other pupil activity income	1,000	1,000	4,452	3,452
Other revenue from local sources:				
Rentals	8,000	8,000	1,270	(6,730)
Charges for services	22,000	22,000	17,394	(4,606)
Other	12,000	12,000	26,985	14,985
Revenues from intermediate sources:				
County sources:				
County apportionment	28,000	28,000	31,569	3,569
Revenue in lieu of taxes	5,000	5,000	10,409	5,409
Revenue for joint facilities	20,000	20,000	20,774	774
Revenues from state sources:				
Grants-in-aid:				
Unrestricted	2,020,538	2,020,538	2,085,855	65,317
Restricted	14,000	14,000	25,063	11,063
Other	-	-	1,115	1,115
Revenues from federal sources:				
Grants-in-aid:				
Restricted - received directly	67,134	67,134	67,107	(27)
Restricted - received through state	894,607	1,022,961	894,686	(128,275)
Total revenues	<u>4,022,703</u>	<u>4,151,057</u>	<u>4,129,842</u>	<u>(21,215)</u>
EXPENDITURES				
Instruction:				
Regular programs:				
Elementary	1,016,633	1,016,633	934,502	82,131
Middle school	210,410	210,410	199,124	11,286
Secondary	740,392	740,392	764,572	(24,180)
Other	67,134	67,134	-	67,134
Special programs:				
Culturally different	-	-	116	(116)
Educationally deprived	513,169	641,523	600,500	41,023

See Independent Auditor's Report

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND - PAGE 2 OF 2
 YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance With
	Original	Final	(Budgetary - Modified Accrual Basis)	Final Budget Positive (Negative)
Support services:				
Pupils:				
Attendance and social work	66,291	66,291	54,295	11,996
Guidance	84,550	84,550	24,524	60,026
Health	50,275	50,275	49,750	525
Instructional staff:				
Improvement of instruction	153,559	153,559	107,748	45,811
Educational media	40,375	40,375	32,568	7,807
General administration:				
Board of education	116,270	116,270	90,060	26,210
Executive administration	146,592	146,592	145,564	1,028
School administration:				
Office of principal	359,678	359,678	349,543	10,135
Title I Program Administration	70,420	70,420	60,132	10,288
Other	2,500	2,500	488	2,012
Business:				
Fiscal services	195,004	195,004	192,890	2,114
Operations and maintenance of plant	739,035	739,035	686,149	52,886
Pupil transportation	172,548	172,548	163,338	9,210
Central:				
Planning	9,993	9,993	2,400	7,593
Cocurricular activities:				
Male activities	51,322	51,322	48,750	2,572
Female activities	38,940	38,940	34,123	4,817
Transportation	10,865	10,865	9,589	1,276
Combined activities	33,245	33,245	31,978	1,267
Contingencies	50,000	50,000	-	50,000
Total expenditures	<u>4,939,200</u>	<u>5,067,554</u>	<u>4,582,703</u>	<u>484,851</u>
Excess (deficiency) of revenues over expenditures	<u>(916,497)</u>	<u>(916,497)</u>	<u>(452,861)</u>	<u>463,636</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	915,997	915,997	-	915,997
Transfers out	-	-	(41,000)	41,000
Compensation for loss of capital assets	<u>500</u>	<u>500</u>	<u>4,854</u>	<u>4,354</u>
Total other financing sources (uses)	<u>916,497</u>	<u>916,497</u>	<u>(36,146)</u>	<u>(952,643)</u>
Net change in fund balances	-	-	(489,007)	(489,007)
Fund balances - beginning	<u>556,365</u>	<u>556,365</u>	<u>556,365</u>	-
Fund balances - ending	<u>\$ 556,365</u>	<u>\$ 556,365</u>	<u>\$ 67,358</u>	<u>\$ (489,007)</u>

See Independent Auditor's Report

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**BUDGETARY COMPARISON SCHEDULE
CAPITAL OUTLAY FUND
YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary - Modified Accrual Basis)</u>	<u>Final Budget Positive (Negative)</u>
REVENUES				
Revenues from local sources:				
Taxes:				
Ad valorem taxes	-	-	285	285
Prior years ad valorem taxes	2,500	2,500	2,609	109
Penalties and interest	500	500	816	316
Other revenue - local sources	-	-	30,475	30,475
Revenues from federal sources:				
Grants-in-aid				
Unrestricted - received directly	-	-	21,250	21,250
Total revenues	<u>3,000</u>	<u>3,000</u>	<u>55,435</u>	<u>52,435</u>
EXPENDITURES				
Instruction:				
Regular programs:				
Elementary	51,500	51,500	36,537	14,963
Middle school	42,800	42,800	37,306	5,494
Secondary	56,700	56,700	49,976	6,724
Special programs:				
Other	-	-	19,999	(19,999)
Support services:				
Instructional staff:				
Improvement of instruction	3,200	3,200	-	3,200
Business:				
Facilities acquisition and construction	475,000	475,000	430,505	44,495
Operations and maintenance of plant	60,000	60,000	31,187	28,813
Pupil transportation	95,000	95,000	69,465	25,535
Cocurricular activities				
Male activities	20,000	20,000	9,245	10,755
Female activities	4,000	4,000	-	4,000
Combined activities	3,000	3,000	3,501	(501)
Total expenditures	<u>811,200</u>	<u>811,200</u>	<u>687,721</u>	<u>123,479</u>
Excess (deficiency) of revenues over expenditures	(808,200)	(808,200)	(632,286)	175,914
OTHER FINANCING SOURCES				
Transfers in	808,200	808,200	900,000	91,800
Sale of surplus property	-	-	3,505	3,505
Total other financing sources	<u>808,200</u>	<u>808,200</u>	<u>903,505</u>	<u>95,305</u>
Net change in fund balances	-	-	271,219	271,219
Fund balances - beginning	<u>103,544</u>	<u>103,544</u>	<u>103,544</u>	<u>-</u>
Fund balances - ending	<u>\$ 103,544</u>	<u>\$ 103,544</u>	<u>\$ 374,763</u>	<u>\$ 271,219</u>

See Independent Auditor's Report

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

BUDGETARY COMPARISON SCHEDULE
SPECIAL EDUCATION FUND
YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance With
	Original	Final	(Budgetary - Modified Accrual Basis)	Final Budget Positive (Negative)
REVENUES				
Revenues from local sources:				
Taxes:				
Ad valorem taxes	\$ 190,000	\$ 190,000	\$ 243,484	\$ 53,484
Prior years ad valorem taxes	2,000	2,000	3,504	1,504
Penalties and interest	1,000	1,000	1,317	317
Other local revenue	3,000	3,000	2,305	(695)
Revenues from state sources:				
Grants-in-aid:				
Restricted	200,000	200,000	166,641	(33,359)
Revenues from federal sources:				
Grants-in-aid:				
Unrestricted - received directly	30,000	30,000	42,705	12,705
Restricted - received through state	<u>154,266</u>	<u>158,982</u>	<u>149,788</u>	<u>(9,194)</u>
Total revenues	<u>580,266</u>	<u>584,982</u>	<u>609,744</u>	<u>24,762</u>
EXPENDITURES				
Instruction:				
Special programs:				
Special education	671,931	676,647	483,416	193,231
Support services:				
Pupils:				
Speech pathology	95,931	95,931	95,039	892
Special education:				
Administrative costs	<u>69,264</u>	<u>69,264</u>	<u>188,625</u>	<u>(119,361)</u>
Total expenditures	<u>837,126</u>	<u>841,842</u>	<u>767,080</u>	<u>74,762</u>
Excess (deficiency) of revenues over expenditures				
	(256,860)	(256,860)	(157,336)	99,524
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>256,860</u>	<u>256,860</u>	<u>82,000</u>	<u>(174,860)</u>
Total other financing sources (uses)	<u>256,860</u>	<u>256,860</u>	<u>82,000</u>	<u>(174,860)</u>
Net change in fund balances				
	-	-	(75,336)	(75,336)
Fund balances - beginning	<u>90,614</u>	<u>90,614</u>	<u>90,614</u>	<u>-</u>
Fund balances - ending	<u>\$ 90,614</u>	<u>\$ 90,614</u>	<u>\$ 15,278</u>	<u>\$ (75,336)</u>

See Independent Auditor's Report

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

BUDGETARY COMPARISON SCHEDULE
 TRACK/FOOTBALL CAPITAL PROJECT FUND
 YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary - Modified Accrual Basis)</u>	<u>Final Budget Positive (Negative)</u>
REVENUES				
Revenues from local sources:				
Taxes:				
Ad valorem taxes	-	-	-	-
Total revenues	-	-	-	-
EXPENDITURES				
Support services:				
Business:				
Facilities acquisition and construction	850,000	850,000	844,578	5,422
Total expenditures	850,000	850,000	844,578	5,422
Excess (deficiency) of revenues over expenditures	(850,000)	(850,000)	(844,578)	5,422
OTHER FINANCING SOURCES				
Transfers in	850,000	850,000	850,000	-
Total other financing sources	850,000	850,000	850,000	-
Net change in fund balances	-	-	5,422	5,422
Fund balances - beginning	-	-	-	-
Fund balances - ending	\$ -	\$ -	\$ 5,422	\$ 5,422

See Independent Auditor's Report

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2015

1. **Basis of Presentation**

The Budgetary Comparison Schedules have been prepared on the modified accrual basis of accounting. The Budgetary Comparison Schedule presents expenditures for capital outlay purposes within each function while the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances present capital outlay expenditures as a separate function.

2. **Budgets and Budgetary Accounting**

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first regular board meeting in May of each year, the school board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the school board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the school board must approve the budget for the ensuing fiscal year for each fund, except fiduciary funds.
6. After adoption by the school board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the school board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the school board.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - continued
JUNE 30, 2015

2. Budgets and Budgetary Accounting, continued

10. The following reconciles the U.S. GAAP Basis fund balance to the budgetary basis fund balance for the General Fund as of June 30, 2015:

U.S. GAAP Basis fund balance	\$ 12,769,912
Less: portion comprised of unspent Impact Aid revenue	<u>(12,160,866)</u>
Budgetary basis fund balance	<u>\$ 609,046</u>

3. Expenditures in excess of appropriations

The following represents the overdrafts of the expenditures compared to appropriations at the legal level of budgetary control in those funds not reported as major above:

<u>Pension Fund:</u>	Year Ended <u>6/30/15</u>
Activity	
Instruction – Regular Programs – Elementary	\$ 1,297
Instruction – Regular Programs – Middle School	\$ 6,251
Support Services – School Administration – Office of the Principal	\$ 5,387

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS
 JUNE 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (Unit Credit)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UUAL as of Percentage of Covered Payroll
July 1, 2009	-	\$ 183,614	\$ 183,614	0.0%	\$ 2,684,211	6.8%
July 1, 2012	-	\$ 167,832	\$ 167,832	0.0%	\$ 2,658,262	6.3%

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION ASSET
JUNE 30, 2015**

	<u>2015</u>
School District's proportion of the net pension asset	0.1283738%
School District's proportionate share of net pension asset	\$ 924,881
School District's covered-employee payroll	\$2,210,595
School District's proportionate share of the net pension asset as a percentage of its covered-employee payroll	41.84%
Plan fiduciary net position as a percentage of the total pension asset	107.00%

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30 of previous fiscal year.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DISTRICT'S PENSION CONTRIBUTIONS
JUNE 30, 2015**

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 132,636	\$ 134,694
Contributions in relation to the contractually required contribution	<u>132,636</u>	<u>134,694</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$2,210,595	\$2,244,900
Contributions as a percentage of covered-employee payroll	6.00%	6.00%

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015**

**Schedule of the Proportionate Share of the Net Pension Asset and
Schedule of Contributions.**

With only one year reported in the RSI, there is no additional information to include in notes. Details, if necessary, can be obtained from the SDRS audited financial statements.

Changes of benefit terms:

No changes were made in SDRS benefits during the year.

Changes of assumptions:

No changes were made in SDRS actuarial assumptions during the year.

SUPPLEMENTARY INFORMATION

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

<u>Federal Grantor/Pass-Through Grantor Program or Cluster Title</u>	<u>Federal CFDA Number</u>		<u>Disbursements/ Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE			
Pass-Through the South Dakota Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program (Note 2)	10.553		
Cash Reimbursement		\$ 25,822	
Donated Food		<u>406</u>	
			\$ 26,228
National School Lunch Program (Note 2)	10.555		
Cash Reimbursement		119,049	
Donated Food		<u>13,427</u>	
			132,476
Summer Food Service Program for Children (Note 2)	10.559		<u>5,529</u>
Total for Child Nutrition Cluster			164,233
Fresh Fruit and Vegetable Program	10.582		<u>11,614</u>
Total U.S. Department of Agriculture			<u>175,847</u>
U.S. DEPARTMENT OF EDUCATION			
Direct Funding:			
Impact Aid:	84.041		
Impact Aid - Basic		1,791,000	
Impact Aid - Special Education		<u>42,705</u>	
Total for Impact Aid			1,833,705
Indian Education Grants to Local Educational Agencies	84.060		67,107
Pass-Through the South Dakota Department of Education:			
Title I Grants to Local Educational Agencies	84.010		756,836
Special Education Cluster:			
Special Education - Grants to States - Flow through (Note 2)	84.027	145,039	
Special Education - Preschool Grants (Note 2)	84.173	<u>4,749</u>	
Total for Special Education Cluster			149,788
Improving Teacher Quality State Grants (Title II, Part A)	84.367		131,621
Pass-Through the Mid Central Cooperative:			
College Access Challenge Grant Program	84.378		<u>2,508</u>
Total U.S. Department of Education			<u>2,941,565</u>
Total Expenditures			<u>\$ 3,117,412</u>

Note 1: The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the School District and is presented on the modified accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2: Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received and/or food commodities used rather than federal expenditures.

*Wohlenberg
Ritzman & Co., LLC*
certified public accountants

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

To the School Board
Bennett County School District No. 3-1
Bennett County, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Bennett County School District No. 3-1 (the School District)** as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated March 20, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. Finding 2015-001.

Compliance and Other Matters

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

School District's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
March 20, 2016

*Wahlenberg
Ritzman & Co., LLC*
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the School Board
Bennett County School District No. 3-1
Bennett County, South Dakota

Report on Compliance for Each Major Federal Program

We have audited **Bennett County School District No. 3-1's (the School District's)** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2015. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

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Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School District's compliance.

Basis for Qualified Opinion on CFDA 84.041 Impact Aid

As described in the accompanying schedule of findings and questioned costs, the School District did not comply with requirements regarding CFDA 84.041 Impact Aid as described in finding number 2015-002 for Special Tests and Provisions – Wage Rate Requirements. Compliance with such requirements is necessary, in our opinion, for the School District to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 84.041 Impact Aid

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 84.041 Impact Aid for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-002 to be a significant deficiency.

The School District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Wohlschlag Ritzman + Co., LLC

Yankton, South Dakota

March 20, 2016

BENNETT COUNTY SCHOOL DISTRICT NO. 3-2

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2015**

SECTION II. FINDINGS - FINANCIAL STATEMENT AUDIT

Finding 2014-001.

A significant deficiency was reported for a lack of segregation of duties due to the size of the School District. This has been a finding since June 30, 2007.

Current Status: This has not been corrected and is restated as current audit finding 2015-001.

Finding 2014-002.

A significant deficiency was reported as the School District does not have an internal control system designed to provide for the preparation of the financial statements being audited. This has been a finding since June 30, 2008.

Current Status: This has been corrected.

SECTION III. FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no prior major federal award program findings reported.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies identified? X yes _____ none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies identified? X yes _____ none reported

Type of auditor's report issued on compliance for major programs Qualified

Audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 _____ yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.041	Impact Aid

Dollar Threshold used to distinguish between Type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee? X yes _____ no

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued
YEAR ENDED JUNE 30, 2015**

SECTION II - FINDINGS - FINANCIAL STATEMENTS AUDIT

Finding 2015-001 - Segregation of Duties (Repeat Finding)

Significant Deficiency

Condition:

Our study and evaluation of internal control structure policies and procedures disclosed that there is a weakness in controls in effect at Bennett County School District No. 3-1 relating to a lack of segregation of duties.

Questioned Costs: None.

Criteria:

Internal controls should be in place that provide reasonable assurance that all financial transactions are reviewed and approved before payments are made and reports generated. No one individual should handle a transaction from its inception to its completion.

Cause:

The School District has a limited number of staff to perform the recording and processing of financial transactions.

Effect:

Inadequate segregation of duties could adversely affect the School District's ability to detect misstatement in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation:

We recommend that management and the school board be aware of this situation and continue their review of monthly financial statements. In addition, management should strive to obtain as much segregation of duties as possible as personnel and/or responsibilities change.

Views of Responsible Officials:

Please refer to the Corrective Action Plan for management's views and planned corrective action.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued
YEAR ENDED JUNE 30, 2015**

**SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

Finding 2015-002: Special Tests and Provisions – Wage Rate Requirements

Significant Deficiency

Type of Finding: Internal Control Over Compliance and Compliance (A-133)

Applicable to: 84.001 Impact Aid

Questioned Costs: None

Condition/Context:

While performing our testing, we noted no certified payrolls had been submitted to the School District.

Criteria:

All laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) (40 USC 3141-3144, 3146, and 3147)

Non-Federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contract Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6; the A-102 Common Rule (§.36(i)(5)); OMB Circular A-110 (2 CFR part 215, Appendix A, Contract Provisions); **2 CFR part 176, subpart C**; and 2 CFR section 200.326).

Cause:

Staff members in the School District were not aware of the requirement to obtain certified payrolls.

Effect:

Not obtaining certified payrolls from the contractor or subcontractor prevents the School District from ensuring the contractors or subcontractors are paying the prevailing wage rates.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued
YEAR ENDED JUNE 30, 2015**

**SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT, continued**

Finding 2015-002: Special Tests and Provisions – Wage Rate Requirements, continued

Recommendation:

We recommend that the procedures relating to the Davis-Bacon Act be implemented so that certified payrolls are obtained from contractors or subcontractors on construction contracts which are subject to the Davis-Bacon Act requirements.

Views of Responsible Officials:

Please refer to the Corrective Action Plan for management's views and planned corrective action.

Bennett County School District 3-1

Bennett County "Warriors"

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Responses to Schedule of Findings and Questioned Costs Year Ended June 30, 2015

2015-001. Finding: Segregation of Duties

Response: The Superintendent is the contact person at this entity responsible for the corrective action plan for this comment. This comment is a result of the size of the entity which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The entity has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties. Bennett County School District No. 3-1 is aware of the problem and is attempting to provide compensating controls wherever and whenever possible and practical.

2015-002. Finding: Davis-Bacon Act

Response: The Superintendent is the contact person at this entity responsible for the corrective action plan for this comment. Davis-Bacon Act requirements will be included in all future bid jobs totaling more than \$2,000. Internal control policies and procedures have been updated to help ensure compliance in the future.