

**CHESTER AREA SCHOOL  
DISTRICT NO. 39-1**

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

**JUNE 30, 2015**

CHESTER AREA SCHOOL DISTRICT NO. 39-1  
SCHOOL DISTRICT OFFICIALS  
JUNE 30, 2015

School Board

Pat Scott

Jennifer Bunkers

Kim Hansen

Kathy Goodale

Nancy Meyer

Todd Nelson

Janet Park

Business Manager

Kristi Lewis

Superintendent

Heath Larson

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# QUAM & BERGLIN, P.C.

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## INDEPENDENT AUDITOR'S REPORT

School Board  
Chester Area School District No. 39-1  
Lake County, South Dakota

### Report on the Financial Statements

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 Chester Area School District No. 39-1, Lake County, South Dakota, as of June 30, 2015 and for the year then ended, 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

The Chester Area School District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School District'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 School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Chester Area School District No. 39-1 as of June 30, 2015, and the respective 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 Matter***

#### *Adoption of New Accounting Standard*

As described in the Notes 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*. As discussed in the Notes to the Financial Statements, the School District has retroactively restated the previously reported Net Position in accordance with this statement. Our opinions are not modified with respect to the matter.

### ***Other Matters***

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), Budgetary Comparison Schedules, the Schedule of the Proportionate Share of the Net Pension Asset, the Schedule of the School District Contributions, and Schedule of Funding Progress, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with Government Auditing Standards, we have also issued our report dated March 24, 2016, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts 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 *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Quam & Berglin, P.C.*

Quam & Berglin, P.C.  
Certified Public Accountants

March 24, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Chester Area School District 39-1's annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year ended on June 30, 2015. Please read it in conjunction with the School's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- During the year, the School's revenues generated from taxes and other revenues of the governmental and business-type programs were \$532,900.79 more than the \$4,849,891.88 governmental and business-type program expenditures.
- The total cost of the School's programs decreased by 5.7%, which was primarily due to controlling costs of goods, services and insurance.
- The general fund reported an \$147,052.63 current year increase primarily due to controlling operating expenses.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School:

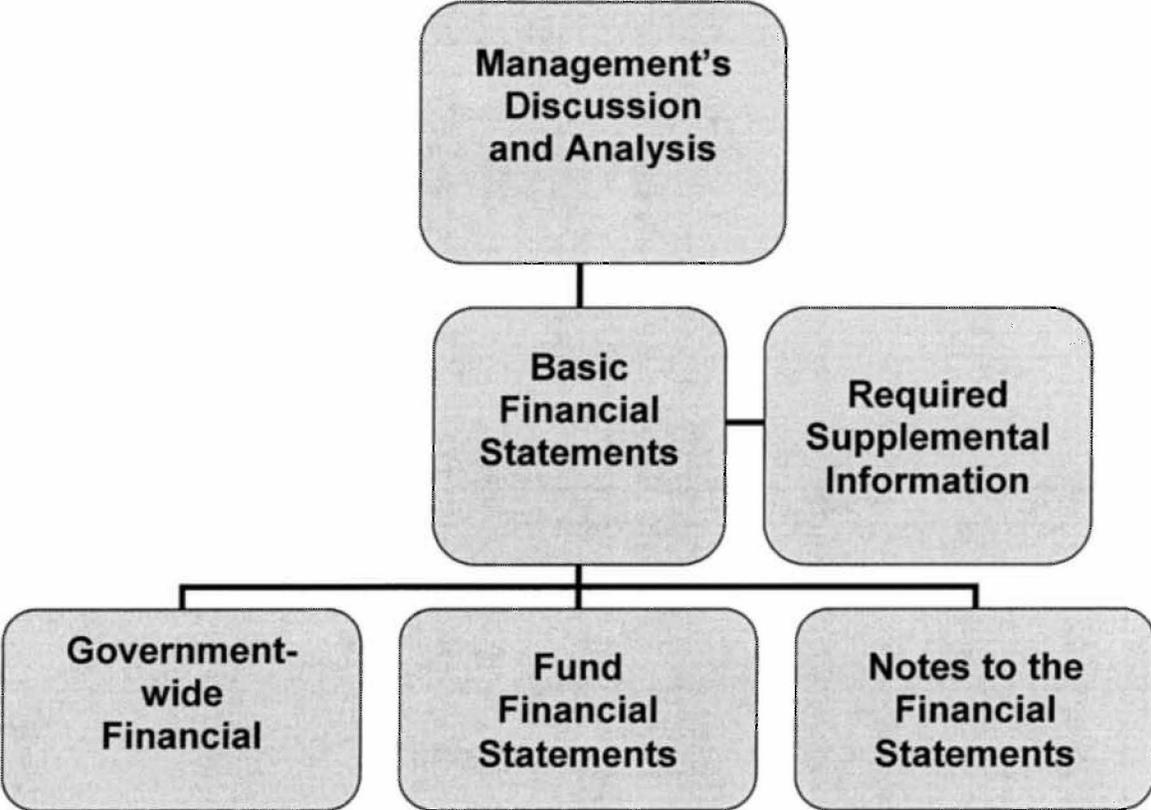
- The first two statements are government-wide financial statements that provide both long-term and short-term information about the School's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School government, reporting the School's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
- Proprietary fund statements offer short and long-term financial information about the activities that the school operates like businesses. The proprietary funds operated by the school are the Food Service Operation, Preschool, and Driver's Education.
- Fiduciary fund statements provide information about the financial relationships - like scholarship plans for graduating students - in which the School acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Figures A-1 and A-2 summarize the major features of the School's financial statements, including the portion of the School government covered and the types of information contained. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

FIGURE A-1

REQUIRED COMPONENTS OF CHESTER AREA SCHOOL DISTRICT'S ANNUAL FINANCIAL REPORT



**FIGURE A-2**

<b>Major Features of Chester School's Government-wide and Fund Financial Statements</b>				
	<b>Government-wide</b>	<b>Fund Statements</b>		
	<b>Statements</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<b>Scope</b>	Entire School government (except for fiduciary funds)	The activities of the School that are not proprietary or fiduciary, such as elementary and high school education programs.	Activities the School operates similar to private businesses, the food service operation.	Instances in which the School is the trustee or agent for someone else's resources.
<b>Required Financial Statements</b>	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Net Position *Statement of Revenues, Expenses and Changes in Net Position  *Statement of Cash Flows	*Statement of Net Position  *Statement of Changes in Net Position
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<b>Type of Asset/Liability Information</b>	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the School's funds do not currently contain capital assets although they can
<b>Type of Inflow/Outflow Information</b>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

**Government-wide Statements**

The government-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the School's net position and how they have changed. Net position – the difference between the School's assets and liabilities – is one way to measure the School's financial health or position.

- Increases or decreases in the School's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the School you need to consider additional nonfinancial factors such as changes in the School's property tax base and changes in the state school aid funding formula from the State of South Dakota.

The government-wide financial statements of the School are reported in two categories:

- **Governmental Activities** - This category includes the School's basic instructional services, such as elementary and high school educational programs, support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, debate, music, etc.) and capital equipment purchases.

Property taxes, state grants, federal grants and interest earnings finance most of these activities.

- Business-type Activities - The school charges a fee to students to help cover the costs of providing hot lunch services to all students. The Food Service Fund, Preschool and Driver's education are the business-type activities of the School.

## **Fund Financial Statements**

The fund financial statements provide more detailed information about the School's most significant funds – not the School as a whole. Funds are accounting devices that the School uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds.
- The School Board establishes other funds to control and manage money for particular purposes (like the Scholarship Trust).

The School has three kinds of funds:

- Governmental Funds – Most of the School's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- Proprietary Funds – Services for which the School charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service Enterprise Fund and the Other Enterprise Fund (two types of proprietary funds) are the only proprietary funds maintained by the School.
- Fiduciary Funds – The School is the trustee, or fiduciary, for various external and internal parties. The School is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the School's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the School's government-wide financial statements because the School cannot use these assets to finance its operations.

# FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

## Net Position

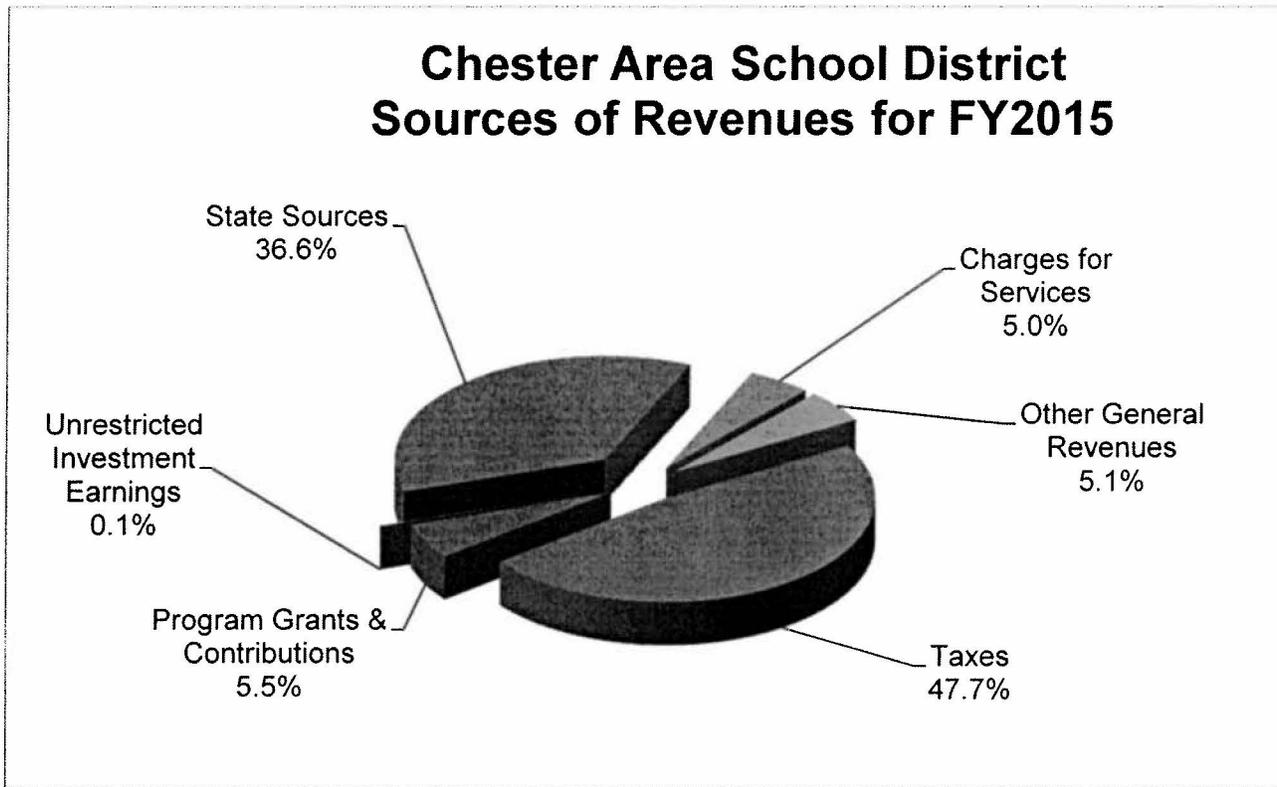
The School's combined net position increased as follows:

**CHESTER AREA SCHOOL DISTRICT NO. 39-1**  
**STATEMENT OF NET POSITION**  
 June 30, 2015

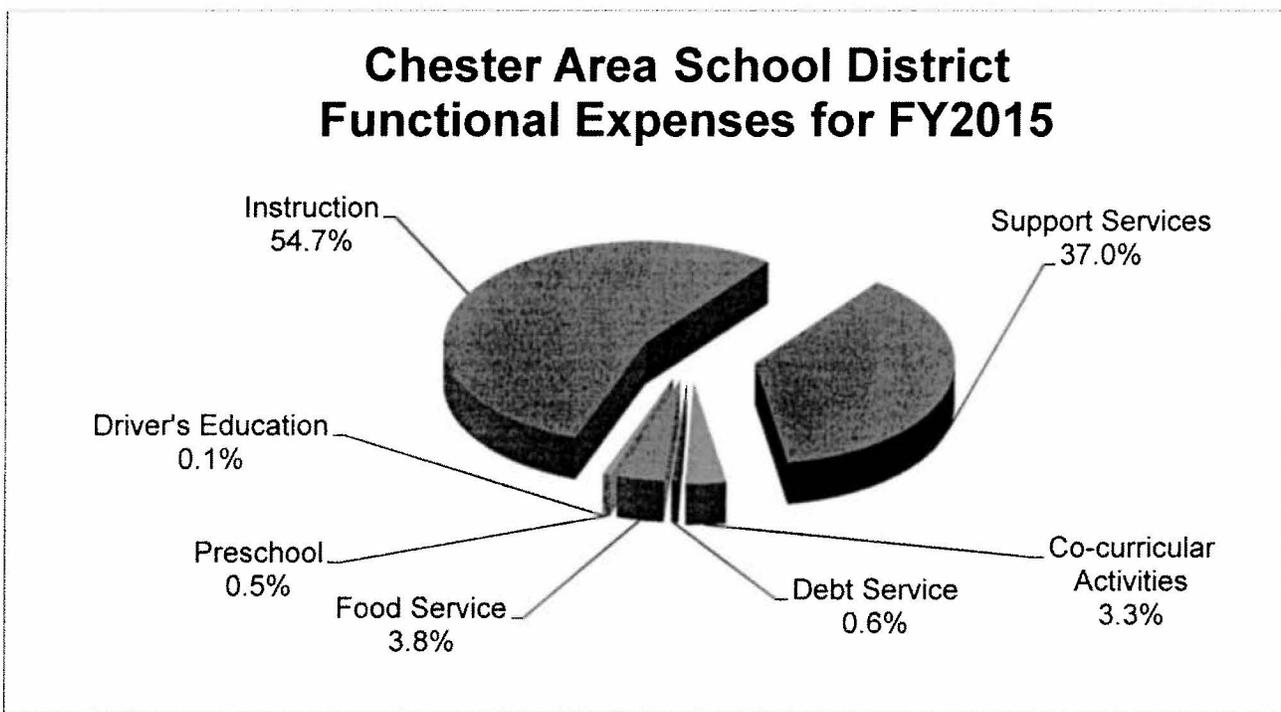
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	FY2014	FY2015	FY2014	FY2015	FY2014	FY2015
Current and Other Assets	\$ 4,436,987.13	\$ 4,984,351.40	\$ 80,534.20	\$ 117,418.17	\$ 4,517,521.33	\$ 5,101,769.57
Capital Assets	<u>3,967,420.51</u>	<u>3,978,577.69</u>	<u>127,280.27</u>	<u>121,128.87</u>	<u>4,094,700.78</u>	<u>4,099,706.56</u>
<b>Total Assets</b>	8,404,407.64	8,962,929.09	207,814.47	238,547.04	8,612,222.11	9,201,476.13
Pension Related Deferred Outflows		<u>967,468.51</u>				<u>967,468.51</u>
Long-Term Debt Outstanding	2,049,424.00	1,155,756.70			2,049,424.00	1,155,756.70
Other Liabilities	<u>565,526.14</u>	<u>571,587.33</u>	<u>20,999.24</u>	<u>24,280.97</u>	<u>586,525.38</u>	<u>595,868.30</u>
<b>Total Liabilities</b>	2,614,950.14	1,727,344.03	20,999.24	24,280.97	2,635,949.38	1,751,625.00
Taxes Levied for Future Period	1,021,126.70	1,081,093.36			1,021,126.70	1,081,093.36
Pension Related Deferred Inflows		<u>1,262,726.52</u>				<u>1,262,726.52</u>
<b>Total Deferred Inflows</b>	1,021,126.70	2,343,819.88			1,021,126.70	2,343,819.88
Net Position:						
Net Investment in Capital Assets	2,997,420.51	3,073,577.69	127,280.27	121,128.87	3,124,700.78	3,194,706.56
Restricted	1,001,610.66	1,925,857.43			1,001,610.66	1,925,857.43
Unrestricted	<u>769,299.63</u>	<u>859,798.57</u>	<u>59,534.96</u>	<u>93,137.20</u>	<u>828,834.59</u>	<u>952,935.77</u>
<b>Total Net Position</b>	<u>\$ 4,768,330.80</u>	<u>\$ 5,859,233.69</u>	<u>\$ 186,815.23</u>	<u>\$ 214,266.07</u>	<u>\$ 4,955,146.03</u>	<u>\$ 6,073,499.76</u>
Beginning Net Position	5,001,881.57	4,768,330.80	155,303.43	186,815.23	5,157,185.00	4,955,146.03
Prior Period Adjustment		<u>585,452.94</u>				<u>585,452.94</u>
Adjusted Beginning Net Position	5,001,881.57	5,353,783.74	155,303.43	186,815.23	5,157,185.00	5,540,598.97
Increase (Decrease) in Net Position	<u>(233,550.77)</u>	<u>505,449.95</u>	<u>31,511.80</u>	<u>27,450.84</u>	<u>(202,038.97)</u>	<u>532,900.79</u>
Ending Net Position	<u>\$ 4,768,330.80</u>	<u>\$ 5,859,233.69</u>	<u>\$ 186,815.23</u>	<u>\$ 214,266.07</u>	<u>\$ 4,955,146.03</u>	<u>\$ 6,073,499.76</u>
Percentage of Increase (Decrease) in						
Net Position	-4.67%	9.44%	20.29%	14.69%	-3.92%	9.62%

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the school, consisting of other post-employment benefits payable and capital outlay certificates payable, have been reported in this manner on the Statement of Net Position. The difference between the school's assets and liabilities is its net position.

The District's total revenue was \$5,382,792.67 (Table A-2). Approximately, 36.6% of the District's revenue comes from State Aid, with 47.7% received from property taxes. (See Figure A-3).



The District's expenses totaled \$4,849,891.88 (See Table A-2) and covered a range of services, including instruction, support services, debt services, co-curricular activities and food service. (See Figure A-4).



## GOVERNMENTAL ACTIVITIES

Table A-2 and the narrative that follows consider the operations of the governmental activities.

### CHESTER AREA SCHOOL DISTRICT NO. 39-1

#### Changes in Net Position

	Total Governmental Activities		Total Business-Type Activities		Total	
	2014	2015	2014	2015	2014	2015
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 70,713.94	\$ 114,830.54	\$ 154,769.92	\$ 151,833.46	\$ 225,483.86	\$ 266,664.00
Operating Grants and Contributions	192,015.38	208,682.38	79,513.18	85,764.60	271,528.56	294,446.98
General Revenues						
Taxes	2,337,261.95	2,574,539.40			2,337,261.95	2,574,539.40
Revenue State Sources	1,820,728.90	1,968,083.76			1,820,728.90	1,968,083.76
Other General Revenue	265,645.42	273,940.58			265,645.42	273,940.58
Unrestricted Investment Earnings	3,522.90	5,117.95			3,522.90	5,117.95
<b>Total Revenues</b>	<b>4,689,888.49</b>	<b>5,145,194.61</b>	<b>234,283.10</b>	<b>237,598.06</b>	<b>4,924,171.59</b>	<b>5,382,792.67</b>
<b>Expenses</b>						
Instruction	2,721,093.87	2,637,111.28			2,721,093.87	2,637,111.28
Support Services	1,990,784.74	1,780,452.63			1,990,784.74	1,780,452.63
Debt Services	56,046.87	28,879.07			56,046.87	28,879.07
Cocurricular Activities	155,513.78	157,141.92			155,513.78	157,141.92
Food Service			192,986.04	183,136.42	192,986.04	183,136.42
Preschool			5,924.93	22,307.40	5,924.93	22,307.40
Driver's Education			3,860.33	4,703.40	3,860.33	4,703.40
<b>Total Expenses</b>	<b>4,923,439.26</b>	<b>4,639,744.66</b>	<b>202,771.30</b>	<b>210,147.22</b>	<b>5,126,210.56</b>	<b>4,849,891.88</b>
<b>Increase (Decrease) in Net Position</b>	<b>(233,550.77)</b>	<b>505,449.95</b>	<b>31,511.80</b>	<b>27,450.84</b>	<b>(202,038.97)</b>	<b>532,900.79</b>
Prior Period Adjustment		585,452.94				585,452.94
<b>Net Position - ENDING</b>	<b>\$ 4,768,330.80</b>	<b>\$ 5,859,233.69</b>	<b>\$ 186,815.23</b>	<b>\$ 214,266.07</b>	<b>\$ 4,955,146.03</b>	<b>\$ 6,073,499.76</b>

## GOVERNMENTAL ACTIVITIES

Revenues for the governmental activities increased by 9.7% during the year. There was an increase in property tax valuations and gross receipts; an increase in operating grants, the fluctuating economy affecting the investment earnings, and an increase of state sources contributed to the largest portions of the changes.

Expenses decreased over the previous year by approximately 5.8%.

## BUSINESS-TYPE ACTIVITIES

Revenues of the School's business-type activities increased \$3,314.96 or approximately 1.4% and expenses increased \$7,375.92 or approximately 3.6%. Factors contributing to these results included:

- There was an increase in the price of meals and number of students attending the school during 2015. This resulted in an increase in the number of meals served by the food service operations and an increase in the number of students attending driver's education and preschool programs.
- The primary reason for the increase in expenses was due to the increase in number of students attending preschool with a shift from Special Education funding based on the needs of the students. The school district attempts to maintain cost control practices in preparation of food service meals, driver's education and preschool costs.

## FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The General Fund's net position increased by \$147,052.63, as a result of revenue exceeding expenses. The Capital Outlay Fund had a decrease of \$825,466.75. The Pension Fund had a decrease of \$5,239.51 due to early retirement payments. Bond Redemption had a positive change of \$1,035.84. The Special Education fund had an increased change of \$74,392.55. The positive changes are due to revenues exceeding expenditures. The negative changes are due to additional expenditures incurred in those areas.

## BUDGETARY HIGHLIGHTS

Over the course of the year there were no major projects and budgetary cuts were made where feasible.

## CAPITAL ASSET ADMINISTRATION

By the end of FY2015, the School had invested in a net book value of \$4,099,707 in a broad range of capital assets, including, land, buildings, various machinery and equipment. (See Table A-3.) This amount represents a net increase (including additions and deductions) of \$5,006.

Table A-3  
CHESTER AREA SCHOOL DISTRICT #39-1 - Capital Assets

	<u>Governmental Activities</u>			<u>Business-Type Activities</u>		
	<u>2014</u>	<u>2015</u>	<u>Increase/ Decrease</u>	<u>2014</u>	<u>2015</u>	<u>Increase/ Decrease</u>
Land	\$ 14,000	\$ 14,000	\$	\$	\$	\$
Buildings	3,581,555	3,581,555				
Improvements other than Building	1,603,644	1,740,074	136,430			
Machinery and Equipment	886,164	898,062	11,898	236,144	236,144	
Library Books	192,428	193,406	978			
Total Capital Assets	<u>6,277,791</u>	<u>6,427,097</u>	<u>149,306</u>	<u>236,144</u>	<u>236,144</u>	
Accumulated Depreciation	<u>(2,310,370)</u>	<u>(2,448,519)</u>	<u>(138,149)</u>	<u>(108,864)</u>	<u>(115,015)</u>	<u>(6,151)</u>
Net Capital Assets	<u>\$ 3,967,421</u>	<u>\$ 3,978,578</u>	<u>\$ 11,157</u>	<u>\$ 127,280</u>	<u>\$ 121,129</u>	<u>\$ (6,151)</u>

## LONG-TERM DEBT

At year-end the School had \$1,155,756.70 in Capital Outlay Certificates and other long-term obligations. This is a decrease of \$893,667.30 as shown on Table A-4 below.

**Table A-4**  
**CHESTER AREA SCHOOL DISTRICT #39-1**  
Long-Term Liabilities

	<u>Governmental Activities</u>		Total % Change
	<u>2014</u>	<u>2015</u>	
Capital Outlay Certificates	\$ 1,870,000.00	\$ 905,000.00	106.63%
Early Retirement		18,079.88	-100.00%
Capital Lease		52,587.82	-100.00%
Other Postemployment Benefits	179,424.00	180,089.00	-0.37%
<b>Total Long-Term Liabilities</b>	<b><u>\$ 2,049,424.00</u></b>	<b><u>\$ 1,155,756.70</u></b>	77.32%

The School maintains an early retirement plan, which allows those meeting certain qualifications, to retire early and receive 70% of their last year's salary in equal payments spread over the next two years. This plan allows the school to reduce the overall program cost by hiring lower paid teachers to replace the higher paid teachers. There was one new early retirement obligation as of June 30, 2015.

In 2015, the School paid principal and interest payments of the Limited Tax General Obligation Certificates, Series 2009 in the amount of \$92,197.20.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The School's current economic position has shown little change. The School did experience a increase in total property valuation of \$24,163,477 or 3% from the prior year. The increase in property valuation raises the ability of the school to increase revenue generated from property taxes, however, the total amount which can be levied is limited by the State of South Dakota.

One of the primary sources of revenue to the School is based on a per student allocation received from the State of South Dakota. The state aid formula for the current year ensures that property taxes plus state aid will equal \$4,781.14 per student. The school experienced a unexpected increase in fall enrollment during the past year due to the cyber school. By increasing fall enrollment this will result in the school receiving more overall revenue from the State of South Dakota in the future.

## CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional information, contact the Chester Area School Business Office, 102 2<sup>nd</sup> Avenue, PO Box 159, Chester, SD 57016.

**CHESTER AREA SCHOOL DISTRICT NO. 39-1**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2015**

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 2,463,264.19	\$ 111,433.58	\$ 2,574,697.77
Taxes Receivable	1,109,939.63		1,109,939.63
Accounts Receivable	2,132.42	200.00	2,332.42
Due from Other Governments	247,965.93		247,965.93
Inventories		3,609.65	3,609.65
Prepaid Expense	70,770.54	2,174.94	72,945.48
Net Pension Asset	1,090,278.69		1,090,278.69
Capital Assets:			
Land	14,000.00		14,000.00
Other Capital Assets, Net of Depreciation	<u>3,964,577.69</u>	<u>121,128.87</u>	<u>4,085,706.56</u>
<b>TOTAL ASSETS</b>	<u>8,962,929.09</u>	<u>238,547.04</u>	<u>9,201,476.13</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Pension Related Deferred Outflows	<u>967,468.51</u>		<u>967,468.51</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>967,468.51</u>		<u>967,468.51</u>
<b>LIABILITIES :</b>			
Accounts Payable	21,962.22	3,597.00	25,559.22
Other Current Liabilities	549,625.11	17,369.45	566,994.56
Unearned Revenues		3,314.52	3,314.52
Noncurrent Liabilities:			
Due Within One Year	114,686.56		114,686.56
Due In More Than One Year	<u>1,041,070.14</u>		<u>1,041,070.14</u>
<b>TOTAL LIABILITIES</b>	<u>1,727,344.03</u>	<u>24,280.97</u>	<u>1,751,625.00</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Taxes levied for Future Period	1,081,093.36		1,081,093.36
Pension Related Deferred Inflows	<u>1,262,726.52</u>		<u>1,262,726.52</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>2,343,819.88</u>		<u>2,343,819.88</u>
<b>NET POSITION:</b>			
Net Investment in Capital Assets,	3,073,577.69	121,128.87	3,194,706.56
Restricted for:			
Capital Outlay	573,835.35		573,835.35
Special Education	78,377.75		78,377.75
Debt Service	478,623.65		478,623.65
SDRS Pension Purposes	795,020.68		795,020.68
Unrestricted	<u>859,798.57</u>	<u>93,137.20</u>	<u>952,935.77</u>
<b>TOTAL NET POSITION</b>	<u>\$ 5,859,233.69</u>	<u>\$ 214,266.07</u>	<u>\$ 6,073,499.76</u>

The notes to the financial statements are an integral part of this statement.

**CHESTER AREA SCHOOL DISTRICT NO. 39-1  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government</u>		<u>Total</u>
				<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
Primary Government:						
Governmental Activities:						
Instruction	\$ 2,637,111.28	\$ 40,000.00	\$ 208,682.38	\$ (2,388,428.90)	\$	\$ (2,388,428.90)
Support Services	1,780,452.63	46,052.97		(1,734,399.66)		(1,734,399.66)
Nonprogrammed Charges	36,159.76			(36,159.76)		(36,159.76)
*Interest on Long-term Debt	28,879.07			(28,879.07)		(28,879.07)
Cocurricular Activities	157,141.92	28,777.57		(128,364.35)		(128,364.35)
Total Governmental Activities	<u>4,639,744.66</u>	<u>114,830.54</u>	<u>208,682.38</u>	<u>(4,316,231.74)</u>		<u>(4,316,231.74)</u>
Business-type Activities:						
Food Service	183,136.42	116,493.46	85,764.60		19,121.64	19,121.64
Preschool	22,307.40	30,470.00			8,162.60	8,162.60
Driver's Education	4,703.40	4,870.00			166.60	166.60
Total Business-Type Activities	<u>210,147.22</u>	<u>151,833.46</u>	<u>85,764.60</u>		<u>27,450.84</u>	<u>27,450.84</u>
Total Primary Government	<u>\$ 4,849,891.88</u>	<u>\$ 266,664.00</u>	<u>\$ 294,446.98</u>	<u>(4,316,231.74)</u>	<u>27,450.84</u>	<u>(4,288,780.90)</u>

\*The District does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

**General Revenues:**

Taxes:						
Property Taxes				2,364,120.83		2,364,120.83
Utility Taxes				210,418.57		210,418.57
Revenue from State Sources:						
State Aid				1,968,083.76		1,968,083.76
Unrestricted Investment Earnings				5,117.95		5,117.95
Other General Revenues				273,940.58		273,940.58
Total General Revenues				<u>4,821,681.69</u>		<u>4,821,681.69</u>
Change in Net Position				505,449.95	27,450.84	532,900.79
Net Position - Beginning				<u>4,768,330.80</u>	<u>186,815.23</u>	<u>4,955,146.03</u>
Prior Period Adjustment				585,452.94		585,452.94
Adjusted Net Position - Beginning				<u>5,353,783.74</u>	<u>186,815.23</u>	<u>5,540,598.97</u>
NET POSITION - ENDING				<u>\$ 5,859,233.69</u>	<u>\$ 214,266.07</u>	<u>\$ 6,073,499.76</u>

The notes to the financial statements are an integral part of this statement.

**CHESTER AREA SCHOOL DISTRICT NO. 39-1  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015**

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Pension Fund</u>	<u>Bond Redemption Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>						
Cash and Cash Equivalents	\$ 1,238,310.40	\$ 570,955.87	\$ 152,798.75	\$ 22,590.19	\$ 478,608.98	\$ 2,463,264.19
Taxes Receivable - Current	491,982.32	369,888.47	182,233.55	36,989.02		1,081,093.36
Taxes Receivable - Delinquent	16,404.27	7,737.56	3,916.90	772.87	14.67	28,846.27
Accounts Receivable	2,132.42					2,132.42
Due from Other Governments	246,426.95		1,538.98			247,965.93
Prepaid Expense	57,789.99		12,980.55			70,770.54
<b>TOTAL ASSETS</b>	<u>2,053,046.35</u>	<u>948,581.90</u>	<u>353,468.73</u>	<u>60,352.08</u>	<u>478,623.65</u>	<u>3,894,072.71</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:</b>						
Liabilities:						
Accounts Payable	12,641.21	4,858.08	4,462.93			21,962.22
Contracts Payable	294,615.63		55,350.15			349,965.78
Payroll Deductions and Withholdings and Employer Matching Payable	155,799.82		33,044.35	10,815.16		199,659.33
<b>Total Liabilities</b>	<u>463,056.66</u>	<u>4,858.08</u>	<u>92,857.43</u>	<u>10,815.16</u>		<u>571,587.33</u>
Deferred Inflows of Resources:						
Taxes Levied for a Future Period	491,982.32	369,888.47	182,233.55	36,989.02		1,081,093.36
Unavailable Revenue-Property Taxes	16,404.27	7,737.56	3,916.90	772.87	14.67	28,846.27
<b>Total Deferred Inflows of Resources</b>	<u>508,386.59</u>	<u>377,626.03</u>	<u>186,150.45</u>	<u>37,761.89</u>	<u>14.67</u>	<u>1,109,939.63</u>
Fund Balances:						
Nonspendable	57,789.99		12,980.55			70,770.54
Restricted		566,097.79	61,480.30	11,775.03	478,608.98	1,117,962.10
Assigned	104,684.00					104,684.00
Unassigned	919,129.11					919,129.11
<b>Total Fund Balances</b>	<u>1,081,603.10</u>	<u>566,097.79</u>	<u>74,460.85</u>	<u>11,775.03</u>	<u>478,608.98</u>	<u>2,212,545.75</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 2,053,046.35</u>	<u>\$ 948,581.90</u>	<u>\$ 353,468.73</u>	<u>\$ 60,352.08</u>	<u>\$ 478,623.65</u>	<u>\$ 3,894,072.71</u>

The notes to the financial statements are an integral part of this statement.

**CHESTER AREA SCHOOL DISTRICT NO. 39-1  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2015**

Total Fund Balances - Governmental Funds \$ 2,212,545.75

Amounts reported for governmental activities in the statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.

Cost of Capital Assets is	\$ 6,427,096.71	
Accumulated Depreciation is	<u>(2,448,519.02)</u>	3,978,577.69

Long-term liabilities, consisting of Capital Outlay Certificates payable and other post-employment benefits, are not due and payable in the current period and therefore are not reported in the funds.

Capital Outlay Certificates	(905,000.00)	
Early Retirement Payable	(18,079.88)	
Capital Lease Payable	(52,587.82)	
Other Post-Employment Benefits	<u>(180,089.00)</u>	(1,155,756.70)

Net Pension Asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds. 1,090,278.69

Pension related deferred outflows are components of pension asset and therefore are not reported in the funds. 967,468.51

Pension related deferred inflows are components of pension liability and therefore are not reported in the funds. (1,262,726.52)

Assets such as taxes receivable (delinquent) are not available to pay for current period expenditures and therefore are deferred in the funds. 28,846.27

Net Position - Governmental Funds \$ 5,859,233.69

The notes to the financial statements are an integral part of this statement.

**CHESTER AREA SCHOOL DISTRICT NO. 39-1**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Pension Fund</u>	<u>Bond Redemption Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>						
Revenue from Local Sources:						
Taxes:						
Ad Valorem Taxes	\$ 1,075,487.99	\$ 768,547.97	\$ 396,615.48	\$ 77,954.36	\$	\$ 2,318,605.80
Prior Years' Ad Valorem Taxes	13,074.29	10,783.28	5,244.75	1,079.07		30,181.39
Tax Deed Revenue	26.00	8.56	3.99	0.86	1.34	40.75
Utility Taxes	210,418.57					210,418.57
Penalties and Interest on Taxes	2,383.22	12,582.88	875.58	168.24		16,009.92
Tuition and Fees:						
Tuition from In-state LEAs	40,000.00					40,000.00
Earnings on Investments and Deposits	2,246.04	1,837.41			1,034.50	5,117.95
Cocurricular Activities:						
Admissions	22,487.02					22,487.02
Other	6,290.55					6,290.55
Other Revenue from Local Sources:						
Services Provided Other LEA's Within State			202,984.19			202,984.19
Medicaid Indirect Administration Services	7,131.46		2,852.16			9,983.62
Other	9,276.82	20,946.41	100.00			30,323.23
Revenue from Intermediate Sources:						
County Sources:						
County Apportionment	30,649.54					30,649.54
Revenue from State Sources:						
Grants-in-Aid:						
Unrestricted Grants-in-Aid	1,899,327.76					1,899,327.76
Restricted Grants-in-Aid	7,950.00		60,806.00			68,756.00
Revenue from Federal Sources:						
Grants-in-Aid:						
Unrestricted Grants-in-Aid Rec'd from:						
Source	2,808.79	4,041.58	2,136.17	404.42		9,390.96
Restricted Grants-in-Aid Received from:						
Federal Government Through the State	53,056.00		100,942.00			153,998.00
Other Federal Revenue	45,293.42					45,293.42
<b>Total Revenue</b>	<u>3,427,907.47</u>	<u>818,748.09</u>	<u>772,560.32</u>	<u>79,606.95</u>	<u>1,035.84</u>	<u>5,099,858.67</u>

**Expenditures:**

## Instruction:

## Regular Programs:

Elementary	748,394.54	50,913.20	32,080.42	831,388.16
Middle/Junior High	244,046.92	34,012.02	10,497.59	288,556.53
High School	1,054,061.74	173,567.13	24,188.57	1,251,817.44

## Special Programs:

Programs for Special Education			327,190.89	327,190.89
Programs for Educationally Deprived	39,722.45			39,722.45

## Support Services:

## Pupils:

Guidance	56,905.73			56,905.73
Speech Pathology			63,489.15	63,489.15
Student Therapy			196,861.87	196,861.87

## Support Services - Instructional Staff:

Improvement of Instruction	47,579.28		1,568.24	49,147.52
Educational Media	169,288.03	5,042.20		174,330.23

## Support Services - General Administration:

Board of Education	21,984.05	71,662.00		93,646.05
Executive Administration	121,074.39			121,074.39

## Support Services - School Administration:

Office of the Principal	164,557.29			164,557.29
Other	171.93			171.93

## Support Services - Business:

Fiscal Services	214,132.20	40,433.25		254,565.45
Operation and Maintenance of Plant	201,190.13	91,414.41		292,604.54
Pupil Transportation	91,884.98	38,196.80		130,081.78
Food Services		1,349.00		1,349.00

## Support Services - Special Education:

Administrative Costs			92,981.80	92,981.80
Transportation Costs			1,065.60	1,065.60
Other Special Education Costs			15,010.22	15,010.22

**CHESTER AREA SCHOOL DISTRICT NO. 39-1**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Pension Fund</u>	<u>Bond Redemption Fund</u>	<u>Total Governmental Funds</u>
Nonprogrammed Charges:						
Early Retirement				18,079.88		18,079.88
Debt Services		124,324.65				124,324.65
Cocurricular Activities:						
Male Activities	38,281.90	5,080.23				43,362.13
Female Activities	37,667.56	2,866.15				40,533.71
Combined Activities	29,911.72	10,831.43				40,743.15
Capital Outlay		177,555.76				177,555.76
Total Expenditures	<u>3,280,854.84</u>	<u>827,248.24</u>	<u>698,167.77</u>	<u>84,846.46</u>		<u>4,891,117.31</u>
Excess of Revenues Over (Under) Expenditures	<u>147,052.63</u>	<u>(8,500.15)</u>	<u>74,392.55</u>	<u>(5,239.51)</u>	<u>1,035.84</u>	<u>208,741.36</u>
Other Financing Sources (Uses):						
Sale of Surplus Property		83,033.40				83,033.40
Payments to Refunded Debt Excrow Agency		(900,000.00)				(900,000.00)
Total Other Financing Sources (Uses):		<u>(816,966.60)</u>				<u>(816,966.60)</u>
Net Change in Fund Balances	147,052.63	(825,466.75)	74,392.55	(5,239.51)	1,035.84	(608,225.24)
Fund Balance - Beginning	<u>934,550.47</u>	<u>1,391,564.54</u>	<u>68.30</u>	<u>17,014.54</u>	<u>477,573.14</u>	<u>2,820,770.99</u>
FUND BALANCE - ENDING	<u>\$ 1,081,603.10</u>	<u>\$ 566,097.79</u>	<u>\$ 74,460.85</u>	<u>\$ 11,775.03</u>	<u>\$ 478,608.98</u>	<u>\$ 2,212,545.75</u>

The notes to the financial statements are an integral part of this statement.

**CHESTER AREA SCHOOL DISTRICT NO. 39-1  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

Net Change in Fund Balances - Total Governmental Funds \$ (608,225.24)

Amounts reported for governmental activities in the statement of activities are 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. The amount by which capital outlays exceeds depreciation expense in the period is :

Capital Outlay	\$177,555.76	
Depreciation Expense	<u>(166,398.58)</u>	11,157.18

Payment of principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of Net Position. 995,445.58

When long-term debt is issued, it is reported as an other financing source in the fund financial statements but increases the liability in the government-wide financial statements. (83,033.40)

Changes in the pension related deferred outflows/inflows are direct components of pension liability(asset) and are not reflected in the governmental funds. 209,567.74

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 funds' statements 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." (717.03)

Governmental funds recognize expenditures for amounts of Other Post-employment Benefits (OPEB) and early retirement actually paid to employees with current financial resources during the fiscal year. Amounts earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn leave credits or elect to retire early. This year's changes in these amounts are: (18,744.88)

Change in Net Position of Governmental Activities \$ 505,449.95

The notes to the financial statements are an integral part of this statement.

**CHESTER AREA SCHOOL DISTRICT NO. 39-1**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2015**

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Food Service Fund</u>	<u>Other Enterprise Fund</u>	
<b>ASSETS:</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 68,937.91	\$42,495.67	\$ 111,433.58
Accounts Receivable		200.00	200.00
Inventory of Supplies	382.20		382.20
Inventory of Stores Purchased for Resale	1,780.71		1,780.71
Inventory of Donated Food	1,446.74		1,446.74
Prepaid Expense	1,720.15	454.79	2,174.94
Total Current Assets	<u>74,267.71</u>	<u>43,150.46</u>	<u>117,418.17</u>
Capital Assets:			
Improvements Other Than Building	65,591.01		65,591.01
Machinery and Equipment	170,552.76		170,552.76
Less: Accumulated Depreciation	<u>(115,014.90)</u>		<u>(115,014.90)</u>
Total Noncurrent Assets	<u>121,128.87</u>		<u>121,128.87</u>
<b>TOTAL ASSETS</b>	<u>195,396.58</u>	<u>43,150.46</u>	<u>238,547.04</u>
<b>LIABILITIES:</b>			
Current Liabilities:			
Accounts Payable	57.00	3,540.00	3,597.00
Contracts Payable	10,129.62	1,908.88	12,038.50
Payroll Deductions and Withholdings and Employer Matching Payable	4,226.78	1,104.17	5,330.95
Unearned Revenue	3,314.52		3,314.52
Total Current Liabilities	<u>17,727.92</u>	<u>6,553.05</u>	<u>24,280.97</u>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	121,128.87		121,128.87
Unrestricted Net Position	<u>56,539.79</u>	<u>36,597.41</u>	<u>93,137.20</u>
Total Net Position	<u>\$ 177,668.66</u>	<u>\$ 36,597.41</u>	<u>\$ 214,266.07</u>

The notes to the financial statements are an integral part of this statement.

**CHESTER AREA SCHOOL DISTRICT NO. 39-1**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Food Service Fund</u>	<u>Other Enterprise Fund</u>	
<b>Operating Revenue:</b>			
Sales:			
To Pupils	\$ 106,954.55	\$ 30,470.00	\$ 137,424.55
To Adults	9,494.65		9,494.65
Miscellaneous Revenue	44.26	4,870.00	4,914.26
Total Operating Revenue	<u>116,493.46</u>	<u>35,340.00</u>	<u>151,833.46</u>
<b>Operating Expenses:</b>			
Salaries	63,602.33	15,652.10	79,254.43
Employee Benefits	24,672.84	6,395.93	31,068.77
Purchased Services		3,320.00	3,320.00
Supplies	1,684.32	1,642.77	3,327.09
Cost of Sales-Purchased Food	65,827.22		65,827.22
Cost of Sales-Donated Food	21,198.31		21,198.31
Depreciation-Local Funds	6,151.40		6,151.40
Total Operating Expenses	<u>183,136.42</u>	<u>27,010.80</u>	<u>210,147.22</u>
Operating Income (Loss)	<u>(66,642.96)</u>	<u>8,329.20</u>	<u>(58,313.76)</u>
<b>Nonoperating Revenue (Expense):</b>			
State Sources:			
Cash Reimbursements	1,064.80		1,064.80
Federal Sources:			
Cash Reimbursements	65,531.66		65,531.66
Donated Food	19,168.14		19,168.14
Total Nonoperating Revenue (Expense)	<u>85,764.60</u>		<u>85,764.60</u>
Change in Net Position Before Transfers	<u>19,121.64</u>	<u>8,329.20</u>	<u>27,450.84</u>
Net Position - Beginning	<u>158,547.02</u>	<u>28,268.21</u>	<u>186,815.23</u>
Net Position - Ending	<u>\$ 177,668.66</u>	<u>\$ 36,597.41</u>	<u>\$ 214,266.07</u>

The notes to the financial statements are an integral part of this statement.

**CHESTER AREA SCHOOL DISTRICT NO. 39-1**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Enterprise Funds</u>		
	<u>Food Service Fund</u>	<u>Other Enterprise Fund</u>	<u>Total</u>
<b>Cash Flows from Operating Activities:</b>			
Receipts from Customers	\$ 117,272.50	\$ 35,140.00	\$ 152,412.50
Payments to Suppliers	(67,348.82)	(5,593.10)	(72,941.92)
Payments to Employees	(87,122.29)	(20,234.48)	(107,356.77)
Net Cash Provided (Used) by Operating Activities	<u>(37,198.61)</u>	<u>9,312.42</u>	<u>(27,886.19)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Operating Subsidies	<u>66,596.46</u>		<u>66,596.46</u>
Total Cash Flows from Noncapital Financing Activities	<u>66,596.46</u>		<u>66,596.46</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 29,397.85</u>	<u>\$ 9,312.42</u>	<u>\$ 38,710.27</u>
Cash and Cash Equivalents at Beginning of Year	\$ 39,540.06	\$ 33,183.25	\$ 72,723.31
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>68,937.91</u>	<u>42,495.67</u>	<u>111,433.58</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 29,397.85</u>	<u>\$ 9,312.42</u>	<u>\$ 38,710.27</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET</b>			
<b>CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating Income (Loss)	\$ (66,642.96)	\$ 8,329.20	\$ (58,313.76)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	6,151.40		6,151.40
Value of Commodities Used	21,198.31		21,198.31
Change in Assets and Liabilities:			
Accounts Receivables		(200.00)	(200.00)
Inventories	421.10		421.10
Prepaid Expenses	(194.61)	(230.36)	(424.97)
Accounts Payables	(258.38)	(630.33)	(888.71)
Benefits Payable	1,347.49	2,043.91	3,391.40
Unearned Revenue	779.04		779.04
Net Cash Provided (Used) by Operating Activities	<u>\$ (37,198.61)</u>	<u>\$ 9,312.42</u>	<u>\$ (27,886.19)</u>
<b>Noncash Investing, Capital and Financing Activities:</b>			
Value of Commodities Received	\$ 19,168.14		

The notes to the financial statements are an integral part of this statement.

**CHESTER AREA SCHOOL DISTRICT NO. 39-1**  
**STATEMENT OF NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2015**

	<b>Agency Funds</b>	<b>Private- Purpose Trust Funds</b>
<b>ASSETS:</b>		
Cash and Cash Equivalents	\$ 39,914.52	\$ 6,256.12
Accounts Receivable	161.44	
Other Assets	94.68	
<b>TOTAL ASSETS</b>	<b>40,170.64</b>	<b>6,256.12</b>
<b>LIABILITIES:</b>		
Amounts Held for Others	40,170.64	
<b>TOTAL LIABILITIES</b>	<b>\$ 40,170.64</b>	
<b>NET POSITION</b>		
Held in Trust for Scholarships		<b>\$ 6,256.12</b>

The notes to the financial statements are an integral part of this statement.

**CHESTER AREA SCHOOL DISTRICT NO. 39-1**  
**STATEMENT OF CHANGES IN NET POSITION**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Private- Purpose Trust Funds</u>
<b>ADDITIONS:</b>	
Contributions	\$ <u>4,178.22</u>
Total Additions	<u>4,178.22</u>
<b>DEDUCTIONS:</b>	
Scholarships	<u>4,600.00</u>
Total Deductions	<u>4,600.00</u>
Change in Net Position	(421.78)
Net Position - Beginning	<u>6,677.90</u>
<b>NET POSITION - ENDING</b>	<u><u>\$ 6,256.12</u></u>

The notes to the financial statements are an integral part of this statement.

CHESTER AREA SCHOOL DISTRICT NO. 39-1  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity

The reporting entity of Chester Area School District No. 39-1, 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 component units, but are discussed in these notes because of their relationship with the School District.

b. Basis of Presentation

*Government-wide Financial Statements:*

The Statement of Net Position and 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 non-exchange 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 and deferred outflows of resources minus liabilities and deferred inflows of resources equal Net Position). Net Position are displayed in three components, as applicable, net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

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 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 percent 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 percent 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.

The funds of the 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 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 a major fund.

*Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest, and related costs.*

Bond Redemption Fund - A fund established by SDCL 13-16-13 to account for the proceeds of a special property tax restricted to use for the payment of principal and interest on general obligation bonded debt. The Bond Redemption Fund is the only debt service fund maintained by the School District. This is a major fund.

## **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 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.

Other Enterprise Funds - A fund used to record financial transactions related to preschool programming. This fund is financed by user charges. This is a major fund.

## **Fiduciary Funds:**

Fiduciary funds consist of the following sub-categories 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 School District maintains private-purpose trust funds for scholarships.*

*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 for the following purposes: Student Class Funds, Student Club Funds and Clearing Accounts.*

### c. 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).

*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 Chester Area School District No. 39-1, the length of that cycle is 60 days. The revenues that were accrued at June 30, 2015 are amounts due from other governments for grants and miscellaneous reimbursements.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues 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.

d. Interfund Eliminations and Reclassifications

*Government-wide Financial Statements:*

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain “centralized expenses” including an administrative overhead component, are charged as

direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged, in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate.

e. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist entirely (primarily) of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Law (SDCL) 4-5-6.

f. 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.

*Government-Wide Statements:*

All 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 USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

The total June 30, 2015 balance of capital assets for governmental activities includes approximately 3.07 percent 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 are valued at original 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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	All	NA	NA
Improvements	\$ 5,000.00	Straight Line	5-50 years
Buildings	5,000.00	Straight Line	50-75 years
Machinery and Equipment	5,000.00	Straight Line	5-30 years
Food Service Machinery and Equipment	5,000.00	Straight Line	5-20 years

Land is an inexhaustible capital asset and is not depreciated.

### *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 statements.

#### g. 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 primarily consist of capital outlay certificates and other post-employment benefits payable.

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.

#### h. Program Revenues

In the Government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the 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.
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.

#### i. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Revenues, Expenses, and Change 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.

j. 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.

k. 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 do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

*Fund Financial Statements:*

Governmental fund equity is classified as fund balance, and is distinguish between Nonspendable, Restricted, Committed, Assigned or 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.

l. Application of Net Position

It is the 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.

m. Deferred Inflows and Deferred Outflows of Resources:

In addition to assets, the statement of financial 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 until the applicable future period.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

n. 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:

1. Nonspendable – includes fund balance amounts that cannot be spent because it is not in spendable form or because of legal or contractual restraints.
2. Restricted – includes fund balance amounts that are constrained for a specific purpose which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
3. 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.
4. 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 School Board or a committed delegated that authority by a Board Motion or Board Policy.
5. 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/committed* 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 district would first use *committed, then assigned, and lastly, unassigned* amounts of unrestricted fund balance when expenditures are made.

The Nonspendable Fund Balance is comprised of Prepaid Expenses.

The School District has not adopted a formal minimum fund balance policy.

A schedule of fund balances is provided as follows:

CHESTER SCHOOL DISTRICT NO. 39-1  
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Total Governmental Funds
<b>Fund Balances:</b>						
<i>Nonspendable:</i>						
Prepaid Expenses	\$ 57,789.99		\$ 12,980.55			\$ 70,770.54
<i>Restricted for:</i>						
Capital Outlay		566,097.79				566,097.79
Special Education			61,480.30			61,480.30
Pension				11,775.03		11,775.03
Bond Redemption					478,608.98	478,608.98
<i>Assigned to:</i>						
Subsequent Year's Budget	104,684.00					104,684.00
<i>Unassigned</i>	919,129.11					919,129.11
<b>Total Fund Balances</b>	<b>\$ 1,081,603.10</b>	<b>\$ 566,097.79</b>	<b>\$ 74,460.85</b>	<b>\$ 11,775.03</b>	<b>\$ 478,608.98</b>	<b>\$ 2,212,545.75</b>

**o. Pensions**

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense (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 liability (asset) are recognized on an accrual basis of accounting.

**NOTE 2 - 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. 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 percent 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.

Investments – In general, SDCL 4-5-6 permits school 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) above. 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.

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.

Concentration of Credit Risk – The School District places no limit on the amount that may be invested in any one issuer.

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 deposits and investments to the fund making the investment.

### NOTE 3 - RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year.

### NOTE 4 - INVENTORY

Inventory for resale is valued 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 proprietary 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 position. There were no material inventories in the Governmental funds as of June 30, 2015.

### NOTE 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.

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 revenue in both the fund financial statements and 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 "availability period."

## NOTE 6 - CHANGES IN CAPITAL ASSETS

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

<b>Primary Government</b>	Balance 6/30/2014	Increase	Decrease	Balance 6/30/2015
<b>Governmental Activities:</b>				
Capital Assets				
Land	\$ 14,000.00	\$	\$	\$ 14,000.00
Total	<u>14,000.00</u>			<u>14,000.00</u>
Capital Assets				
Buildings	3,581,554.72			3,581,554.72
Improvements	1,603,643.96	136,429.96		1,740,073.92
Machinery and Equipment	886,164.00	40,148.00	28,250.00	898,062.00
Library Books	192,428.27	977.80		193,406.07
Total	<u>6,263,790.95</u>	<u>177,555.76</u>	<u>28,250.00</u>	<u>6,413,096.71</u>
Less Accumulated Depreciation:				
Buildings	927,983.25	59,214.65		987,197.90
Improvements	731,137.89	52,701.65		783,839.54
Machinery and Equipment	497,964.92	44,811.97	28,250.00	514,526.89
Library Books	153,284.38	9,670.31		162,954.69
Total Accumulated Depreciation	<u>2,310,370.44</u>	<u>166,398.58</u>	<u>28,250.00</u>	<u>2,448,519.02</u>
Total Capital Assets	<u>3,953,420.51</u>	<u>11,157.18</u>		<u>3,964,577.69</u>
Capital Assets, net	<u>\$ 3,967,420.51</u>	<u>\$ 11,157.18</u>	<u>\$</u>	<u>\$ 3,978,577.69</u>

Depreciation expense was charged to functions as follows:

Instruction	\$ 61,285.57
Support Services	72,610.08
Co-Curricular	32,502.93
Total Depreciation expense-governmental activities	<u>\$ 166,398.58</u>

<b>Business-type Activity:</b>	Balance 6/30/2014	Increase	Decrease	Balance 6/30/2015
Improvements	\$ 65,591.01	\$	\$	\$ 65,591.01
Machinery and Equipment	170,552.76			170,552.76
Total Being Depreciated	<u>236,143.77</u>			<u>236,143.77</u>
Less Accumulated Depreciation:				
Improvements	(8,198.90)	(1,639.78)		(9,838.68)
Machinery and Equipment	(100,664.60)	(4,511.62)		(105,176.22)
Total Accumulated Depreciation	<u>(108,863.50)</u>	<u>(6,151.40)</u>		<u>(115,014.90)</u>
Capital Assets, net	<u>\$ 127,280.27</u>	<u>\$ (6,151.40)</u>	<u>\$</u>	<u>\$ 121,128.87</u>
Total Depreciation expense-business-type activities				<u>\$ 6,151.40</u>

NOTE 7 - LONG-TERM LIABILITIES

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

Governmental Activities	Capital Outlay Certificates	Other Post Employment Benefits	Early Retirement	Capital Lease	Totals
Liabilities Payable, July 1, 2014	\$ 1,870,000.00	\$ 179,424.00	\$	\$	\$ 2,049,424.00
Additions		21,329.00	36,159.76	83,033.40	140,522.16
Deletions	(965,000.00)	(20,664.00)	(18,079.88)	(30,445.58)	(1,034,189.46)
<b>LIABILITIES PAYABLE, JUNE 30, 2015</b>	<u>\$ 905,000.00</u>	<u>\$ 180,089.00</u>	<u>\$ 18,079.88</u>	<u>\$ 52,587.82</u>	<u>\$ 1,155,756.70</u>
Due within One Year	<u>\$ 80,000.00</u>	<u>\$</u>	<u>\$ 18,079.88</u>	<u>\$ 16,606.68</u>	<u>\$ 114,686.56</u>

Compensated absences and other postemployment benefits for governmental activities typically have been liquidated from the General Fund. Early retirement benefits payable for governmental activities typically has been liquidated from the Pension Fund.

Liabilities payable at June 30, 2015 are comprised of the following:

**PRIMARY GOVERNMENT**

Governmental Activities:

Capital Outlay Certificates:

Series 2012 – General Obligation Certificates dated February 16, 2012; Interest rates at 1.0% to 2.7%, depending on length to maturity; final maturity is November 15, 2025; payments made from the Capital Outlay Fund. \$ 905,000.00

Early Retirement Payable:

Represents obligations to employees who have chosen to take advantage of the school district's early retirement plan. Payments are made from the Pension Fund 18,079.88

Other Postemployment Benefits:

Obligation to individuals who are retired or will retire from the School District and will receive postemployment benefits. Payments are made from the General Fund. 180,089.00

Capital Lease Payable:

Capital lease financing for the purchase of four copiers, due in 60 installments of \$1,383.89, at interest rate of 0.00%, final payment in August 2019. Payments from Capital Outlay Fund. 52,587.82

The purchase price at the commencement of the financing (capital acquisition) leases are:

	<u>Copier Lease</u>
Principal	\$ 83,033.40
Interest	
TOTAL	<u>\$ 83,033.40</u>

The annual debt service requirements to maturity for all debt outstanding, other than post-employment benefits and early retirement, as of June 30, 2015, are as follows:

Year Ending June 30,	Capital Outlay Certificates Payable		Financing (Capital Acquisition) Leases	Early Retirement Benefits Payable		
	Principal	Interest	Principal	Principal	Principal	Interest
2016	\$ 80,000.00	\$ 17,732.50	\$ 16,606.68	\$ 18,079.88	\$ 114,686.56	\$ 17,732.50
2017	75,000.00	16,863.75	16,606.68		91,606.68	16,863.75
2018	75,000.00	15,926.25	16,606.68		91,606.68	15,926.25
2019	80,000.00	14,757.50	2,767.78		82,767.78	14,757.50
2020	80,000.00	13,357.50			80,000.00	13,357.50
2021-2025	425,000.00	39,436.25			425,000.00	39,436.25
2026-2030	90,000.00	1,215.00			90,000.00	1,215.00
Totals	<u>\$ 905,000.00</u>	<u>\$ 119,288.75</u>	<u>\$ 52,587.82</u>	<u>\$ 18,079.88</u>	<u>\$ 975,667.70</u>	<u>\$ 119,288.75</u>

#### NOTE 8 - RESTRICTED NET POSITION

The following table shows the Net Position restricted for other purposes as shown on the Statement of Net Position:

<u>Major Purposes</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay Purposes	Law	\$ 573,835.35
Special Education Purposes	Law	78,377.75
Debt Service Purposes	Debt Covenants	478,623.65
SDRS Pension Purposes	Law	795,020.69
Total Restricted Net Position		<u>\$ 1,925,857.44</u>

#### NOTE 9 – PRIOR PERIOD ADJUSTMENTS

The School District implemented 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*. As a result, beginning net position has been restated to reflect the related net pension asset and deferred outflows of resources as of July 1, 2014 as follows:

Net Position July 1, 2014, as previously reported	\$ 204,834.86
Restatement for pension accounting:	
Net Pension Asset	426,671.05
Pension related Deferred Outflows of Resources	<u>163,514.77</u>
Net Position July 1, 2014, as restated	<u>\$ 795,020.68</u>

## NOTE 10 – PENSION PLAN

### **Plan Information:**

All employees, working more than 20 hours per week during the school 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 survivors' 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.

### **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 one each July 1 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 \$163,514.77, \$158,781.99, and \$108,339.90, respectively, equal to the required contributions each year.

**Pension Liabilities (Assets), Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:**

At June 30, 2014, SDRS is 107% 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	\$ 16,052,528.90
Less proportionate share of total pension assets	<u>14,962,250.21</u>
Proportionate share of net pension asset	<u>\$ 1,090,278.69</u>

At June 30 2015, the School District reported an asset of \$1,090,278.69 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'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 .1513311%, which is an increase of .1513311% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the School District recognized pension revenue of \$46,052.97. 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>
Difference between expected and actual experience	\$ 92,252.32	\$
Changes in assumption	711,701.42	
Net difference between projected and actual earnings on pension plan investments		1,262,726.52
District contributions subsequent to the measurement date	<u>163,514.77</u>	
TOTAL	<u>\$ 967,468.51</u>	<u>\$ 1,262,726.52</u>

\$163,514.77 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 expense (revenue) as follows:

Year Ended June 30:

2015	\$	(86,634.98)
2016		(86,634.98)
2017		(86,634.98)
2018		(198,867.84)
TOTAL	\$	<u>(458,772.78)</u>

**Actuarial Assumptions:**

The total pension liability (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.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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 liability (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 liability (asset).

**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'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%</u> <u>Decrease</u>	Current Discount <u>Rate</u>	<u>1%</u> <u>Increase</u>
School District's proportionate share of the net pension liability (asset)	\$ 1,077,400.41	\$ (1,090,278.69)	\$ (2,858,247.24)

**Pension Plan Fiduciary Net Position:**

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

**NOTE 11 - POSTEMPLOYMENT MEDICAL PLAN**

Plan Description: Chester School District has a single-employer defined benefit medical plan administered by Sanford Health of South Dakota. This plan provides medical insurance benefits to eligible current employees, as well as retirees meeting eligibility requirements. After eligibility for retiree benefits is established, retirees must pay premiums until they are eligible for Medicare. SDCL 6-1-16 specifically allows any school district to provide health insurance for retiring employees and their immediate families. The liability exists because of an implicit subsidy of costs of the benefits to retirees of the district. The health plan does not issue separately stated stand-alone financial statements.

Funding Policy: The district funds the postemployment benefits on a pay-as-you-go basis. Because the district does not use a trust fund to administer the financing of other postemployment benefits, no separate financial statements are required.

Annual OPEB Cost and Net OPEB Obligation: The school district's annual other postemployment benefit (OPEB) cost (expense) 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 (or funding excess) over a period not to exceed thirty years. The following table shows the components of the school district's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the school district's net OPEB obligation to the plan:

Annual required contribution	\$ 24,833
Interest on net OPEB obligation	5,383
Adjustment to annual required contribution	<u>(8,887)</u>
Annual OPEB cost (expense)	21,329
Contributions made	<u>(20,664)</u>
Increase in net OPEB obligation	665
Net OPEB obligation - beginning of year	<u>179,424</u>
Net OPEB obligation - end of year	<u><u>\$ 180,089</u></u>

The school district's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2015 and the preceding two years was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2013	48,446	30.2%	145,856
6/30/2014	48,889	31.3%	179,424
6/30/2015	21,329	96.9%	180,089

Funded Status and Funding Progress: As of June 30, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$193,093, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$193,093.

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.

In the June 30, 2015, actuarial valuation, the Unit Credit Actuarial Cost Method was used. The actuarial assumptions include a 4 percent rate of return and an annual healthcare cost trend rate of 5.8 percent initially, reduced by decrements to an ultimate rate of 5.5 percent after 45 years. Both rates include a 2.0 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis over a period of 30 years.

NOTE 12 - EARLY RETIREMENT PLAN

The School District maintains an early retirement plan for certified teachers and administrators. The plan is available to employees who meet the requirements of age and years of service. Under the plan, employees who meet these requirements are entitled to payments totaling 70% of their salary in their final year of service. Payments totaling \$18,079.88 were made for early retirement during the year ended June 30, 2015 from the General Fund.

NOTE 13 - JOINT VENTURES

The school district participates in the Prairie Lakes Educational Cooperative, a cooperative service

unit (co-op) formed for the purpose of providing administrative services to the member school districts. The members of the co-op and their relative percentage participation in the co-op are as follows:

Baltic School District 49-1	8.00%
Chester Area School District 39-1	6.00%
Colman-Egan School District 50-5	5.00%
Dell Rapids School District 49-3	15.00%
Flandreau School District 50-3	14.00%
Garretson School District 49-4	7.00%
Howard School District 48-3	9.00%
Madison Central School District 39-2	15.00%
Oldham-Ramona School District 39-5	4.00%
Rutland School District 39-4	3.00%
Tri-Valley School District 49-6	14.00%

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 Prairie Lakes Educational Cooperative.

At June 30, 2015, this joint venture had total assets of \$233,217.44, total deferred outflows of resources of \$71,478.60, total liabilities of \$94,406.65, total deferred inflows of resources of \$98,461.58 and net position of \$111,827.81.

#### NOTE 14 - RISK MANAGEMENT

The school district is exposed to various risks of loss related to tort; 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 joined the South Dakota School District Health Benefits Funds administered by Sanford Health Plan. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The School District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it received from the members.

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

##### Liability Insurance

The school district purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

During the year ended June 30, 2015, two claims were filed for these matters. These claims

resulted in the payment of \$15,404.97. At June 30, 2015, no claims had been filed and were outstanding. It is estimated, based upon historical trends, that these claims will result in no future payments. It is not anticipated that any additional material claims for these matters will be filed in the next fiscal year.

Worker's Compensation

The school district purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits

The school district provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

NOTE 15 - SIGNIFICANT CONTINGENCIES - LITIGATION

At June 30, 2015, the school district was not involved in any litigation.

NOTE 16 – VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

The School District is prohibited by statute from spending in excess of appropriated amounts at the fund level. The following represents an overdraft of the expenditures compared to appropriations:

	Year Ended
	<u>06/30/15</u>
Pension Fund	\$ (721.46)

The Governing Board plans to closely monitor the budgeting process in the future.

**REQUIRED SUPPLEMENTARY INFORMATION  
CHESTER AREA SCHOOL DISTRICT NO. 39-1  
BUDGETARY COMPARISON SCHEDULE-BUDGETARY BASIS  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 1,058,753.00	\$ 1,058,753.00	\$ 1,075,487.99	\$ 16,734.99
Prior Years' Ad Valorem Taxes	7,000.00	7,000.00	13,074.29	6,074.29
Tax Deed Revenue			26.00	26.00
Utility Taxes	173,000.00	173,000.00	210,418.57	37,418.57
Penalties and Interest on Taxes	4,000.00	4,000.00	2,383.22	(1,616.78)
Tuition and Fees:				
Tuition from In-state LEAs	35,000.00	35,000.00	40,000.00	5,000.00
Earnings on Investments and Deposits	5,000.00	5,000.00	2,246.04	(2,753.96)
Cocurricular Activities:				
Admissions	23,900.00	23,900.00	22,487.02	(1,412.98)
Rentals	1,500.00	1,500.00		(1,500.00)
Other	5,750.00	5,750.00	6,290.55	540.55
Other Revenue from Local Sources:				
Medicaid Indirect Admin. Services			7,131.46	7,131.46
Other	59,200.00	59,200.00	9,276.82	(49,923.18)
Revenue from Intermediate Sources:				
County Sources:				
County Apportionment	26,000.00	26,000.00	30,649.54	4,649.54
Revenue from State Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	1,770,143.00	1,770,143.00	1,899,327.76	129,184.76
Restricted Grants-in-Aid	2,000.00	2,000.00	7,950.00	5,950.00
Revenue from Federal Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid Received from:				
Federal Government Through				
Intermediate Source	1,600.00	1,600.00	2,808.79	1,208.79
Restricted Grants-in-Aid Received				
from Federal Government through				
the State	53,469.00	53,469.00	53,056.00	(413.00)
Other Federal Revenue	44,000.00	44,000.00	45,293.42	1,293.42
Total Revenue	<u>3,270,315.00</u>	<u>3,270,315.00</u>	<u>3,427,907.47</u>	<u>157,592.47</u>

**REQUIRED SUPPLEMENTARY INFORMATION  
CHESTER AREA SCHOOL DISTRICT NO. 39-1  
BUDGETARY COMPARISON SCHEDULE-BUDGETARY BASIS  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<b>Expenditures:</b>				
Instruction:				
Regular Programs:				
Elementary School	747,614.00	750,614.00	748,394.54	2,219.46
Middle/Junior High	247,400.00	247,400.00	244,046.92	3,353.08
High School	1,072,780.00	1,072,780.00	1,054,061.74	18,718.26
Preschool Services	728.00	728.00		728.00
Special Programs:				
Educationally Deprived	39,585.00	39,585.00	39,722.45	(137.45)
Support Services - Pupils:				
Guidance	58,789.00	58,789.00	56,905.73	1,883.27
Support Services - Instructional Staff:				
Improvement of Instruction	43,549.00	43,549.00	47,579.28	(4,030.28)
Educational Media	170,415.00	170,965.00	169,288.03	1,676.97
Support Services - General Administration:				
Board of Education	20,585.00	22,085.00	21,984.05	100.95
Executive Administration	123,530.00	123,600.00	121,074.39	2,525.61
Support Services - School Administration:				
Office of the Principal	164,252.00	165,052.00	164,557.29	494.71
Other	1,500.00	1,500.00	171.93	1,328.07
Support Services - Business:				
Fiscal Services	215,395.00	215,395.00	214,132.20	1,262.80
Operation and Maintenance of Plant	182,340.00	202,340.00	201,190.13	1,149.87
Pupil Transportation	106,050.00	106,050.00	91,884.98	14,165.02
Cocurricular Activities:				
Male Activities	48,785.00	48,785.00	38,281.90	10,503.10
Female Activities	39,420.00	39,420.00	37,667.56	1,752.44
Combined Activities	22,998.00	22,998.00	29,911.72	(6,913.72)
Contingencies	26,800.00	880.00		880.00
Total Expenditures	<u>3,332,515.00</u>	<u>3,332,515.00</u>	<u>3,280,854.84</u>	<u>51,660.16</u>
Excess Revenue Over (Under) Expenditures	(62,200.00)	(62,200.00)	147,052.63	209,252.63
Other Financing Sources (Uses):				
Transfers In	<u>5,670.00</u>	<u>5,670.00</u>		<u>(5,670.00)</u>
Net Change in Fund Balances	(56,530.00)	(56,530.00)	147,052.63	203,582.63
Fund Balance - Beginning	<u>934,550.47</u>	<u>934,550.47</u>	<u>934,550.47</u>	
Fund Balance - Ending	<u>\$ 878,020.47</u>	<u>\$ 878,020.47</u>	<u>\$ 1,081,603.10</u>	<u>\$ 203,582.63</u>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**CHESTER AREA SCHOOL DISTRICT NO. 39-1**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**CAPITAL OUTLAY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<b>Actual</b>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>	<b>Amounts (Budgetary Basis)</b>	<b>Positive (Negative)</b>
<b>Revenues:</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 761,005.00	\$ 761,005.00	\$ 768,547.97	\$ 7,542.97
Prior Years' Ad Valorem Taxes	7,000.00	7,000.00	10,783.28	3,783.28
Tax Deed Revenue			8.56	8.56
Penalties and Interest on Taxes	2,000.00	2,000.00	12,582.88	10,582.88
Earnings on Investments and Deposits			1,837.41	1,837.41
Other	72,593.00	72,593.00	20,946.41	(51,646.59)
Revenue from Federal Sources:			4,041.58	4,041.58
Total Revenue	<u>842,598.00</u>	<u>842,598.00</u>	<u>818,748.09</u>	<u>(23,849.91)</u>
<b>Expenditures:</b>				
Instruction - Regular Programs:				
Elementary	38,000.00	38,000.00	50,913.20	(12,913.20)
Middle/Junior High	23,000.00	23,000.00	34,012.02	(11,012.02)
High School	189,500.00	189,500.00	177,730.14	11,769.86
Support Services - Instructional Staff:				
Educational Media	3,100.00	3,100.00	6,020.00	(2,920.00)
Board of Education				
Board of Education	72,700.00	72,700.00	71,662.00	1,038.00
Support Services - Business:				
Fiscal Services	30,000.00	30,000.00	40,433.25	(10,433.25)
Facilities Acquisition and Construction	50,000.00	50,000.00	79,202.97	(29,202.97)
Operation and Maintenance of Plant	185,278.00	185,278.00	144,478.39	40,799.61
Pupil Transportation	126,000.00	126,000.00	78,344.80	47,655.20
Food Services	1,500.00	1,500.00	1,349.00	151.00
Debt Service	99,520.00	99,520.00	124,324.65	(24,804.65)
Cocurricular Activities:				
Male	8,000.00	8,000.00	5,080.23	2,919.77
Female	8,000.00	8,000.00	2,866.15	5,133.85
Combined Activities	8,000.00	8,000.00	10,831.43	(2,831.43)
Total Expenditures	<u>842,598.00</u>	<u>842,598.00</u>	<u>827,248.24</u>	<u>15,349.76</u>
Excess Revenue Over (Under) Expenditures	0.00	0.00	(8,500.15)	(8,500.15)
Other Financing Sources (Uses):				
Sale of Surplus Property			83,033.40	83,033.40
Payment to Refund Debt Escrow Agency			(900,000.00)	(900,000.00)
Total Other Financing Sources (Uses):			<u>(816,966.60)</u>	<u>(816,966.60)</u>
Net Change in Fund Balances	0.00	0.00	(825,466.75)	(825,466.75)
Fund Balance - Beginning	<u>1,391,564.54</u>	<u>1,391,564.54</u>	<u>1,391,564.54</u>	
Fund Balance - Ending	<u>\$ 1,391,564.54</u>	<u>\$ 1,391,564.54</u>	<u>\$ 566,097.79</u>	<u>\$ (825,466.75)</u>

**REQUIRED SUPPLEMENTARY INFORMATION  
CHESTER AREA SCHOOL DISTRICT NO. 39-1  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
SPECIAL EDUCATION FUND  
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 337,236.00	\$ 337,236.00	\$ 396,615.48	\$ 59,379.48
Prior Years' Ad Valorem Taxes	3,000.00	3,000.00	5,244.75	2,244.75
Tax Deed Revenue			3.99	3.99
Penalties and Interest on Taxes	1,000.00	1,000.00	875.58	(124.42)
Other Revenue from Local Sources:				
Services Provided Other LEA's Within State	219,000.00	219,000.00	202,984.19	(16,015.81)
Medicaid Direct Admin. Services			1,980.16	1,980.16
Medicaid Indirect Admin. Services	1,881.00	1,881.00	872.00	(1,009.00)
Other			100.00	100.00
Revenue from Intermediate Sources:				
Other	2,400.00	2,400.00		(2,400.00)
Revenue from State Sources:				
Restricted Grants-in-Aid	153,651.00	153,651.00	60,806.00	(92,845.00)
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from:				
Federal Government through State	100,942.00	100,942.00	100,942.00	
Restricted Grants-in-Aid Received from Federal Government Through an Intermediate Source			2,136.17	2,136.17
Total Revenue	<u>819,110.00</u>	<u>819,110.00</u>	<u>772,560.32</u>	<u>(46,549.68)</u>
<b>Expenditures:</b>				
Special Programs:				
Programs for Special Education	437,121.00	437,121.00	327,190.89	109,930.11
Support Services:				
Pupils:				
Speech Pathology	63,900.00	63,900.00	63,489.15	410.85
Student Therapy Services	211,100.00	211,100.00	196,861.87	14,238.13
Support Services - Instructional Staff:				
Improvement of Instruction	4,300.00	4,300.00	1,568.24	2,731.76
Support Services - Special Education:				
Administrative Costs	83,915.00	83,915.00	92,981.80	(9,066.80)
Transportation Costs	5,774.00	5,774.00	1,065.60	4,708.40
Other Special Education Costs	13,000.00	13,000.00	15,010.22	(2,010.22)
Total Expenditures	<u>819,110.00</u>	<u>819,110.00</u>	<u>698,167.77</u>	<u>120,942.23</u>
Net Change in Fund Balances	0.00	0.00	74,392.55	74,392.55
Fund Balance - Beginning	<u>68.30</u>	<u>68.30</u>	<u>68.30</u>	
Fund Balance - Ending	<u>\$ 68.30</u>	<u>\$ 68.30</u>	<u>\$ 74,460.85</u>	<u>\$ 74,392.55</u>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**CHESTER AREA SCHOOL DISTRICT NO. 39-1**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**PENSION FUND**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$76,101.00	76,101.00	\$ 77,954.36	\$ 1,853.36
Prior Years' Ad Valorem Taxes	800.00	800.00	1,079.07	279.07
Tax Deed Revenue			0.86	0.86
Penalties and Interest on Taxes	250.00	250.00	168.24	(81.76)
Other Federal Revenue			404.42	404.42
Total Revenue	<u>77,151.00</u>	<u>77,151.00</u>	<u>79,606.95</u>	<u>2,455.95</u>
<b>Expenditures:</b>				
Instruction:				
Regular Programs:				
Elementary School	32,325.00	32,325.00	32,080.42	244.58
Middle/Junior High	10,600.00	10,600.00	10,497.59	102.41
High School	41,200.00	41,200.00	24,188.57	17,011.43
Early Retirement Payments			18,079.88	(18,079.88)
Total Expenditures	<u>84,125.00</u>	<u>84,125.00</u>	<u>84,846.46</u>	<u>(721.46)</u>
Net Change in Fund Balances	(6,974.00)	(6,974.00)	(5,239.51)	1,734.49
Fund Balance - Beginning	<u>17,014.54</u>	<u>17,014.54</u>	<u>17,014.54</u>	
Fund Balance - Ending	<u>\$10,040.54</u>	<u>\$ 10,040.54</u>	<u>\$ 11,775.03</u>	<u>\$ 1,734.49</u>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**CHESTER AREA SCHOOL DISTRICT NO. 39-1**  
**SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS**  
**JUNE 30, 2015**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AL) - Unit Credit (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
6/30/2009	\$ 0	\$ 189,514	\$ 189,514	0.0%	2,109,638	8.98%
6/30/2012	0	345,057	345,057	0.0%	2,404,713	14.35%
6/30/2015	0	193,093	193,093	0.0%	2,467,823	7.82%

**Schedule of Required Supplementary Information**  
**CHESTER AREA SCHOOL DISTRICT NO. 39-1**  
**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION**  
**LIABILITY (ASSET)**  
**South Dakota Retirement System**

	2015
District's proportion of the net pension liability (asset)	0.1513310%
District's proportionate share of net pension liability (asset)	\$ (1,090,279)
District's covered-employee payroll	\$ 2,646,483
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-41.20%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107.3%

\* 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 the previous fiscal year

**Schedule of Required Supplementary Information**  
**CHESTER AREA SCHOOL DISTRICT NO. 39-1**  
**SCHEDULE OF THE SCHOOL DISTRICT CONTRIBUTIONS**  
**South Dakota Retirement System**

	<u>2014</u>	<u>2015</u>
Contractually required contribution	<u>\$ 158,782</u>	<u>\$ 163,515</u>
Contributions in relation to the contractually required contribution	<u>\$ 158,782</u>	<u>\$ 163,515</u>
Contribution deficiency (excess)	<u>\$ _____</u>	<u>\$ _____</u>
District's covered-employee payroll	\$ 2,646,483	\$ 2,727,271
Contributions as a percentage of covered-employee payroll	6.00%	6.00%

CHESTER AREA SCHOOL DISTRICT NO. 39-1  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
Schedules of Budgetary Comparisons for the General Fund  
And for each major Special Revenue Fund with a legally required budget

NOTE 1 - BUDGET AND BUDGETARY ACCOUNTING

The School District followed 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 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 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 board must approve the budget for the ensuing fiscal year for each fund, except fiduciary funds.
6. After adoption by the 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 board to any other budget category, except for capital outlay, that is deemed insufficient during the year. No amount of expenditures may be charged directly to the contingency line item in the budget.
8. If it is determined, during the year, that sufficient amounts have not been budgeted, state statute allows the 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 board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and each major special revenue funds.
11. Budgets for the General Fund and each major special revenue fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

NOTE 2 - GAAP/BUDGETARY ACCOUNTING BASIS DIFFERENCES

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new school bus would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a school bus would be reported as an expenditure of the Support Services-Business/Pupil Transportation function of government, along with all other current Pupil Transportation related expenditures.

# QUAM & BERGLIN, P.C.

CERTIFIED PUBLIC ACCOUNTANTS  
110 WEST MAIN – P.O. BOX 426  
ELK POINT, SOUTH DAKOTA 57025

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(605) 356-3374

## 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

School Board  
Chester Area School District No. 39-1  
Lake 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 Chester Area School District No. 39-1, Lake County, South Dakota, as of June 30, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise Chester Area School District's basic financial statements and have issued our report thereon dated March 24, 2016.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Chester Area 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 Chester Area School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Chester Area School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Current Audit Findings as item 2015-001 to be a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Chester Area School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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**

Chester Area School District's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings. 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 Chester Area School District'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 District'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.



Quam & Berglin, P.C.  
Certified Public Accountants

March 24, 2016

CHESTER AREA SCHOOL DISTRICT NO. 39-1  
SCHEDULE OF AUDIT FINDINGS  
JUNE 30, 2015

**PRIOR AUDIT FINDING:**

**Prior Other Audit Findings:**

**Audit Finding Number 2014-001:**

A material weakness was reported for a lack of segregation of duties for revenues. This comment results from the size of the district, which precludes staffing at a level sufficient to provide an ideal environment for internal control. This finding has not been corrected and is restated under current audit finding number 2015-001.

**CURRENT AUDIT FINDINGS:**

***Internal Control-Related Finding – Material Weakness:***

***Finding Number 2015-001:***

There is a material weakness resulting from the lack of segregation of duties for revenues.

***Criteria:***

In order to achieve proper internal control, it is necessary to have segregation of duties provided between performance, review and record keeping of the tasks related to revenue. Lack of this segregation of duties could adversely affect the organization's ability to record, process, summarize and report financial data consistent with management assertions.

***Condition Found:***

A material weakness in internal control was reported due to lack of proper segregation of duties for revenues, resulting in decreased reliability of reported financial data and increased potential for the loss of public assets.

***Recommendation:***

We recommend that the School Board be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating controls, whenever and wherever possible and practical.

***Corrective Action Plan:***

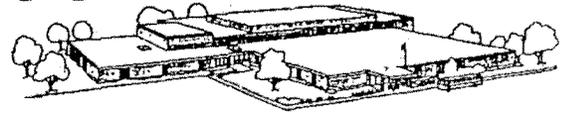
The School Board has prepared a response to this finding, shown on page 57.

"Cooperatively Preparing All Students to Succeed"

# Chester Area School No. 39-1

PO BOX 159

CHESTER, SD 57016

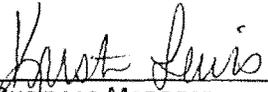


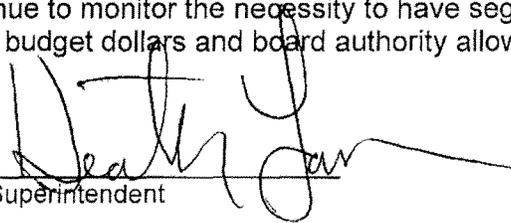
## CORRECTIVE PLAN OF ACTION

June 30, 2015

Chester Area School District No. 39-1 has considered the lack of segregation of duties for the revenues function. At this time it is not cost effective for Chester Area School District to hire the additional staff needed to achieve segregation of duties. Alternate procedures have been implemented by Chester Area School District to decrease the likelihood that financial data is adversely affected.

The Chester Area School District's Board will continue to monitor the necessity to have segregation of duties for revenues and implement such a segregation as budget dollars and board authority allow.

  
Business Manager

  
Superintendent

SUPERINTENDENT-HEATH LARSON -489-2411  
BUSINESS MANAGER-KRISTI LEWIS 605-489-2411

SECONDARY PRINCIPAL-JULIE EPPARD 605-489-2411  
ELEMENTARY PRINCIPAL-ERIC KNIGHT 605-489-2412

BOARD OF EDUCATION—TODD NELSON, JENNIFER BUNKERS, KATHY GOODALE,, KIM HANSEN, NANCY MEYER, JANET PARK, DEANNA REIFF