

# **CUSTER SCHOOL DISTRICT NO. 16-1**

INDEPENDENT AUDITOR'S REPORTS,  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

JUNE 30, 2016



RAPID CITY, SOUTH DAKOTA  
GILLETTE, WYOMING



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Independent Auditor's Report on Internal Control Over Financial Reporting  
and On Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance With *Government Auditing Standards*

To the School Board  
Custer School District No. 16-1  
Custer, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 Custer School District No. 16-1, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Custer School District No. 16-1's basic financial statements and have issued our report thereon dated January 4, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Custer School District No. 16-1'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 Custer School District No. 16-1's internal control. Accordingly, we do not express an opinion on the effectiveness of Custer School District No. 16-1's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control described in the accompanying schedule of findings and question costs as items 2016-001 and 2016-002 that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Custer School District No. 16-1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance which is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2016-002.

### Custer School District No. 16-1's Response to Findings

Custer School District No. 16-1's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Custer School District No. 16-1'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 Custer School District No. 16-1's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Custer School District No. 16-1'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.

A handwritten signature in blue ink that reads "Casey Peterson, LTD." The signature is written in a cursive style.

Casey Peterson, Ltd.

Rapid City, South Dakota

January 4, 2017

Independent Auditor's Report on Compliance for  
Each Major Program and on Internal Control  
Over Compliance Required by the Uniform Guidance

Board of Directors  
Custer School District No. 16-1  
Custer, South Dakota

Report on Compliance for Each Major Federal Program

We have audited Custer School District No. 16-1's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of Custer School District No. 16-1's major federal programs for the year ended June 30, 2016. Custer School District No. 16-1's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Custer School District No. 16-1's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Custer School District No. 16-1's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Custer School District No. 16-1's compliance.

### Opinion on Each Major Federal Program

In our opinion, Custer School District No. 16-1 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### Report on Internal Control Over Compliance

Management of Custer School District No. 16-1 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Custer School District No. 16-1's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Custer School District No. 16-1's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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.



Casey Peterson, Ltd.

Rapid City, South Dakota  
January 4, 2017

**Custer School District No. 16-1**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2016**

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**SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS**

- a. The Independent Auditor's Report expressed unmodified opinions on the financial statements of Custer School District No. 16-1.
- b. The 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* disclosed material weaknesses in internal control over financial reporting.
- c. An instance of noncompliance material to the financial statements of the District which would be required to be reported in accordance with *Governmental Auditing Standards* was noted during the audit.
- d. The Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance for the District expressed an unmodified opinion on all major programs.
- e. No material weaknesses in internal control related to major federal award programs were reported in the Independent Auditor's Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance.
- f. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
- g. The federal awards tested as major programs were:
  - Schools and Roads Cluster:
    - Schools and Roads - Grant to States, CFDA #10.665
    - Schools and Roads - Grants to Counties, CFDA #10.666
    - Impact Aid, CFDA #84.041
- h. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$750,000.
- i. Custer School District No. 16-1 did not qualify as a low risk auditee.

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

There were no findings reported for the current year.

**FINDINGS - FINANCIAL STATEMENTS AUDIT**

Material Weakness

Internal Control Over Financial Reporting

2016-001 *Condition:* There is a lack of segregation of duties within the business office related to the oversight of the year end reconciliation and adjustment process.

*Criteria:* Establishing a proper system of internal controls to segregate responsibilities and provide oversight and review of processes is the responsibility of management.

*Cause:* This condition exists due to the small staff size within the finance function of the District. This issue is common in a district of this size.

*Effect:* The possibility of fraud or errors occurring and not being detected or corrected is present.

**Custer School District No. 16-1**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2016**

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*Repeat of Prior Year Finding:* This issue was reported as a portion of finding 2015-002 in the prior year.

*Auditor's Recommendation:* It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition. Management may train finance office personnel to perform additional responsibilities such that the Business Manager can provide oversight or management could involve board members in the year end close process.

*Management's Response:* This is a common condition for schools of similar size and management feels comfortable with this practice. The District will implement suggested controls wherever cost effective for the District.

Material Weakness

Internal Control Over Financial Reporting

Noncompliance With Statutory Requirements

2016-002 *Condition:* During audit procedures, it was identified that one agency fund was being held in accounts outside of the District's accounting with control by the agency fund advisor.

*Criteria:* South Dakota Codified Law Title 13 requires the school board prescribe policies and procedures governing the stewardship of agency funds.

*Cause:* District management was unaware that funds were being held in separate accounts.

*Effect:* The District is not in compliance with state statutes and there is a potential for misappropriation of funds.

*Repeat Finding:* No

*Auditor's Recommendation:* The District should maintain all agency accounts and have responsibility for all related assets and provide reports to the agency funds regularly on the availability of funds. The District should review statutes and policies with agency fund advisors to ensure consistency in procedure.

*Management's Response:* Management agrees with the finding and will require that all agency funds be included in District bank accounts and that all related accounting be done by the District.

**Custer School District No. 16-1**  
**Schedule of Prior Findings and Questioned Costs**  
**June 30, 2016**

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**PRIOR FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

U.S. DEPARTMENT OF EDUCATION & U.S. DEPARTMENT OF AGRICULTURE  
ALL MAJOR PROGRAMS

Noncompliance and Material Weakness  
Internal Control Over Compliance

2015-001 *Criteria:* The small size of the District limits the ability of the business office to prepare financial statements being audited and perform year-end accrual entries which would be required under a properly designed system of internal controls. This finding was also reported in 2014 as 2014-001.

*Condition:* Establishing internal controls over the preparation of the financial statements and drafting the financial statements are the responsibility of management. OMB Circular A-133 requires the auditee to prepare appropriate financial statements in accordance with Section .310.

*Auditor's Recommendation:* It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the District's auditors drafting the financial statements. If the District chooses not to accept this risk, training should be provided to those employees responsible for drafting the financial statements and related notes.

*Current Status:* The District has improved internal controls over the preparation of the financial statements, however a weakness was reported in the current year (see finding 2016-001) related to the segregation of duties and oversight of year end accrual entries and reconciliations.

U.S. DEPARTMENT OF EDUCATION & U.S. DEPARTMENT OF AGRICULTURE  
ALL MAJOR PROGRAMS

2014-002 This finding was the same as finding 2015-001 which was mostly resolved in the current year.

2013-001 This finding was the same as finding 2015-001 which was mostly resolved in the current year.

**PRIOR FINDINGS AND QUESTIONED COSTS - FINANCIAL STATEMENTS AUDIT**

2015-002 See finding 2015-001 for description of the criteria, condition, auditor's recommendation and current status.

**Custer School District No. 16-1  
Corrective Action Plan (Unaudited)  
June 30, 2016**

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Custer School District No. 16-1 respectfully submits the following corrective action plan for the year ended June 30, 2016.

Name and address of independent public accounting firm:

Casey Peterson, Ltd.  
909 St. Joseph St., Ste 101  
Rapid City, SD 57701

The findings from the 2016 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

**FINDINGS - FEDERAL AWARDS AUDIT**

No findings related to the federal awards audit were reported in the current year.

**FINDINGS - FINANCIAL STATEMENTS AUDIT**

Material Weakness

Internal Control Over Financial Reporting

2016-001 *Condition:* There is a lack of segregation of duties within the business office related to the oversight of the year end reconciliation and adjustment process.

*Criteria:* Establishing a proper system of internal controls to segregate responsibilities and provide oversight and review of processes is the responsibility of management.

*Cause:* This condition exists due to the small staff size within the finance function of the District. This issue is common in a district of this size.

*Effect:* The possibility of fraud or errors occurring and not being detected or corrected is present.

*Repeat of Prior Year Finding:* This issue was reported as a portion of finding 2015-002 in the prior year.

*Auditor's Recommendation:* It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition. Management may train finance office personnel to perform additional responsibilities such that the Business Manager can provide oversight or management could involve board members in the year end close process.

*Management's Response:* This is a common condition for schools of similar size and management feels comfortable with this practice. The District will implement suggested controls wherever cost effective for the District.

Material Weakness

Internal Control Over Financial Reporting

Non-compliance With Statutory

2016-002 *Condition:* During audit procedures, it was identified that one agency fund was being held in accounts outside of the District's accounting with control by the agency fund advisor.

*Criteria:* South Dakota Codified Law Title 13 requires the school board prescribe policies and procedures governing the stewardship of agency funds.

*Cause:* District management was unaware that funds were being held in separate accounts.

**Custer School District No. 16-1  
Corrective Action Plan (Unaudited)  
June 30, 2016**

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*Effect:* The District is not in compliance with state statutes and there is a potential for misappropriation of funds.

*Repeat Finding:* No

*Auditor's Recommendation:* The District should maintain all agency accounts and have responsibility for all related assets and provide reports to the agency funds regularly on the availability of funds. The District should review statutes and policies with agency fund advisors to ensure consistency in procedure.

*Management's Response:* Management agrees with the finding and will require that all agency funds be included in District bank accounts and that all related accounting be done by the District.

If there are questions regarding this plan, please call Lisa Fluck, Business Manager at 605-673-3154.

Sincerely yours,

Lisa Fluck, Business Manager

Custer School District No. 16-1  
Custer, South Dakota

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## Independent Auditor's Report

School Board  
Custer School District No. 16-1  
Custer, 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 Custer School District No. 16-1, as of and for the year the ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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 Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Custer School District No. 16-1, as of June 30, 2016, 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.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the schedule of funding progress for retiree health insurance coverage, and the schedules of net pension asset and pension contributions on pages 15 - 23, 74 - 84, 85, and 86 - 87 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Custer School District No. 16-1's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

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

The corrective action plan and list of School District Officials on pages 8 - 9 and 91 respectively, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2017 on our consideration of Custer School District No. 16-1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Custer School District No. 16-1's internal control over financial reporting and compliance.

*Casey Peterson, LTD.*

Casey Peterson, Ltd.

Rapid City, South Dakota

January 4, 2017



**Custer School District No. 16-1**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2016**

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This section of Custer School District No. 16-1's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the District's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- During the 15-16 fiscal year, the District's revenues generated from taxes and other revenues of the governmental and business-type programs were \$1,165,956 more than the \$9,999,952, of governmental and business-type expenses.
- In FY 15-16, the total costs of the District's programs were 1.0% more than the prior year.
- The District made principal payments of \$800,000 on outstanding capital outlay certificates. The District also made principal payments of \$66,443 on capital leases used to finance computers and copiers.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This 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 District:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District government, reporting the District'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 District operates like businesses. The proprietary funds operated by the District are Food Service Operations and the Driver's Education Program.
  - Fiduciary fund statements provide information about the financial relationships - like scholarship plans for graduating students - in which the District 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 supplemental information that further explains and supports the information in the financial statements.

**Custer School District No. 16-1**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2016**

Figure A-1 summarizes the major features of the District's financial statements, including the portion of the District 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**

Major Features of Custer School District's Government-Wide and Fund Financial Statements				
	Government-Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as instructional, support and cocurricular activities.	Activities of the District operates similar to private businesses, the food services operation.	Assets held by District on behalf of someone else. Student organizations that have funds on deposit with the District are reported here.
Required Financial Statements	*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 Fiduciary Net Position *Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement Focus	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.
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term, and deferred inflows and outflows of resources	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital or long-term liabilities included, and deferred inflows and outflows of resources	All assets and liabilities, both financial and capital, and short-term and long-term, and deferred inflows and outflows of resources	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets although they can.
Type of Inflow/Outflow Information	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 the year, regardless of when cash is received or paid.	All revenues and expenses during year, regardless of when cash is received or paid.

**Custer School District No. 16-1**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2016**

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**Government-wide Statements**

The government-wide statements report information about the District 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 District's net position and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or position.

- Increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District'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 District are reported in two categories:

- **Governmental Activities** - This category includes the District'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 school charges a fee to students in the Driver's Education program.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices that the District 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 District has three kinds of funds:

- **Governmental Funds** – Most of the District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily be 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District'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.

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- Proprietary Funds - Services for which the District 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 Driver's Education Fund are the proprietary funds maintained by the District.
- Fiduciary Funds - The District is the trustee, or fiduciary, for various external and internal parties. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District'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 District's government-wide financial statements because the District cannot use these assets to finance its operations.

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Position**

The District's combined net position increased as follows:

Table A-1  
Custer School District No. 16-1  
Statement of Net Position

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2015	2016	2015	2016	2015	2016	2015 - 2016
Current and Other Assets	\$ 14,313,979	\$ 16,306,985	\$ 47,544	\$ 53,557	\$ 14,361,523	\$ 16,360,542	13.92%
Capital Assets (Net of Depreciation)	19,779,067	19,488,310	68,161	57,534	19,847,228	19,545,844	-1.52%
<b>Total Assets</b>	<u>34,093,046</u>	<u>35,795,295</u>	<u>115,705</u>	<u>111,091</u>	<u>34,208,751</u>	<u>35,906,386</u>	4.96%
<b>Total Deferred Outflows of Resources</b>	<u>1,475,119</u>	<u>1,839,696</u>	<u>-</u>	<u>-</u>	<u>1,475,119</u>	<u>1,839,696</u>	24.72%
Long-Term Liabilities Outstanding	14,114,261	15,363,964	-	-	14,114,261	15,363,964	8.85%
Other Liabilities	789,995	713,649	9,320	7,471	799,315	721,120	-9.78%
<b>Total Liabilities</b>	<u>14,904,256</u>	<u>16,077,613</u>	<u>9,320</u>	<u>7,471</u>	<u>14,913,576</u>	<u>16,085,084</u>	7.86%
<b>Total Deferred Inflows of Resources</b>	<u>5,981,696</u>	<u>5,706,444</u>	<u>-</u>	<u>-</u>	<u>5,981,696</u>	<u>5,706,444</u>	-4.60%
Net Investment in Capital Assets	6,418,930	6,984,777	68,161	57,534	6,487,091	7,042,311	8.56%
Restricted	3,658,597	6,235,941	-	-	3,658,597	6,235,941	70.45%
Unrestricted	4,604,686	2,630,216	38,224	46,086	4,642,910	2,676,302	-42.36%
<b>Total Net Position</b>	<u>\$ 14,682,213</u>	<u>\$ 15,850,934</u>	<u>\$ 106,385</u>	<u>\$ 103,620</u>	<u>\$ 14,788,598</u>	<u>\$ 15,954,554</u>	7.88%

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 District, consisting of capital outlay certificates payable, capital lease payable, compensated absences payable and early retirement benefits have been reported in this manner on the Statement of Net Position. The difference between the District's assets and liabilities and deferred outflows and inflows of resources is its net position.

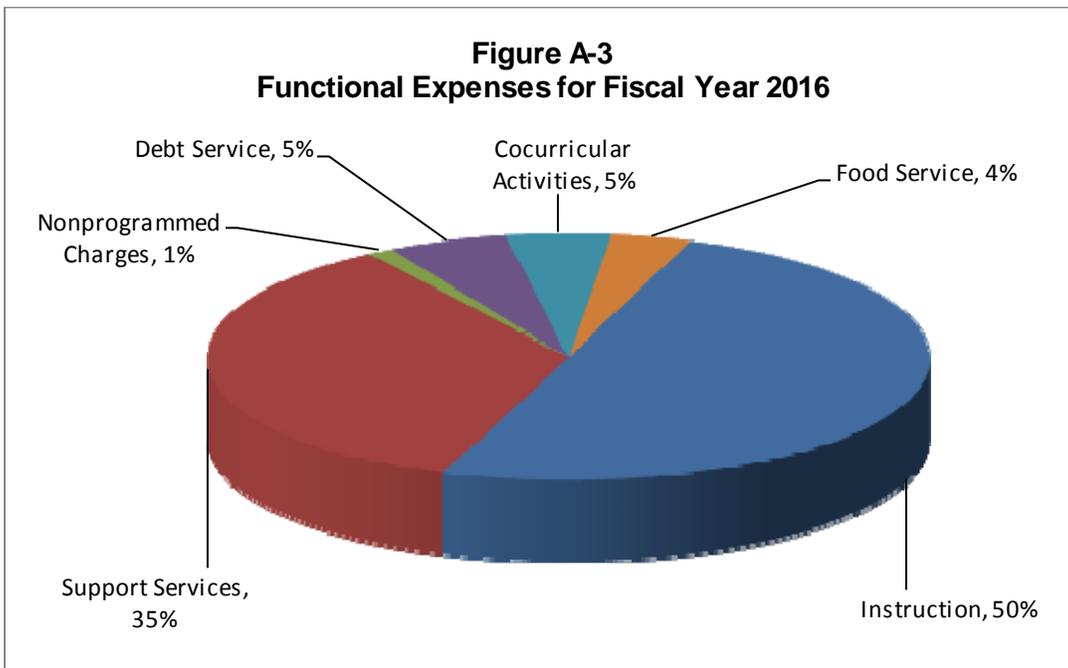
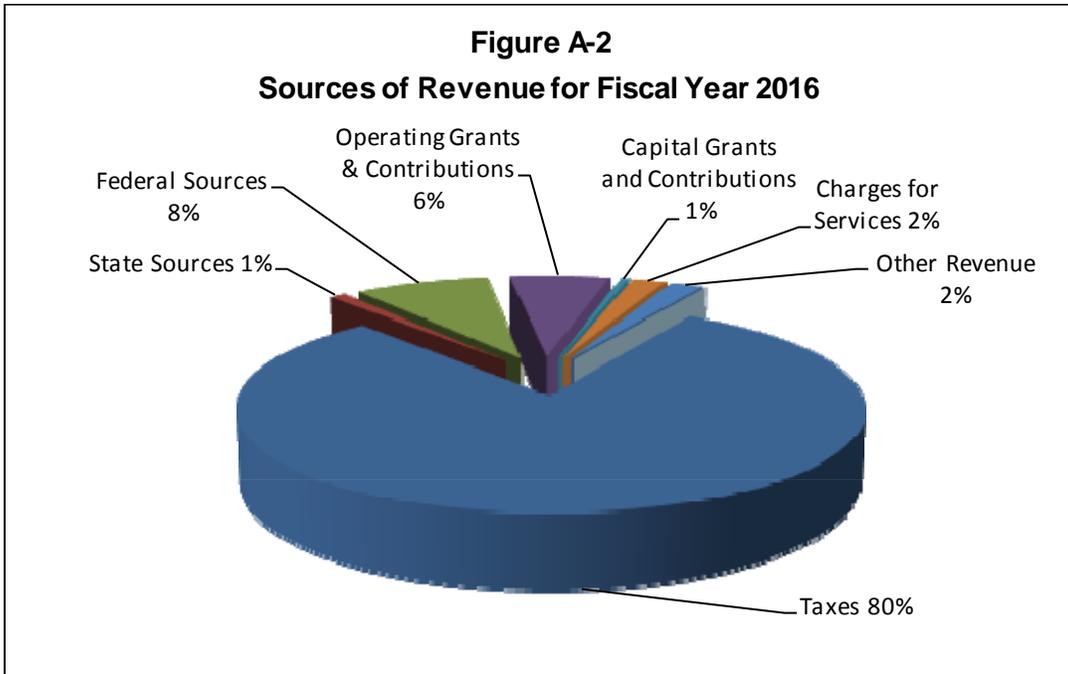
**Custer School District No. 16-1  
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**Changes in Net Position**

The District's revenues totaled \$11,165,908. Approximately 80% of the District's revenue came from property and other taxes with approximately 8% from federal sources and 7% coming from operating and capital grants and contributions (See Figure A-2).

The District's expenses cover a range of services encompassing instruction, support services, and food services. (See Figure A-3)



**Custer School District No. 16-1  
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**GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES**

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

Table A-2  
Custer School District No. 16-1  
Changes in Net Position

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2015	2016	2015	2016	2015	2016	2015 - 2016
<b>Revenues</b>							
Program Revenues							
Charges for Services	\$ 46,453	\$ 73,456	\$ 168,487	\$ 178,789	\$ 214,940	\$ 252,245	17.36%
Operating Grants and Contributions	802,892	499,966	167,489	177,537	970,381	677,503	-30.18%
Capital Grants and Contributions	70,000	44,983	-	-	70,000	44,983	-35.74%
General Revenues							
Taxes	8,557,560	8,932,520	-	-	8,557,560	8,932,520	4.38%
Revenue State Sources	114,333	109,454	-	-	114,333	109,454	-4.27%
Revenue Federal Sources	1,021,272	907,634	-	-	1,021,272	907,634	-11.13%
Revenue Intermediate Sources	84,031	85,169	-	-	84,031	85,169	1.35%
Unrestricted Investment Earnings	31,917	57,581	91	93	32,008	57,674	80.19%
Other General Revenues	94,929	52,442	-	-	94,929	52,442	-44.76%
Gain on Sale of Capital Assets	19,874	46,284	-	-	19,874	46,284	132.89%
Total Revenues	<u>10,843,261</u>	<u>10,809,489</u>	<u>336,067</u>	<u>356,419</u>	<u>11,179,328</u>	<u>11,165,908</u>	-0.12%
<b>Expenses</b>							
Instruction	4,902,684	5,007,418	-	-	4,902,684	5,007,418	2.14%
Support Services	3,465,359	3,497,027	-	-	3,465,359	3,497,027	0.91%
Nonprogrammed Charges	170,646	115,079	-	-	170,646	115,079	-32.56%
Debt Service	544,027	538,481	-	-	544,027	538,481	-1.02%
Cocurricular Activities	470,807	471,983	-	-	470,807	471,983	0.25%
Community Services	10,547	10,780	-	-	10,547	10,780	2.21%
Other Business Type Funds	-	-	272	197	272	197	-27.57%
Food Service	-	-	346,793	358,987	346,793	358,987	3.52%
Total Expenses	<u>9,564,070</u>	<u>9,640,768</u>	<u>347,065</u>	<u>359,184</u>	<u>9,911,135</u>	<u>9,999,952</u>	0.90%
Increase (Decrease) in Net Position	1,279,191	1,168,721	(10,998)	(2,765)	1,268,193	1,165,956	-8.06%
Beginning Net Position	<u>13,403,022</u>	<u>14,682,213</u>	<u>117,383</u>	<u>106,385</u>	<u>13,520,405</u>	<u>14,788,598</u>	9.38%
Ending Net Position	<u>\$ 14,682,213</u>	<u>\$ 15,850,934</u>	<u>\$ 106,385</u>	<u>\$ 103,620</u>	<u>\$ 14,788,598</u>	<u>\$ 15,954,554</u>	7.88%

**GOVERNMENTAL ACTIVITIES**

The governmental activities - Governmental activities showed an overall increase of 0.90% over the prior year.

**Custer School District No. 16-1  
Management's Discussion and Analysis (Unaudited)  
June 30, 2016**

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**BUSINESS-TYPE ACTIVITIES**

Revenues of the District's business-type activities (Food Service and Other Enterprise) increased by approximately 6.0% to \$356,419 and expenses increased by approximately 3.49% to \$359,184.

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The General Fund fund balance increased for the year ended June 30, 2016. This was due to revenues being sufficient to cover expenditures. The Special Education fund balance showed an increase due to increased property tax revenues. The Capital Outlay fund balance was higher at year end due to the refunding of capital outlay certificates. The Pension Fund fund balance increased slightly due to fewer payments to retirees than in the previous year.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

There were no significant budget changes or budget variances for the year.

**CAPITAL ASSET ADMINISTRATION**

By the end of FY 2016, the District had invested \$19,545,844 (net of depreciation) in a broad range of capital assets including land, buildings, various machinery, and equipment. (See Table A-3) This amount represents a net decrease (including additions and deductions) of \$301,384. The capitalization threshold remains at \$25,000 for all improvements, \$50,000 for all buildings, and \$5,000 for all equipment for governmental activities and \$1,000 for business-type activities.

Table A-3  
Custer School District No. 16-1  
Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2015	2016	2015	2016	2015 - 2016	2015 - 2016
Land	\$ 243,323	\$ 243,323	\$ -	\$ -	\$ -	0.00%
Construction in Progress	-	68,321	-	-	68,321	100.00%
Buildings	18,352,638	18,148,892	-	-	(203,746)	-1.11%
Improvements	417,551	343,238	-	-	(74,313)	-17.80%
Equipment	765,555	684,536	68,161	57,534	(91,646)	-10.99%
Total Capital Assets (Net)	<u>\$ 19,779,067</u>	<u>\$ 19,488,310</u>	<u>\$ 68,161</u>	<u>\$ 57,534</u>	<u>\$ (301,384)</u>	-1.52%

This year's capital asset purchases were for buildings and grounds equipment including a top dresser, turf truckster and wide vacuum, as well as a 2005 Dodge RAM maintenance truck. Capital projects included upgrades to bleachers at the athletic field and a security entrance remodel at the Jr/Sr high school.

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**LONG-TERM DEBT**

At year-end the District had \$15,363,964 in Capital Outlay Certificates and other long-term obligations. This is an increase of 8.85% as shown on Table A-4 below.

Table A-4  
Custer School District No. 16-1  
Outstanding Debt and Obligations

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2015	2016	2015	2016	2015 - 2016	2015 - 2016
Capital Outlay Certificates	\$ 13,395,000	\$ 14,800,000	\$ -	\$ -	\$ 1,405,000	10.49%
Early Retirement Payable	395,957	233,722	-	-	(162,235)	-40.97%
Capital Lease	68,044	1,601	-	-	(66,443)	-97.65%
OPEB	74,084	110,177	-	-	36,093	48.72%
Compensated Absences	181,176	218,464	-	-	37,288	20.58%
Total Outstanding Debt and Obligations	\$ 14,114,261	\$ 15,363,964	\$ -	\$ -	\$ 1,249,703	8.85%

The District is liable for the accrued sick leave payable to all staff. The accrual leave liability is reported as compensated absences in the above schedule and with the financial statements.

The District made debt service principal and interest payments on Capital Outlay Certificates in the amount of \$800,000 for principal and \$496,830 for interest. The District made debt service principal and interest payments on the Capital Lease for the computers and copiers in the amount of \$66,443 in principal and \$2,104 in interest.

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

Due to slight increases in property values, declining enrollment, and decreases to the state per student allocation over the past few years, the district expects little to no state aid for next year. Fund balances are not expected to continue to grow in the next year.

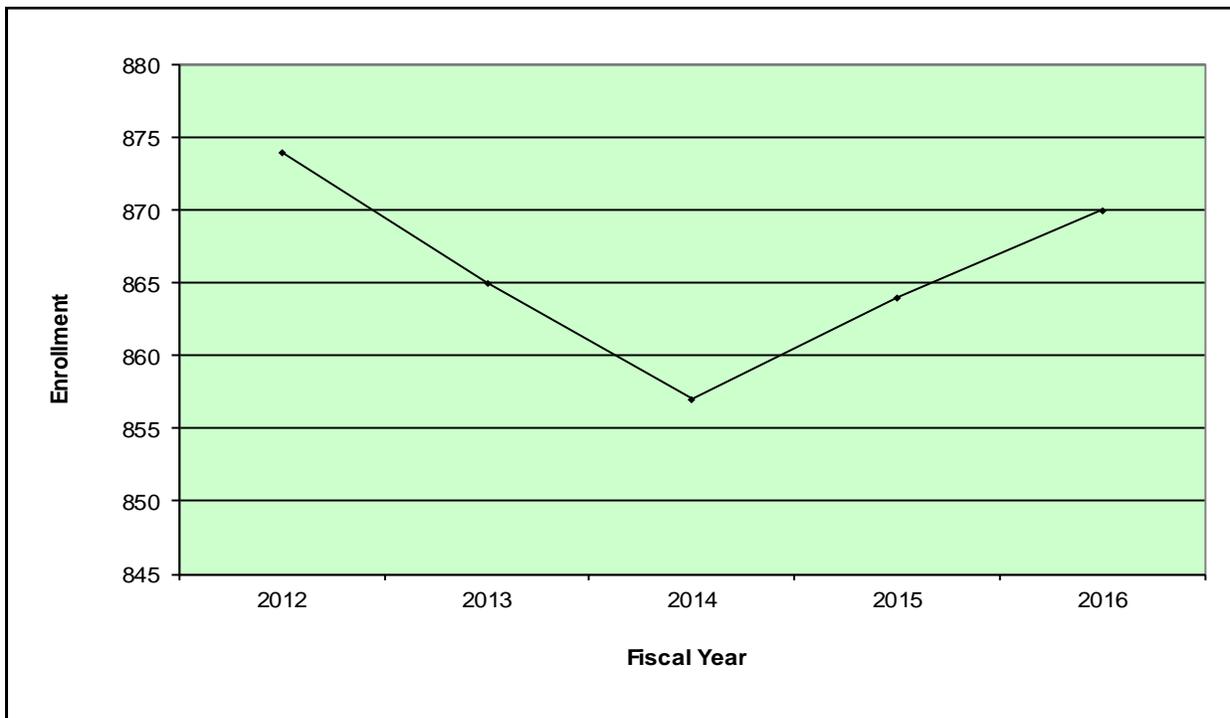
**Custer School District No. 16-1**  
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One of the primary sources of revenue to schools is based on a per student allocation received from the State of South Dakota. The state aid formula for the current year ensures that property taxes plus state aid will equal \$4,876.76 per pupil. The state aid formula from the State has been modified for FY 2017. The impact of the new formula on the stability of the District's revenues is not fully known. The average daily membership (ADM) has slightly decreased this year. The state of South Dakota has implemented a new law that combines the pension levy into the general fund levy. This is expected to reduce funding available to the District in future years. In addition, the Pension Fund will be required to be merged with the General Fund by FY 2021. The Capital Outlay levy has also been modified to limit future growth in collections which may impair the District's ability to fund future capital projects.

Below is a graph which shows the trends in the District's average daily attendance for the last five years.

Average Daily Attendance by Fiscal Year



**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Custer School's Business Office, 527 Montgomery Street, Custer, SD 57730.

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## BASIC FINANCIAL STATEMENTS

**Custer School District No. 16-1**  
**Statement of Net Position**  
**June 30, 2016**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 7,563,526	\$ 50,925	\$ 7,614,451
Permanent Incidental Account	4,000	-	4,000
Taxes Receivable	4,043,555	-	4,043,555
Accounts Receivable	6,973	-	6,973
Due From Other Governments	151,288	-	151,288
Inventories	-	2,632	2,632
Unamortized Discount on Debt	112,359	-	112,359
Capital Assets:			
Land	243,323	-	243,323
Construction in Progress	68,321	-	68,321
Buildings	20,374,663	-	20,374,663
Improvements	1,153,087	-	1,153,087
Equipment	1,677,990	173,036	1,851,026
Less Accumulated Depreciation	<u>(4,029,074)</u>	<u>(115,502)</u>	<u>(4,144,576)</u>
Total Capital Assets, Net of Depreciation	<u>19,488,310</u>	<u>57,534</u>	<u>19,545,844</u>
Restricted Assets:			
Net Pension Asset	976,402	-	976,402
Cash Restricted for Debt Service	2,163,272	-	2,163,272
Investments Restricted for Debt Service - Sinking Fund	<u>1,285,610</u>	<u>-</u>	<u>1,285,610</u>
Total Assets	<u>35,795,295</u>	<u>111,091</u>	<u>35,906,386</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Related Deferred Outflows	<u>1,839,696</u>	<u>-</u>	<u>1,839,696</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>1,839,696</u>	<u>-</u>	<u>1,839,696</u>
<b>LIABILITIES</b>			
Accounts Payable	148,739	30	148,769
Other Current Liabilities	564,910	-	564,910
Unearned Revenue	-	7,441	7,441
Long-term Liabilities:			
Due Within One Year	995,302	-	995,302
Due in More than One Year	<u>14,368,662</u>	<u>-</u>	<u>14,368,662</u>
Total Liabilities	<u>16,077,613</u>	<u>7,471</u>	<u>16,085,084</u>

The accompanying notes are an integral part of this statement.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property Taxes Levied for Future Periods	4,265,693	-	4,265,693
Pension Related Deferred Inflows	<u>1,440,751</u>	<u>-</u>	<u>1,440,751</u>
Total Deferred Inflows of Resources	<u>5,706,444</u>	<u>-</u>	<u>5,706,444</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	6,984,777	57,534	7,042,311
Restricted for:			
Capital Outlay	996,681	-	996,681
Special Education	415,031	-	415,031
Debt Service	3,448,882	-	3,448,882
Proportionate Share of Net Pension Asset	1,375,347	-	1,375,347
Unrestricted	<u>2,630,216</u>	<u>46,086</u>	<u>2,676,302</u>
<b>TOTAL NET POSITION</b>	<u>\$ 15,850,934</u>	<u>\$ 103,620</u>	<u>\$ 15,954,554</u>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1  
Statement of Activities  
For the Year Ended June 30, 2016**

Functions/Programs	Expenses	Charges for Services
<b>GOVERNMENTAL ACTIVITIES</b>		
Instruction	\$ 5,007,418	\$ -
Support Services	3,497,027	37,278
Community Services	10,780	9,040
Cocurricular Activities	471,983	27,138
Nonprogrammed Charges	115,079	-
Interest on Long-term Debt *	538,481	-
Total Governmental Activities	<u>9,640,768</u>	<u>73,456</u>
<b>BUSINESS-TYPE ACTIVITIES</b>		
Food Service	358,987	177,669
Other Enterprise Funds	197	1,120
Total Business-type Activities	<u>359,184</u>	<u>178,789</u>
Total Primary Government	<u>\$ 9,999,952</u>	<u>\$ 252,245</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.

The accompanying notes are an integral part of this statement.

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
		Governmental Activities	Business-type Activities	Total
\$ 499,966	\$ -	\$ (4,507,452)	\$ -	\$ (4,507,452)
-	44,983	(3,414,766)	-	(3,414,766)
-	-	(1,740)	-	(1,740)
-	-	(444,845)	-	(444,845)
-	-	(115,079)	-	(115,079)
-	-	(538,481)	-	(538,481)
<u>499,966</u>	<u>44,983</u>	<u>(9,022,363)</u>	<u>-</u>	<u>(9,022,363)</u>
177,537	-	-	(3,781)	(3,781)
-	-	-	923	923
<u>177,537</u>	<u>-</u>	<u>-</u>	<u>(2,858)</u>	<u>(2,858)</u>
<u>\$ 677,503</u>	<u>\$ 44,983</u>	<u>(9,022,363)</u>	<u>(2,858)</u>	<u>(9,025,221)</u>
<b>GENERAL REVENUES</b>				
Taxes:				
Property Taxes		8,621,319	-	8,621,319
Gross Receipts Taxes		311,201	-	311,201
Revenue From State Sources:				
State Aid		105,454	-	105,454
Other		4,000	-	4,000
Revenue From Federal Sources		907,634	-	907,634
Revenue From Intermediate Sources		85,169	-	85,169
Unrestricted Investment Earnings		57,581	93	57,674
Other General Revenues		52,442	-	52,442
Gain on Disposal of Capital Assets		46,284	-	46,284
Total General Revenues and Gains		<u>10,191,084</u>	<u>93</u>	<u>10,191,177</u>
<b>CHANGE IN NET POSITION</b>		1,168,721	(2,765)	1,165,956
<b>NET POSITION - BEGINNING</b>		<u>14,682,213</u>	<u>106,385</u>	<u>14,788,598</u>
<b>NET POSITION - ENDING</b>		<u>\$ 15,850,934</u>	<u>\$ 103,620</u>	<u>\$ 15,954,554</u>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Balance Sheet - Governmental Funds**  
**June 30, 2016**

	<u>General Fund</u>	<u>Capital Outlay Fund</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 5,881,085	\$ 1,090,858
Permanent Incidental Account	4,000	-
Taxes Receivable, Current	2,098,624	1,169,930
Taxes Receivable, Delinquent	58,938	27,559
Accounts Receivable, Net	6,973	-
Due From Other Governments	100,344	-
Restricted Assets:		
Cash Restricted for Debt Service	-	2,163,272
Investments Restricted for Debt Service	-	-
<b>TOTAL ASSETS</b>	<u><u>\$ 8,149,964</u></u>	<u><u>\$ 4,451,619</u></u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>		
Liabilities:		
Accounts Payable	\$ 66,490	\$ 73,297
Contracts Payable	377,857	-
Payroll Deductions and Employer Matching Payable	<u>108,071</u>	<u>-</u>
Total Liabilities	<u>552,418</u>	<u>73,297</u>
Deferred Inflows of Resources:		
Property Taxes Levied for Future Periods	2,293,485	1,252,451
Delinquent Property Taxes Received Outside the Period of Availability	<u>56,323</u>	<u>26,078</u>
Total Deferred Inflows of Resources	<u>2,349,808</u>	<u>1,278,529</u>
Fund Balances		
Restricted		
For Capital Outlay	-	936,521
For Special Education	-	-
For Pension	-	-
For Debt Service	-	2,163,272
Assigned		
For Next Year's Budget	239,625	-
Unassigned	<u>5,008,113</u>	<u>-</u>
Total Fund Balances	<u>5,247,738</u>	<u>3,099,793</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u><u>\$ 8,149,964</u></u>	<u><u>\$ 4,451,619</u></u>

The accompanying notes are an integral part of this statement.

Special Education Fund	Total Non-major Funds	Total Governmental Funds
\$ 475,752	\$ 115,831	\$ 7,563,526
-	-	4,000
555,327	116,993	3,940,874
13,428	2,756	102,681
-	-	6,973
50,944	-	151,288
-	-	2,163,272
<u>-</u>	<u>1,285,610</u>	<u>1,285,610</u>
<u>\$ 1,095,451</u>	<u>\$ 1,521,190</u>	<u>\$ 15,218,224</u>
\$ 8,952	\$ -	\$ 148,739
51,682	-	429,539
<u>27,300</u>	<u>-</u>	<u>135,371</u>
<u>87,934</u>	<u>-</u>	<u>713,649</u>
594,512	125,245	4,265,693
<u>12,695</u>	<u>2,608</u>	<u>97,704</u>
<u>607,207</u>	<u>127,853</u>	<u>4,363,397</u>
-	-	936,521
400,310	-	400,310
-	107,727	107,727
-	1,285,610	3,448,882
-	-	239,625
<u>-</u>	<u>-</u>	<u>5,008,113</u>
<u>400,310</u>	<u>1,393,337</u>	<u>10,141,178</u>
<u>\$ 1,095,451</u>	<u>\$ 1,521,190</u>	<u>\$ 15,218,224</u>

The accompanying notes are an integral part of this statement.

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**Custer School District No. 16-1**  
**Reconciliation of the Governmental Funds Balance**  
**Sheet to the Statement of Net Position**  
**June 30, 2016**

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Total Fund Balances - Governmental Funds	\$ 10,141,178
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	19,488,310
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
General Obligation Debt Capital Outlay Certificates	(14,800,000)
Capital Leases	(1,601)
Compensated Absences	(218,464)
Other Post Employment Benefits	(110,177)
Voluntary Separation Liability	(233,722)
Assets, including property taxes receivable and other receivables that are not available to pay for current period expenditures, are deferred in the governmental funds.	97,704
Net pension asset reported in the governmental activities is not an available financial resource and therefore is not reported in the funds.	976,402
Pension-related Deferred Outflows are components of pension asset and changes are not reported in the funds	1,839,696
Pension-related Deferred Inflows are components of pension asset and changes are not reported in the funds	(1,440,751)
Unamortized discounts on debt are immediately recognized as expenditures in the governmental funds.	<u>112,359</u>
Net Position - Governmental Activities	<u><u>\$ 15,850,934</u></u>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balances - Governmental Funds**  
**For the Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Capital Outlay Fund</u>
<b>REVENUES</b>		
Revenue From Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 4,763,396	\$ 2,554,717
Gross Receipts Taxes	311,201	-
Penalties and Interest on Taxes	12,782	4,420
Cocurricular Activities	27,138	-
Earnings on Deposits	7,303	1,278
Other Local Revenue	126,117	95
Total Revenue From Local Sources	<u>5,247,937</u>	<u>2,560,510</u>
Revenue From Intermediate Sources:		
County Sources	79,325	-
Revenue in Lieu of Taxes	5,844	-
Total Revenue From Intermediate Sources	<u>85,169</u>	<u>-</u>
Revenue From State Sources:		
Unrestricted Grants-in-aid	105,454	-
Restricted Grants-in-aid	4,000	-
Total Revenue From State Sources	<u>109,454</u>	<u>-</u>
Revenue From Federal Sources:		
Unrestricted Grants-in-aid	806,195	-
Restricted Grants-in-aid	280,025	101,439
Total Revenue From Federal Sources	<u>1,086,220</u>	<u>101,439</u>
Total Revenue	<u>6,528,780</u>	<u>2,661,949</u>

The accompanying notes are an integral part of this statement.

<u>Special Education Fund</u>	<u>Total Non-major Funds</u>	<u>Total Governmental Funds</u>
\$ 1,235,446	\$ 255,473	\$ 8,809,032
-	-	311,201
2,191	442	19,835
-	-	27,138
438	48,562	57,581
17,531	-	143,743
<u>1,255,606</u>	<u>304,477</u>	<u>9,368,530</u>
-	-	79,325
-	-	5,844
<u>-</u>	<u>-</u>	<u>85,169</u>
-	-	105,454
-	-	4,000
<u>-</u>	<u>-</u>	<u>109,454</u>
-	-	806,195
219,941	-	601,405
<u>219,941</u>	<u>-</u>	<u>1,407,600</u>
<u>1,475,547</u>	<u>304,477</u>	<u>10,970,753</u>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balances - Governmental Funds (Continued)**  
**For the Year Ended June 30, 2016**

	General Fund	Capital Outlay Fund
<b>EXPENDITURES</b>		
Instructional Services:		
Regular Programs	3,248,628	403,508
Special Programs	188,435	37,969
Post Secondary Occupational Programs	2,000	-
Total Instructional Services	<u>3,439,063</u>	<u>441,477</u>
Support Services:		
Pupils	208,332	-
Instructional Staff	203,027	6,700
General Administration	348,393	-
School Administration	485,227	-
Business	1,268,666	508,811
Special Education	-	-
Total Support Services	<u>2,513,645</u>	<u>515,511</u>
Cocurricular Activities:		
Male Activities	75,997	-
Female Activities	54,392	-
Transportation	76,859	-
Combined Activities	151,504	34,407
Total Cocurricular Activities	<u>358,752</u>	<u>34,407</u>
Other Nonprogrammed Costs:		
Compensated Absence Payments	20,330	-
Voluntary Separation Payments	-	-
Total Other Nonprogrammed Costs	<u>20,330</u>	<u>-</u>
Debt Services	-	1,374,878
Capital Outlay	-	128,633
Total Expenditures	<u>6,331,790</u>	<u>2,494,906</u>

The accompanying notes are an integral part of this statement.

<u>Special Education Fund</u>	<u>Total Non-major Funds</u>	<u>Total Governmental Funds</u>
-	-	3,652,136
950,930	-	1,177,334
-	-	2,000
<u>950,930</u>	<u>-</u>	<u>4,831,470</u>
261,904	-	470,236
-	-	209,727
-	-	348,393
-	-	485,227
-	-	1,777,477
180,765	-	180,765
<u>442,669</u>	<u>-</u>	<u>3,471,825</u>
-	-	75,997
-	-	54,392
-	-	76,859
-	-	185,911
<u>-</u>	<u>-</u>	<u>393,159</u>
-	-	20,330
<u>-</u>	<u>219,694</u>	<u>219,694</u>
<u>-</u>	<u>219,694</u>	<u>240,024</u>
<u>-</u>	<u>-</u>	<u>1,374,878</u>
<u>-</u>	<u>-</u>	<u>128,633</u>
<u>1,393,599</u>	<u>219,694</u>	<u>10,439,989</u>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balances - Governmental Funds (Continued)**  
**For the Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Capital Outlay Fund</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>196,990</u>	<u>167,043</u>
<b>OTHER FINANCING SOURCES</b>		
Debt Proceeds	-	2,205,000
Debt Issuance Costs and Discount	-	(39,499)
Transfer In (Out)	-	(166,000)
Sale of Surplus Property	5,508	-
Insurance Proceeds	<u>42,956</u>	-
Total Other Financing Sources	<u>48,464</u>	<u>1,999,501</u>
<b>NET CHANGE IN FUND BALANCES</b>	245,454	2,166,544
<b>FUND BALANCE - BEGINNING</b>	<u>5,002,284</u>	<u>933,249</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 5,247,738</u>	<u>\$ 3,099,793</u>

The accompanying notes are an integral part of this statement.

<u>Special Education Fund</u>	<u>Total Non-major Funds</u>	<u>Total Governmental Funds</u>
<u>81,948</u>	<u>84,783</u>	<u>530,764</u>
-	-	2,205,000
-	-	(39,499)
-	166,000	-
-	-	5,508
-	-	<u>42,956</u>
<u>-</u>	<u>166,000</u>	<u>2,213,965</u>
81,948	250,783	2,744,729
<u>318,362</u>	<u>1,142,554</u>	<u>7,396,449</u>
<u>\$ 400,310</u>	<u>\$ 1,393,337</u>	<u>\$ 10,141,178</u>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Reconciliation of the Governmental Funds Statement of Revenues,**  
**Expenditures and Changes in Fund Balances to the Statement of Activities**  
**For the Year Ended June 30, 2016**

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Net Change in Fund Balances - Total Governmental Funds	\$ 2,744,729
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 are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital asset purchases in the current period.	(288,577)
Governmental funds only report proceeds from the sale of capital assets. However, the Statement of Activities reports gains and losses on capital assets. This is the amount in which accumulated depreciation exceeded retired capital assets book value.	(2,000)
The recognition of revenues in the governmental funds differ from the recognition in the governmental activities in the fact that revenue accruals in the fund financial statements require the amounts to be "available".	(207,726)
Governmental funds do not reflect the change in compensated absences, voluntary separation, and OPEB liabilities but the Statement of Activities reflects the change in these accruals through expenses.	88,853
Repayment of general obligation debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	866,443
Issuance of general obligation debt is a revenue in the governmental funds, but the issuance increases long-term liabilities in the Statement of Net Postion.	(2,205,000)
Unamortized discounts associated with general obligation debt are recorded as expenditures or other financing sources in the governmental funds. However, these items are amortized over the life of the debt in the governmental activities. This is the amount by which deferrals exceeded unamortized discounts for the current period.	9,452
Pension revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>162,547</u>
Change in Net Position of Governmental Activities	<u>\$ 1,168,721</u>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Statement of Net Position - Proprietary Funds**  
**June 30, 2016**

	Enterprise Funds		Totals
	Food Service Fund	Other Enterprise Fund	
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 45,963	\$ 4,962	\$ 50,925
Inventory	<u>2,632</u>	<u>-</u>	<u>2,632</u>
Total Current Assets	<u>48,595</u>	<u>4,962</u>	<u>53,557</u>
Noncurrent Assets:			
Machinery and Equipment - Local Funds	173,036	-	173,036
Less Accumulated Depreciation	<u>(115,502)</u>	<u>-</u>	<u>(115,502)</u>
Total Noncurrent Assets	<u>57,534</u>	<u>-</u>	<u>57,534</u>
<b>TOTAL ASSETS</b>	<u>106,129</u>	<u>4,962</u>	<u>111,091</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	30	-	30
Unearned Revenue	<u>7,441</u>	<u>-</u>	<u>7,441</u>
<b>TOTAL LIABILITIES</b>	<u>7,471</u>	<u>-</u>	<u>7,471</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	57,534	-	57,534
Unrestricted	<u>41,124</u>	<u>4,962</u>	<u>46,086</u>
<b>TOTAL NET POSITION</b>	<u>\$ 98,658</u>	<u>\$ 4,962</u>	<u>\$ 103,620</u>

The accompanying notes are an integral part of this statement.

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**Custer School District No. 16-1**  
**Statement of Revenues, Expenses and Changes in Fund**  
**Net Position - Proprietary Funds**  
**For the Year Ended June 30, 2016**

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Food Service Fund</u>	<u>Other Enterprise Funds</u>	
<b>OPERATING REVENUE</b>			
Sales to Pupils	\$ 170,398	\$ -	\$ 170,398
Sales to Adults	7,271	-	7,271
Other Operating Revenue	-	1,120	1,120
Total Operating Revenue	<u>177,669</u>	<u>1,120</u>	<u>178,789</u>
<b>OPERATING EXPENSES</b>			
Purchased Services	329,996	-	329,996
Supplies	30	197	227
Cost of Sales - Donated Food	18,334	-	18,334
Depreciation	10,627	-	10,627
Total Operating Expenses	<u>358,987</u>	<u>197</u>	<u>359,184</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(181,318)</u>	<u>923</u>	<u>(180,395)</u>
<b>NONOPERATING REVENUE</b>			
Local Sources:			
Interest Earned	86	7	93
State Sources:			
Cash Reimbursements	2,095	-	2,095
Federal Sources:			
Cash Reimbursements	156,055	-	156,055
Donated Food	19,387	-	19,387
Total Nonoperating Revenue	<u>177,623</u>	<u>7</u>	<u>177,630</u>
<b>CHANGE IN NET POSITION</b>	(3,695)	930	(2,765)
<b>NET POSITION - BEGINNING</b>	<u>102,353</u>	<u>4,032</u>	<u>106,385</u>
<b>NET POSITION - ENDING</b>	<u>\$ 98,658</u>	<u>\$ 4,962</u>	<u>\$ 103,620</u>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Statement of Cash Flows - Proprietary Funds**  
**For the Year Ended June 30, 2016**

	Enterprise Funds		Totals
	Food Service Fund	Other Enterprise Funds	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Customers	\$ 175,812	\$ 1,120	\$ 176,932
Payments to Suppliers	(329,996)	(197)	(330,193)
Net Cash Provided (Used) by Operating Activities	(154,184)	923	(153,261)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating Subsidies	158,150	-	158,150
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest Earnings	86	7	93
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	4,052	930	4,982
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	41,911	4,032	45,943
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 45,963</u>	<u>\$ 4,962</u>	<u>\$ 50,925</u>

The accompanying notes are an integral part of this statement.

	Enterprise Funds		Totals
	Food Service Fund	Other Enterprise Funds	
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating Income (Loss)	\$ (181,318)	\$ 923	\$ (180,395)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	10,627	-	10,627
Cost of Sales - Donated Food	18,334	-	18,334
Change in Assets and Liabilities:			
Accounts Receivable	22	-	22
Accounts Payable	30	-	30
Deferred Revenue	(1,879)	-	(1,879)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ (154,184)</u>	<u>\$ 923</u>	<u>\$ (153,261)</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>			
Value of Commodities Received	<u>\$ 19,387</u>	<u>\$ -</u>	<u>\$ 19,387</u>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Statement of Fiduciary Net Position - Fiduciary Funds**  
**June 30, 2016**

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	<u>Private- Purpose Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ -	\$ 94,329
Savings Certificates	<u>11,262</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>11,262</u>	<u>94,329</u>
<b>LIABILITIES</b>		
Amounts Held for Others	<u>-</u>	<u>94,329</u>
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>\$ 94,329</u>
<b>NET POSITION</b>		
Restricted for Scholarships: Expendable	<u>11,262</u>	
<b>TOTAL NET POSITION</b>	<u>\$ 11,262</u>	

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Statement of Changes in Fiduciary Net Position - Fiduciary Funds**  
**For the Year Ended June 30, 2016**

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	<u>Private- Purpose Trust Funds</u>
<b>ADDITIONS</b>	
Interest	<u>\$ 577</u>
<b>DEDUCTIONS</b>	
Scholarships Awarded	<u>11,500</u>
<b>CHANGE IN NET POSITION</b>	(10,923)
<b>NET POSITION - BEGINNING</b>	<u>22,185</u>
<b>NET POSITION - ENDING</b>	<u>\$ 11,262</u>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

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

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

**A. REPORTING ENTITY**

The reporting entity of Custer School District No. 16-1 (the District), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The District is a public education agency operating under the applicable laws and regulations of the State of South Dakota. It is governed by a seven member Board of Trustees (the Board) elected by registered voters of the District. The Board has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has accountability for fiscal matters. There are no component units included within the reporting entity.

The District participates in a cooperative service unit with several other school districts. See Note 10 - Joint Venture for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in the notes because of the nature of their relationship with the District.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

*Government-wide Financial Statements*

The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the overall government, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities.

These statements distinguish between the governmental and business-type activities of the District. Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange transactions. 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 inflows of resources minus liabilities and deferred outflows of resources equal net position). Net positions 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 District and for each function of the 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 recipients of goods and 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.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*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, deferred inflows and outflows of resources, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. Major individual governmental and proprietary funds are reported in separate columns.

**C. FUND TYPES AND MAJOR FUNDS**

An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is a primary operating fund of the District or if it meets the following criteria:

1. Total assets, deferred outflows of resources, liabilities, 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, deferred outflows of resources, liabilities, 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 year to year or because of public interest in the fund's operations.

The funds of the District are described below within their respective fund types:

**Governmental Funds:**

*General Fund* - The General Fund is established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the District, excluding Capital Outlay Fund and Special Education Fund expenditures. The General Fund is always a major fund.

*Special Revenue Fund Types* - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The District's special revenue funds are as follows:

*Capital Outlay Fund* - A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisitions of or additions to real property, plant or equipment, textbooks and instructional software. This fund is financed by property taxes and 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 district. This fund is financed primarily by property taxes and state and federal grants. 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 District's share of retirement plan contributions, and for funding early retirement benefits to qualifying employees. This fund is financed by property taxes and is not a major fund.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Debt Service Fund* - Debt service funds are used to account for the accumulation of resources for the payment of general long-term debt principal, interest and related costs. The District has one debt service fund used to accumulate annual principal payments in escrow for the eventual repayment of the 2009A, 2010, 2010A, and 2011 Capital Outlay Certificates. The debt service fund is not a major fund.

Proprietary Funds:

*Enterprise Fund Types* - Enterprise funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises, where the focus of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis whether financed or recovered through user charges or grants; or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District's enterprise funds are as follows:

*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.

*Driver's Education Fund* - A fund used to record financial transactions related to the driver's education program. This fund is financed by user charges. This is not a major fund.

Fiduciary Funds:

Fiduciary funds are never considered to be major funds.

*Private-Purpose Trust Fund Types* - Private-purpose trust funds are used to account for all trust arrangements under which principal and income benefits individuals, private organizations, or other governments. The District maintains two private purpose trust funds: a scholarship fund and the Gould scholarship fund. The purpose of these funds is to provide scholarships to qualifying students.

*Agency Fund Types* - Agency funds are used to account for resources held by the District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of the results of operations. The District maintains a variety of agency funds to hold assets as an agent in a trustee capacity for various classes, clubs, and so on.

**D. 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.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*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 will 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 District considers significant revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end.

Receivables, such as taxes receivable and grants receivable, may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred inflows of resources are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

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

**E. INTERFUND ELIMINATIONS AND RECLASSIFICATIONS**

In the process of aggregating data for the government-wide financial statements the District has charged certain “centralized expenses”, including an administrative overhead component, as direct expenses to programs in order to show all expenses that are associated with a service, program or department. This process minimizes the doubling-up effect on internal service fund activity.

**F. CASH AND CASH EQUIVALENTS**

The District pools its cash resources for depositing purposes. Accordingly, the enterprise funds have access to their cash resources on demand. All reported enterprise fund deposit balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. INVENTORY**

Inventory is valued at the lower of cost or market. The cost valuation method is first-in, first-out for enterprise fund inventories and average cost for governmental fund inventories.

Donated commodities are valued at estimated market value based on the USDA price list at the date of receipt.

Inventory in the governmental funds and governmental activities consist of expendable supplies held for consumption. In the government-wide financial statements and governmental funds, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed. Inventories reported in the fund financial statements are equally offset by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. Nonspendable fund balances related to inventory are reported net of the related liability (accounts payable).

**H. RESTRICTED ASSETS**

The District has reported restricted assets in the Debt Service fund and on the Statement of Net Position. The amounts reported as restricted for retirement of debt represent the sinking fund for outstanding Capital Outlay certificates. The restricted assets are US Treasury STRIPS bearing various interest rates and maturing between 2017 and 2023. See Note 5 for additional information related to the capital outlay certificates. The District also issued Series 2016 Capital Outlay Certificates that were being held in an escrow account to repay outstanding debt at a future date.

The District's proportionate share of the net pension asset held by the South Dakota Retirement System is also shown as restricted. This asset is new in the current year in accordance with the implementation of GASB 68. See Note 9 for additional information regarding the pension plan.

**I. CAPITAL ASSETS**

Capital assets include land, buildings, improvements, 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 of 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 Financial 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. Interest costs incurred during construction of capital assets are not capitalized.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Capitalization thresholds (the dollar value above which individual asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the government-wide financial statements and proprietary funds are as follows:

	Capitalization Threshold	Estimated Useful Life
Land	\$ All	-----
Buildings	50,000	33-100 yrs
Improvements	25,000	5-25 yrs
Equipment (governmental activities)	5,000	5-20 yrs
Equipment (proprietary funds)	1,000	5-20 yrs

Depreciation expense is calculated using the straight-line and composite methods. Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities. 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 governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide financial statements.

**J. 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.

*Government-wide Financial Statements:*

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide financial statements. Long-term liabilities consist of compensated absences, voluntary separation, capital outlay certificates, and capital leases.

*Compensated Absences Payable* - Compensated absences payable is the annual leave earned by employees. Vacation leave is earned by 12 month employees at varying rates depending on years of service. Sick leave is earned by the employees at the rate of one day for each month worked. Upon termination employees are entitled to receive compensation for their accrued annual leave, employees are not entitled to compensation for sick leave balances. Accrued leave payable balances are reported in Note 5 as compensated absences. For employees normally paid out of the governmental funds, these amounts are charged as an expenditure at the time of termination or when the benefit becomes payable to the employee.

*Fund Financial Statements:*

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 as in the government-wide financial statements.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

The District reports decreases in net position that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary funds statements of net position. The only deferred outflow of resources reported is a deferred amount arising from the District's pension plan for qualified retirees as discussed in Note 9. There are no deferred outflows of resources reported in the governmental funds balance sheet.

The District's governmental funds report a separate section for deferred inflows of resources. This section reflects a decrease in net position that applies to a future period or periods. Under the modified accrual basis of accounting, governmental fund revenues are not recognized until available (collected no later than 60 days after the end of the District's fiscal year). The District reports the following as deferred inflows of resources in the governmental funds: property taxes levied but not collected within the available period, and property taxes collected within the available period that are intended to finance the next fiscal year. In the government-wide financial statements, the District reports deferred inflows of resources for the property taxes that are levied for future periods. The District has no deferred inflows of resources to report in the proprietary fund statements for the current year.

**L. NET POSITION AND FUND BALANCE**

*Government-wide Financial Statements:*

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 positions are available. Net Position includes the following three components:

*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 capital outlay certificates or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted* - 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.

*Unrestricted* - Represents all other net positions that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

*Fund Financial Statements:*

Governmental fund equity is classed as fund balance, which is distinguished between the following classifications:

*Nonspendable* - Includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

*Restricted* - Constraints are placed on the use of resources by either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

*Assigned* - Amounts that are constrained by the District's intent to be used for specific purposes but are not restricted. Amounts can be assigned by committees of the School Board or management of the District.

*Unassigned* - Represents fund balance that has not been assigned to other funds and that has not been restricted or assigned.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

Proprietary net positions are classified the same as in the government-wide financial statements. Fiduciary net positions (except for Agency Funds, which do not have net position) are reported as net position held in trust for other purposes.

**M. PROPRIETARY FUND REVENUE AND EXPENSE CLASSIFICATIONS**

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

**N. PROGRAM REVENUES**

In the 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:

*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.

*Program Revenues - 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.

*Program Revenues - 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.

**O. UNEARNED REVENUE**

The proprietary fund reports meal tickets that have been purchased but not yet redeemed as unearned revenue.

**P. PENSIONS**

For purposes of measuring the net pension 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' fiduciary net position have been determined on the same basis as they are reported by SDRS, District contributions and net pension asset are recognized on the accrual basis of accounting.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 2 - DEPOSITS AND INVESTMENTS**

The District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Statutes impose various restrictions on deposits and investments. These restrictions are summarized below:

*Deposits* - The 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.

*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 District's policy is to credit all income from investments to the fund making the investment. The District also reports deposits at cost plus interest and credits all income from deposits to the fund making the deposit with the exception of the general checking account whose interest income is credited to the General Fund.

*Investments* - In general, SDCL 4-5-6 permits school district funds to be invested only 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 investments to 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. The investments held by the District at June 30, 2016 were:

Investment	Credit Rating	Maturities	Fair Value
Cash	N/A	N/A	\$ 687
U.S. Treasury STRIPS	Unrated	2/15/2017	196,456
U.S. Treasury STRIPS	Unrated	8/15/2018	172,760
U.S. Treasury STRIPS	Unrated	11/15/2019	177,803
U.S. Treasury STRIPS	Unrated	11/15/2020	209,857
U.S. Treasury STRIPS	Unrated	11/15/2021	184,052
U.S. Treasury STRIPS	Unrated	5/15/2022	177,447
U.S. Treasury STRIPS	Unrated	5/15/2023	166,548
			<u>\$ 1,285,610</u>

Certificates of deposit, with a term to maturity of greater than 3 months when purchased, were insured or collateralized and are considered deposits.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation of inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District has the following recurring fair value measurements as of June 30, 2016:

- U.S. Treasury STRIPS of \$1,284,923 are valued using quoted market prices (Level 1 inputs).

**Custodial Credit Risk - Deposits** - The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2016, the District's deposits in financial institutions were not exposed to credit risk as all deposits were fully collateralized by pledged securities.

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

**Concentration of Credit Risk** - The District places no limit on the amount that may be deposited with any one financial institution or invested with any one issuer.

**Interest Rate Risk** - The 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.

**NOTE 3 - DUE FROM OTHER GOVERNMENTS**

As of June 30, 2016, amounts due from other governments as reported in the financial statements consisted of the following:

SD Department of Education	\$ 82,261
State of South Dakota	64,966
Custer and Pennington Counties	4,061
	<u>\$ 151,288</u>

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 4 - CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Increase	Decrease	Balance June 30, 2016
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 243,323	\$ -	\$ -	\$ 243,323
Construction in Progress	<u>-</u>	<u>68,321</u>	<u>-</u>	<u>68,321</u>
Total Capital Assets Not Being Depreciated:	<u>243,323</u>	<u>68,321</u>	<u>-</u>	<u>311,644</u>
Capital Assets Being Depreciated:				
Buildings	20,374,663	-	-	20,374,663
Improvements	1,153,087	-	-	1,153,087
Equipment	<u>1,927,350</u>	<u>60,312</u>	<u>309,672</u>	<u>1,677,990</u>
Total Capital Assets Being Depreciated:	<u>23,455,100</u>	<u>60,312</u>	<u>309,672</u>	<u>23,205,740</u>
Less Accumulated Depreciation for:				
Equipment	1,161,795	139,151	307,492	993,454
Buildings	2,022,025	203,746	-	2,225,771
Improvements	<u>735,536</u>	<u>74,313</u>	<u>-</u>	<u>809,849</u>
Total Accumulated Depreciation	<u>3,919,356</u>	<u>417,210</u>	<u>307,492</u>	<u>4,029,074</u>
Total Capital Assets Being Depreciated, Net	<u>19,535,744</u>	<u>(356,898)</u>	<u>2,180</u>	<u>19,176,666</u>
Net Capital Assets	<u>\$ 19,779,067</u>	<u>\$ (288,577)</u>	<u>\$ 2,180</u>	<u>\$ 19,488,310</u>
Business-type Activities:				
Equipment	\$ 173,036	\$ -	\$ -	\$ 173,036
Less Accumulated Depreciation	<u>104,875</u>	<u>10,627</u>	<u>-</u>	<u>115,502</u>
Net Capital Assets	<u>\$ 68,161</u>	<u>\$ (10,627)</u>	<u>\$ -</u>	<u>\$ 57,534</u>
Depreciation expense was charged to governmental functions as follows:				
Instruction				\$ 262,406
Support Services				59,657
Community Services				10,780
Cocurricular Activities				<u>84,367</u>
Total Depreciation Expense				<u>\$ 417,210</u>

All depreciation expense related to the business-type activities was for the Food Service Fund.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 5 - LONG-TERM LIABILITIES**

The following is a summary of changes in long-term liabilities:

	Balance June 30, 2015	Increase	Decrease	Balance June 30, 2016	Amounts Due Within 1 Year
Governmental Activities:					
General Obligation Debt					
Capital Outlay					
Certificates	\$ 13,395,000	\$ 2,205,000	\$ 800,000	\$ 14,800,000	\$ 825,000
Capital Leases	68,044	-	66,443	1,601	1,601
Subtotal	13,463,044	2,205,000	866,443	14,801,601	826,601
Other Liabilities:					
Compensated Absences	181,176	56,172	18,884	218,464	22,568
Other Post Employment Benefits	74,084	36,093	-	110,177	-
Voluntary Separation Liability	395,957	57,461	219,696	233,722	146,133
Total Long-term Liabilities	<u>\$ 14,114,261</u>	<u>\$ 2,354,726</u>	<u>\$ 1,105,023</u>	<u>\$ 15,363,964</u>	<u>\$ 995,302</u>

Capital outlay certificates and other general obligations at June 30, 2016 were comprised of the following:

2009A Capital Outlay Certificates, Bearing Interest at a Fixed Rate of 0.70%, Due 6/15/2024	\$ 2,480,000
2010 Capital Outlay Certificates, Bearing Interest at Fixed Rates Ranging from at 0.75% to 4.00%, Due 1/1/2024	2,650,000
2010A Capital Outlay Certificates, Bearing Interest at Fixed Rates Ranging from at 1.85% to 5.90%, Due 1/1/2030	5,550,000
2011 Capital Outlay Certificates, Bearing Interest at Fixed Rates Ranging from at 1.20% to 3.65%, Due 1/1/2024	1,915,000
2016A Capital Outlay Certificates, Bearing Interest at Fixed Rate of 2.00%, Due 1/1/2030	2,205,000
Capital Lease, Due 7/1/16	<u>1,601</u>
	<u>\$ 14,801,601</u>

During the year ended June 30, 2012 the District entered into a capital lease for copiers. The lease requires monthly principal and interest payments of \$2,710 at a nominal annual interest rate of 7.10% until maturity on July 1, 2016. The outstanding balance of the capital lease at June 30, 2016 was \$1,601. The cost and accumulated depreciation of the equipment at June 30, 2016 was \$81,106 and \$81,106, respectively.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)**

The annual debt service requirements to maturity for all long-term debt outstanding as of June 30, 2016, excluding compensated absences, are as follows:

Year Ending June 30,	General Obligation Debt		Voluntary Separation Costs	Totals
	Principal	Interest		
2017	\$ 825,000	\$ 498,236	\$ 146,133	\$ 1,469,369
2018	1,390,000	480,008	68,435	1,938,443
2019	1,420,000	439,438	19,154	1,878,592
2020	1,455,000	396,121	-	1,851,121
2021	1,285,000	352,463	-	1,637,463
2022-2026	6,545,000	1,095,770	-	7,640,770
2027-2031	1,880,000	282,315	-	2,162,315
Total Payments	<u>\$ 14,800,000</u>	<u>\$ 3,544,351</u>	233,722	<u>\$ 18,578,073</u>
Less: Interest			-	
Present Value of Early Retirement Benefits			<u>\$ 233,722</u>	

Payments of all capital outlay certificates and capital lease obligations are made from the Capital Outlay Fund. Compensated absence payments are made from the fund that the related payroll expenditures are charged.

Sinking fund provisions on 2009A Capital Outlay Certificates require annual deposits of \$165,000 for until fiscal year 2023 after which the fund will continue to earn interest until maturity on June 30, 2024. The current balance of the sinking fund is presented as investments in the fund and governmental statements.

Voluntary separation costs are available to teachers and administrators that meet certain criteria. Upon retirement, the employee is entitled to receive a payment calculated by taking 5% of the current salary of the employee multiplied by the number of full years (up to a maximum of 20 years) service in the District. At June 30, 2016, there were 9 employees entitled to receive such payments. Voluntary separation benefits are paid in three annual installments following the separation date of the employee. Final payment is currently scheduled for fiscal year 2019.

For the year ended June 30, 2016, payments of voluntary separation benefits were made out of the Pension Fund in the amount of \$219,696.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 6 - RESTRICTED NET POSITION**

The following table shows the components of restricted net position as presented on the Statement of Net Position:

Purpose	Restricted By	
Major Purposes:		
Capital Outlay	Law	\$ 996,681
Special Education	Law	415,031
Debt Service	Debt Covenants	3,448,882
Share of Net Pension Asset	Law	<u>1,375,347</u>
Total		<u>\$ 6,235,941</u>

Although unrestricted, the Business-type Activities' net position in the amount of \$41,124 is limited by Federal Regulations as the District's food services are primarily funded with federal grants.

**NOTE 7 - PROPERTY TAX**

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 District's taxes and remits them to the District.

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 the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period."

The District is permitted by state statute to levy the following amounts of taxes per \$1,000 of taxable valuation of the property in the school district:

General Fund:		
Agricultural Property	\$	1.568
Non Ag Z		8.770
Owner-occupied		4.075
Capital Outlay Fund		3.000
Special Education Fund		1.409
Pension Fund		0.300

State statute allows the General Fund tax rates to be increased by special election of the voters.

**NOTE 8 - INDIVIDUAL FUND INTERFUND BALANCES AND TRANSACTIONS**

Interfund transfers for the year ended June 30, 2016 were as follows:

Transfers From:	Transfers To: Nonmajor Fund
Capital Outlay Fund	<u>\$ 166,000</u>

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 8 - INDIVIDUAL FUND INTERFUND BALANCES AND TRANSACTIONS (CONTINUED)**

During the year ended June 30, 2016, a transfer was made from the Capital Outlay Fund to the Debt Service Fund (non-major fund). The transfer to the Debt Service Fund was made for sinking fund provisions required by the 2009A capital outlay certificates.

**NOTE 9 - 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 public employee retirement system established 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 South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO 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 on each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

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

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

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 9 - PENSION PLAN (CONTINUED)**

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 District's share of contributions to the SDRS for the fiscal years ended June 30, 2016, 2015, and 2014 were \$269,080, \$252,183, and \$241,532, 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, 2015, SDRS is 104.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the District as of the measurement period ending June 30, 2015 and reported by the District as of June 30, 2016 are as follows:

Proportionate Share of Net Position Restricted for Pension Benefits	\$ 24,809,057
Less Proportionate Share of Total Pension Liability	<u>23,832,655</u>
Proportionate Share of Net Pension Liability (Asset)	<u>\$ (976,402)</u>

At June 30, 2016, the District reported an asset of \$976,402 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015 and the total pension asset used to calculate the net pension asset was based on a projection of the District's share of contributions to the pension plan relative to the contributions of all participating entities. At 2015 June 30, 2015, the District's proportion was 0.2302% which is an increase of 0.000016% from its proportion measured as of June 30, 2014.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 9 - PENSION PLAN (CONTINUED)**

For the year ended June 30, 2016, the District recognized pension expense of \$106,534. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 199,923	\$ -
Changes in Assumption	774,225	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	596,468	1,440,700
Changes in Proportion and Difference between District Contributions and Proportionate Share of Contributions	-	51
District Contributions Subsequent to the Measurement Date	269,080	-
<b>Total</b>	<b>\$ 1,839,696</b>	<b>\$ 1,440,751</b>

\$269,080 reported as deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension revenue as follows:

Year Ended June 30,		
2017	\$	47,519
2018		47,519
2019		(123,217)
2020		162,403
2021		-
Thereafter		-
<b>Total</b>	<b>\$</b>	<b>134,224</b>

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2015 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 2017 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.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 9 - PENSION PLAN (CONTINUED)**

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. 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, 2015 (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	61.0%	4.5%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.2%
Cash	<u>2.0%</u>	0.8%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension asset was 7.25% through 2017 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of Liability (Asset) to Changes in the Discount Rate

The following presents the District's proportionate share of net pension asset calculated using the discount rate of 7.25% through 2017 and 7.50% thereafter, as well as what the District's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
School District's Proportionate Share of the Net Pension Liability (Asset)	<u>\$ 2,457,593</u>	<u>\$ (976,402)</u>	<u>\$ 3,776,529</u>

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 9 - PENSION PLAN (CONTINUED)**

Pension Plan Fiduciary Net Position

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

**NOTE 10 - JOINT VENTURE**

The District participates in the Black Hills Special Services Cooperative (the Co-op), a cooperative service unit formed for the purpose of providing special education and other services to the member school districts. During the year ended June 30, 2016, the District paid \$193,657 for services provided by the Co-op.

The members of the Co-op and their relative percentage participation in the Co-op are as follows:

Belle Fourche School District	8.33%
Custer School District	8.33%
Douglas School District	8.33%
Edgemont School District	8.33%
Haakon School District	8.33%
Hill City School District	8.33%
Hot Springs School District	8.33%
Lead/Deadwood School District	8.33%
Meade School District	8.33%
Oelrichs School District	8.33%
Rapid City School District	8.33%
Spearfish School District	8.33%

The Co-op's governing board is comprised of one representative, a school board member, from each member school district. 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 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 may be obtained by writing to BHSSC, PO Box 218, Sturgis SD 57785. At June 30, 2016, this joint venture had assets and deferred inflows of \$15,284,527, liabilities and deferred outflows of \$7,273,246, and net position of \$8,011,281 (unaudited).

The District also participates in the Black Hills Educational Benefits Cooperative (BHEBC); a cooperative service unit formed for the purpose of providing health insurance services to the member school districts. The relative percentage of participation of each member in BHEBC was not deemed to be a measurable matter.

The members of BHEBC are Black Hills Special Service Cooperative, New Underwood School District, Wall School District, Custer School District, Oelrichs School District, and Belle Fourche School District.

BHEBC's governing board is composed of two representatives from each member school district. The board is responsible for adopting BHEBC's budget and setting service fees at a level adequate to fund the adopted budget. Members are not liable for claims in excess of BHEBC's assets.

Separate financial statements may be obtained by writing to BHEBC, PO Box 218, Sturgis SD 57785. At June 30, 2016, this joint venture had total assets of \$5,225,177, liabilities of \$414,766, and equity of \$4,810,411 (unaudited).

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 11 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2016, the District managed its risks as follows:

Employee Health Insurance:

As discussed in Note 10, the District joined together with other educational units in the state to form a public entity risk pool. This is a public entity risk pool currently operating as a common risk management and insurance program for six member districts. The 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 receives from the members. The coverage provides a deductible of \$1,000 per person up to \$2,000 per family. The plan also provides for coinsurance of 70 or 80 percent up to \$5,000. The coverage also includes a \$1,000,000 lifetime maximum payment per person.

The District does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Liability Insurance:

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

The agreement with the Associated School Boards of South Dakota Property Liability Fund provides that the above coverage will be provided with a \$2,000,000 limit on liability coverage, \$250,000,000 limit on property, \$50,000,000 limit on boiler and machinery, and \$350,000 for various criminal acts. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of deductibles. As of June 30, 2016, the District carried the following deductibles related to insurance coverage:

General Liability	\$ -0-
Boiler and Machinery	5,000
Errors and Omissions	10,000
Defense Only Claims	5,000
Property	500
Automobile	-0-
Crime	1,000
Employee Benefits Liability	1,000

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 11 - RISK MANAGEMENT (CONTINUED)**

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

Workmen's Compensation:

The District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool (the Fund) which provides workers' compensation insurance coverage for participating members of the pool. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

The District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report and to cooperate with the Fund to resolve any worker's compensation claims. The District pays an annual premium to provide worker's compensation coverage for its employees under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The District may also be responsible for additional assessments in the event the Fund is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. For the year ended June 30, 2016, the pool's retained risk was \$500,000 per occurrence, with additional coverage of \$1,000,000 per occurrence. There was no additional assessment charged to pool members for the year ended June 30, 2016.

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

Unemployment Benefits:

The 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 12 - POST-EMPLOYMENT HEALTHCARE PLAN**

Plan Description

Custer School District No. 16-1 offers a health insurance plan, established under SDCL 13-10-3 through the Black Hills Educational Benefits Cooperative (BHEBC), which is a cooperative service unit formed for the purpose of providing health insurance services to member school districts as described in Note 10. The members participate in a cost-sharing plan by pooling their participants to receive better insurance premiums than the members would receive individually. The premiums of the covered retirees are established by BHEBC, but the District's board determines retiree and employer contribution rates. Because of this cost-sharing structure, the health insurance plan would fall under a cost-sharing multiple-employer OPEB plan arrangement. However, the members have not committed to share the annual OPEB costs, actuarial accrued liabilities, plan assets, or unfunded actuarial accrued liabilities, and each member is receiving a separate actuarial report. Because the OPEB costs are not shared, each member's separate actuarial valuation falls under the accounting for single-employer OPEB plans. The health insurance plan does not issue separately stated, stand-alone financial statements.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 12 - POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)**

An employee who is employed by the District and who is eligible to participate in the group health plan is covered. A covered individual who retires from the District, is at least age 55, and is currently participating in the group plan at the time of retirement is eligible for health insurance. Spousal and dependent coverage is provided as long as the required contributions are paid. Spouses may continue coverage after the retiree's coverage terminates until the spouse is eligible for Medicare. Non-spouse dependents may continue coverage until the dependent is eligible for Medicare. The eligible retiree must pay monthly contributions based on 100% of the full active employee premium rate. All coverage ceases when the retiree or spouse attains age 65 or becomes eligible for Medicare except for COBRA continuation if elected.

Funding Policy

Retired employees must pay 100% of the premiums for his or her coverage. Under GASB 45, the District incurs an expense due to the implicit rate subsidy for retirees.

Annual OPEB Cost

For the year ended June 30, 2016, the District made no contributions to the Plan and the beginning balance of the OPEB obligation was \$74,084. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 were as follows:

ARC			\$ 36,563																
Interest in Net OPEB			1,737																
Adjustment to ARC			<u>(2,207)</u>																
Annual OPEB Cost			36,093																
Contributions Made			<u>-</u>																
Change in Net OPEB Obligation			36,093																
Net OPEB Obligation at June 30, 2015			<u>74,084</u>																
Net OPEB Obligation at June 30, 2016			<u>\$ 110,177</u>																
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center; border-bottom: 1px solid black;">Fiscal Year Ended</th> <th style="text-align: center; border-bottom: 1px solid black;">Annual OPEB Cost</th> <th style="text-align: center; border-bottom: 1px solid black;">Percentage of Annual OPEB Cost Contributed</th> <th style="text-align: center; border-bottom: 1px solid black;">Net OPEB Obligation</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">6/30/2014</td> <td style="text-align: right;">\$ 36,094</td> <td style="text-align: center;">65.6%</td> <td style="text-align: right;">\$ 37,789</td> </tr> <tr> <td style="text-align: center;">6/30/2015</td> <td style="text-align: right;">36,295</td> <td style="text-align: center;">0.0%</td> <td style="text-align: right;">74,084</td> </tr> <tr> <td style="text-align: center;">6/30/2016</td> <td style="text-align: right;">36,093</td> <td style="text-align: center;">0.0%</td> <td style="text-align: right;">110,177</td> </tr> </tbody> </table>				Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation	6/30/2014	\$ 36,094	65.6%	\$ 37,789	6/30/2015	36,295	0.0%	74,084	6/30/2016	36,093	0.0%	110,177
Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation																
6/30/2014	\$ 36,094	65.6%	\$ 37,789																
6/30/2015	36,295	0.0%	74,084																
6/30/2016	36,093	0.0%	110,177																

Funded Status and Funding Progress

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 that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 12 - POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)**

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 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 state prohibits local governments from separately rating active employees and retirees, therefore both groups are charged an equal, blended premium rate for single or family coverage. Although both groups are charged the same rate, GAAP requires the actuarial amounts to be calculated using age adjusted premiums that approximate costs for retirees separately from those for active employees. The use of age adjusted premiums results in the inclusion of an implicit rate subsidy in the actuarial accrued liability.

The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Projected Unit Credit actuarial cost method was used to determine the annual required contribution.

The actuarial value of assets must be determined based on some recognition of the fair market value of assets. Initially, the actuarial value of assets is to be equal to the fair market value of assets. This method will be formally adopted after decisions regarding the OPEB Plan's funding and investment policy are made.

The unfunded accrued liability is being amortized as a level dollar amount on an open basis over a period of 30 years.

The actuarial assumptions included:

- The assumed claims costs were determined from the insured premiums and underlying claim experience of the OPEB Plans and actuarial age adjustment factors.
- Health care cost trend rates were 7% for 2013, decreasing 1% each year to 2015 and after, which would be 5%.
- Investment return was calculated at 4.75% per year.
- Salary increases were calculated at 3.0% per year.
- Mortality was according to the RP 2000 Mortality Table.
- Retiree Participation rate was assumed to be 66.7% and initial spouse participation rate was assumed to be 33.3% for both male and female employees.
- Turnover rates were based on Scale T-6 of Actuary's Pension Handbook. Sample rates vary by age:

Age	Rate
20	7.9%
25	7.7%
30	7.4%
35	6.9%
40	6.1%
45	5.2%
50	3.6%
55	1.4%
60	0.1%

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 12 - POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)**

- Retirement rates vary by age, as follows:

<u>Age</u>	<u>Rate</u>
55	20.0%
56-57	5.0%
58-59	10.0%
60-61	20.0%
62	40.0%
63-64	10.0%
65 or Over	100.0%

**NOTE 13 - CONCENTRATIONS**

The District is dependent upon grant revenues, property taxes and operating revenues from the State of South Dakota for its primary existence.

**NOTE 14 - SUBSEQUENT EVENTS**

Subsequent to year-end, the District issued Series 2016A Capital Outlay Certificates in the amount of \$4,425,000. These certificates are being held in an escrow account to complete a crossover partial advance refunding of Series 2010A certificates. The 2016A certificates require annual principal payments with interest of 2.00% beginning January 2021 through maturity in June 2030.

Management has evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

**Custer School District No. 16-1**  
**Budgetary Comparison Schedule - General Fund - Budgetary Basis**  
**For the Year Ended June 30, 2016**

	<u>Budgeted Original</u>	<u>Budgeted Amounts Final</u>
<b>REVENUES</b>		
Revenue From Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 4,517,121	\$ 4,517,121
Gross Receipts Taxes	310,000	310,000
Penalties and Interest on Taxes	15,000	15,000
Cocurricular Activities	25,000	25,000
Earnings on Deposits	1,800	1,800
Other Local Revenue	<u>78,000</u>	<u>78,000</u>
Total Revenue From Local Sources	<u>4,946,921</u>	<u>4,946,921</u>
Revenue From Intermediate Sources:		
County Sources	85,000	85,000
Revenue in Lieu of Taxes	<u>8,000</u>	<u>8,000</u>
Total Revenue From Intermediate Sources	<u>93,000</u>	<u>93,000</u>
Revenue From State Sources:		
Unrestricted Grants-in-aid	70,000	70,000
Restricted Grants-in-aid	<u>-</u>	<u>-</u>
Total Revenue From State Sources	<u>70,000</u>	<u>70,000</u>
Revenue From Federal Sources:		
Unrestricted Grants-in-aid	789,050	789,050
Restricted Grants-in-aid	<u>247,000</u>	<u>247,000</u>
Total Revenue From Federal Sources	<u>1,036,050</u>	<u>1,036,050</u>
Total Revenue	<u>6,145,971</u>	<u>6,145,971</u>

See independent auditor's report and notes to required supplementary information.

<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
\$ 4,763,396	\$ 246,275
311,201	1,201
12,782	(2,218)
27,138	2,138
7,303	5,503
<u>126,117</u>	<u>48,117</u>
<u>5,247,937</u>	<u>301,016</u>
79,325	(5,675)
<u>5,844</u>	<u>(2,156)</u>
<u>85,169</u>	<u>(7,831)</u>
105,454	35,454
<u>4,000</u>	<u>4,000</u>
<u>109,454</u>	<u>39,454</u>
806,195	17,145
<u>280,025</u>	<u>33,025</u>
<u>1,086,220</u>	<u>50,170</u>
<u>6,528,780</u>	<u>382,809</u>

See independent auditor's report and notes to required supplementary information.

**Custer School District No. 16-1**  
**Budgetary Comparison Schedule - General Fund - Budgetary Basis**  
**(Continued)**  
**For the Year Ended June 30, 2016**

	<u>Budgeted Original</u>	<u>Budgeted Amounts Final</u>
<b>EXPENDITURES</b>		
Instructional Services:		
Regular Programs	3,237,548	3,262,548
Special Programs	184,752	184,752
Post-Secondary Occupational Programs	2,000	2,000
Total Instructional Services	<u>3,424,300</u>	<u>3,449,300</u>
Support Services:		
Pupils	216,913	216,913
Instructional Staff	212,781	212,781
General Administration	358,543	361,543
School Administration	488,054	488,054
Business	1,214,781	1,214,781
Total Support Services	<u>2,491,072</u>	<u>2,494,072</u>
Cocurricular Activities:		
Male Activities	75,433	78,933
Female Activities	52,843	55,443
Transportation	90,508	90,508
Combined Activities	150,059	157,459
Total Cocurricular Activities	<u>368,843</u>	<u>382,343</u>
Other Nonprogrammed Costs:		
Compensated Absence Payments	37,678	37,678
Total Other Nonprogrammed Costs	<u>37,678</u>	<u>37,678</u>
Total Expenditures	<u>6,321,893</u>	<u>6,363,393</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(175,922)</u>	<u>(217,422)</u>
<b>OTHER FINANCING SOURCES</b>		
Sale of Surplus Property	-	-
Insurance Proceeds	-	-
Contingency	(50,000)	(8,500)
Total Other Financing Sources	<u>(50,000)</u>	<u>(8,500)</u>
<b>NET CHANGE IN FUND BALANCES</b>	(225,922)	(225,922)
<b>FUND BALANCE - BEGINNING</b>	<u>5,002,284</u>	<u>5,002,284</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 4,776,362</u>	<u>\$ 4,776,362</u>

See independent auditor's report and notes to required supplementary information.

Actual (Budgetary Basis)	Variance Positive (Negative)
3,248,628	13,920
188,435	(3,683)
2,000	-
<u>3,439,063</u>	<u>10,237</u>
208,332	8,581
203,027	9,754
348,393	13,150
485,227	2,827
<u>1,268,666</u>	<u>(53,885)</u>
<u>2,513,645</u>	<u>(19,573)</u>
75,997	2,936
54,392	1,051
76,859	13,649
<u>151,504</u>	<u>5,955</u>
<u>358,752</u>	<u>23,591</u>
<u>20,330</u>	<u>17,348</u>
<u>20,330</u>	<u>17,348</u>
<u>6,331,790</u>	<u>31,603</u>
<u>196,990</u>	<u>414,412</u>
5,508	5,508
42,956	42,956
-	8,500
<u>48,464</u>	<u>56,964</u>
245,454	471,376
<u>5,002,284</u>	<u>-</u>
<u>\$ 5,247,738</u>	<u>\$ 471,376</u>

See independent auditor's report and notes to required supplementary information.

**Custer School District No. 16-1**  
**Budgetary Comparison Schedule - Capital Outlay Fund - Budgetary Basis**  
**For the Year Ended June 30, 2016**

	<u>Budgeted Original</u>	<u>Budgeted Amounts Final</u>
<b>REVENUES</b>		
Revenue From Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 2,357,363	\$ 2,357,363
Penalties and Interest on Taxes	6,000	6,000
Earnings on Deposits	2,500	2,500
Other Local Revenue	-	-
Total Revenue From Local Sources	<u>2,365,863</u>	<u>2,365,863</u>
Revenue From Federal Sources:		
Restricted Grants-in-aid	<u>175,000</u>	<u>175,000</u>
Total Revenue From Federal Sources	<u>175,000</u>	<u>175,000</u>
Total Revenue	<u>2,540,863</u>	<u>2,540,863</u>
<b>EXPENDITURES</b>		
Instructional Services:		
Regular Programs	365,794	365,794
Special Programs	<u>25,200</u>	<u>25,200</u>
Total Instructional Services	<u>390,994</u>	<u>390,994</u>
Support Services:		
Instructional Staff	15,000	15,000
Business	<u>686,007</u>	<u>686,007</u>
Total Support Services	<u>701,007</u>	<u>701,007</u>
Cocurricular Activities:		
Combined Activities	<u>44,065</u>	<u>44,065</u>
Debt Services	<u>1,374,578</u>	<u>1,374,578</u>
Total Expenditures	<u>2,510,644</u>	<u>2,510,644</u>

See independent auditor's report and notes to required supplementary information.

<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
\$ 2,554,717	\$ 197,354
4,420	(1,580)
1,278	(1,222)
95	95
<u>2,560,510</u>	<u>194,647</u>
<u>101,439</u>	<u>(73,561)</u>
<u>101,439</u>	<u>(73,561)</u>
<u>2,661,949</u>	<u>121,086</u>
403,508	(37,714)
<u>37,969</u>	<u>(12,769)</u>
<u>441,477</u>	<u>(50,483)</u>
11,569	3,431
<u>632,575</u>	<u>53,432</u>
<u>644,144</u>	<u>56,863</u>
<u>34,407</u>	<u>9,658</u>
<u>1,374,878</u>	<u>(300)</u>
<u>2,494,906</u>	<u>15,738</u>

See independent auditor's report and notes to required supplementary information.

**Custer School District No. 16-1**  
**Budgetary Comparison Schedule - Capital Outlay Fund - Budgetary Basis**  
**(Continued)**  
**For the Year Ended June 30, 2016**

	<u>Budgeted Original</u>	<u>Budgeted Amounts Final</u>
<b>EXCESS OF REVENUES OVER (UNDER)</b>		
<b>EXPENDITURES</b>	<u>30,219</u>	<u>30,219</u>
<b>OTHER FINANCING SOURCES</b>		
Debt Proceeds	-	-
Debt Issuance Costs and Discount	-	-
Transfer Out	<u>(166,000)</u>	<u>(166,000)</u>
Total Other Financing Sources	<u>(166,000)</u>	<u>(166,000)</u>
<b>NET CHANGE IN FUND BALANCES</b>	(135,781)	(135,781)
<b>FUND BALANCE - BEGINNING</b>	<u>933,249</u>	<u>933,249</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 797,468</u>	<u>\$ 797,468</u>

See independent auditor's report and notes to required supplementary information.

<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
<u>167,043</u>	<u>136,824</u>
2,205,000	2,205,000
(39,499)	(39,499)
<u>(166,000)</u>	<u>-</u>
<u>1,999,501</u>	<u>2,165,501</u>
2,166,544	2,302,325
<u>933,249</u>	<u>-</u>
<u>\$ 3,099,793</u>	<u>\$ 2,302,325</u>

See independent auditor's report and notes to required supplementary information.

**Custer School District No. 16-1**  
**Budgetary Comparison Schedule - Special Education Fund -**  
**Budgetary Basis**  
**For the Year Ended June 30, 2016**

	<u>Budgeted Original</u>	<u>Budgeted Amounts Final</u>
<b>REVENUES</b>		
Revenue From Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 1,159,371	\$ 1,159,371
Penalties and Interest on Taxes	2,000	2,000
Earnings on Deposits	-	-
Other Local Revenue	<u>7,500</u>	<u>7,500</u>
Total Revenue From Local Sources	<u>1,168,871</u>	<u>1,168,871</u>
Revenue From Federal Sources:		
Restricted Grants-in-aid	<u>215,544</u>	<u>215,544</u>
Total Revenue	<u>1,384,415</u>	<u>1,384,415</u>
<b>EXPENDITURES</b>		
Instructional Services:		
Special Programs	<u>940,742</u>	<u>940,742</u>
Total Instructional Services	<u>940,742</u>	<u>940,742</u>
Support Services:		
Pupils	286,150	286,150
Special Education	<u>170,220</u>	<u>170,220</u>
Total Support Services	<u>456,370</u>	<u>456,370</u>
Total Expenditures	<u>1,397,112</u>	<u>1,397,112</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(12,697)</u>	<u>(12,697)</u>
<b>FUND BALANCE - BEGINNING</b>	<u>318,362</u>	<u>318,362</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 305,665</u>	<u>\$ 305,665</u>

See independent auditor's report and notes to required supplementary information.

Actual (Budgetary Basis)	Variance Positive (Negative)
\$ 1,235,446	\$ 76,075
2,191	191
438	438
<u>17,531</u>	<u>10,031</u>
<u>1,255,606</u>	<u>86,735</u>
<u>219,941</u>	<u>4,397</u>
<u>1,475,547</u>	<u>91,132</u>
<u>950,930</u>	<u>(10,188)</u>
<u>950,930</u>	<u>(10,188)</u>
261,904	24,246
<u>180,765</u>	<u>(10,545)</u>
<u>442,669</u>	<u>13,701</u>
<u>1,393,599</u>	<u>3,513</u>
<u>81,948</u>	<u>94,645</u>
<u>318,362</u>	<u>-</u>
<u>\$ 400,310</u>	<u>\$ 94,645</u>

See independent auditor's report and notes to required supplementary information.

**Custer School District No. 16-1**  
**Notes to Required Supplementary Information**  
**June 30, 2016**

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**NOTE 1 - BASIS OF PRESENTATION**

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

**NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING**

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

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

**Custer School District No. 16-1**  
**Schedule of Funding Progress for Retiree Health Insurance Coverage**  
**June 30, 2016**

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Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2009	\$ -	\$ 578,043	\$ 578,043	0.0%	\$ 4,036,048	14.3%
7/1/2012	-	300,156	300,156	0.0%	3,709,529	8.1%

See independent auditor's report.

**Custer School District No. 16-1  
Schedule of Net Pension Asset  
For the Years Ended June 30, 2016 and 2015**

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	2016 *	2015 *
District's Proportion of the Net Pension Asset	0.23021370%	0.23019780%
District's Proportionate Share of Net Pension Asset	\$ (976,402)	\$ (1,658,481)
District's Covered-employee Payroll	4,203,034	4,025,516
District's Proportionate Share of the Net Position Liability (Asset) as a Percentage of its Covered-employee Payroll	23.23%	41.20%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	104.10%	107.29%

\*The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension asset which is June 30 of the previous fiscal year.

See independent auditor's report.

**Custer School District No. 16-1**  
**Schedule of Pension Contributions**  
**For the Years Ended June 30, 2016 and 2015**

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	2016	2015
Contractually-required Contribution	\$ 269,080	\$ 252,183
Contributions in Relation to the Contractually-required Contribution	269,080	252,183
Contribution Deficiency (Excess)	\$ -	\$ -
District's Covered-employee Payroll	\$ 4,484,649	\$ 4,203,034
Contributions as a Percentage of Covered-employee Payroll	6.0%	6.0%

See independent auditor's report.

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SUPPLEMENTARY INFORMATION

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**Custer School District No. 16-1  
School District Officials  
June 30, 2016**

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BOARD MEMBERS

Chair - Tom Martin  
Vice Chair - Tanya Olson  
Jeff Prior  
Alan Webster  
Bob Morgan Jr.  
Dan Sedlacek  
Peter Thorp

SUPERINTENDENT

Mark Naugle

BUSINESS MANAGER

Lisa Fluck

See independent auditor's report.

**Custer School District No. 16-1  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2016**

CFDA Numbers	Direct Award	Major Program	Cluster/Program Name	Pass-through Entity	Pass-through Number	Amount
<b><i>Child Nutrition Cluster:</i></b>						
<b><u>U.S. Department of Agriculture</u></b>						
Non-cash Assistance (Commodities):						
10 . 555	N	N	National School Lunch Program	S.D. Department of Education		\$ 19,387
Cash Assistance:						
10 . 553	N	N	School Breakfast Program (Note 2)	S.D. Department of Education		24,107
10 . 555	N	N	National School Lunch Program (Note 2)	S.D. Department of Education		131,948
<b>Total Child Nutrition Cluster</b>						<u>175,442</u>
<b><i>Schools and Roads Cluster:</i></b>						
<b><u>U.S. Department of Agriculture</u></b>						
10 . 665	N	Y	School and Roads - Grants to States (Note 2)	Custer and Pennington Counties		121,516
10 . 666	N	Y	School and Roads - Grants to Counties (Note 2)	Custer County		924
<b>Total Schools and Roads Cluster</b>						<u>122,440</u>
<b>Total Department of Agriculture</b>						<u>297,882</u>
<b><i>Special Education Cluster:</i></b>						
<b><u>U.S. Department of Education</u></b>						
84 . 027	N	N	Special Education - Grants to States	S.D. Department of Education	H027A150091	211,249
84 . 173	N	N	Special Education - Preschool Grants	S.D. Department of Education	H173A150091	8,692
<b>Total Special Education Cluster</b>						<u>219,941</u>
<b><i>Other Programs</i></b>						
<b><u>U.S. Department of Interior</u></b>						
15 . 227	N	N	Distribution of Receipts to State and Local Governments (Note 2)	S.D. Department of Education		9,778
<b>Total Department of Interior</b>						<u>9,778</u>
<b><u>General Services Administration</u></b>						
39 . 003	N	N	Donation of Federal Surplus Personal Property (Note 3)	S.D. Federal Property Agency		1,088
<b>Total General Services Administration</b>						<u>1,088</u>

See independent auditor's report.

CFDA Numbers	Direct Award	Major Program	Cluster/Program Name	Pass-through Entity	Pass-through Number	Amount
<b>U.S. Department of Education</b>						
84 . 010	N	N	Title I Grants to Local Educational Agencies	S.D. Department of Education	S010A150041	190,146
84 . 041	Y	Y	Impact Aid			400,000
84 . 048	N	N	Vocational Education - Basic Grants to States	S.D. Department of Education		10,159
84 . 329	N	N	Special Education - Studies and Evaluations	S.D. Department of Education		4,500
84 . 367	N	N	Improving Teacher Quality State Grants	S.D. Department of Education	S37A150039	75,220
<b>Total Department of Education</b>						<u>680,025</u>
<b>Total Federal Financial Assistance</b>						<u>\$ 1,208,714</u>

NOTE 1: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Requirements, Cost Principles and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the general purpose financial statements.

NOTE 2: Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received rather than federal expenditures.

NOTE 3: The amount reported represents 23.3% of the original acquisition cost of the federal surplus property received by the District. (Original acquisition cost is provided by Federal Surplus Property. It is not what the District actually paid for the item.)

NOTE 4: The District did not elect to use the 10% de minimis indirect cost rate.

See independent auditor's report.