

**DUEBROOK AREA SCHOOL DISTRICT NO. 5-6**

**AUDIT REPORT**

**For the Fiscal Year Ended June 30, 2015**

DEUBROOK AREA SCHOOL DISTRICT NO. 5-6  
SCHOOL DISTRICT OFFICIALS  
June 30, 2015

Board Members:

David Iverson  
Carrie Knutson  
Karma Berndt  
Laura Crooks  
Toby Nelson  
Christine Sheffield  
Neal Trooien

Superintendent:

Kevin Keenaghan

Business Manager:

Kristine Andrews



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MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

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

School Board  
Deubrook Area School District No. 5-6  
White, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Deubrook Area School District No. 5-6, South Dakota (School District), as of June 30, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated June 8, 2016.

### Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item No. 2015-001 to be a material weakness.

## **Compliance and Other Matters**

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

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

The School District's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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



Martin L. Guindon, CPA  
Auditor General

June 8, 2016

DEUBROOK AREA SCHOOL DISTRICT NO. 5-6  
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS

**SCHEDULE OF PRIOR AUDIT FINDINGS**

**Prior Audit Finding:**

Finding No. 2014-001:

There existed a lack of segregation of duties in the revenue function. This lack of segregation of duties in the revenue function continues to exist and is restated in current audit finding No. 2015-001.

**SCHEDULE OF CURRENT AUDIT FINDINGS**

**Current Audit Finding:**

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

Segregation of Duties

Finding No. 2015-001:

A lack of proper segregation of duties existed for the revenue function resulting in decreased reliability of reported financial data and increased potential for the loss of public assets.

Analysis:

The business manager processed all revenue transactions from beginning to end. The business manager received money, issued receipts, recorded receipts in the accounting records, prepared bank deposits, reconciled bank statements, and prepared financial statements. As a result, an inadequate segregation of duties existed for the revenue function of the school.

RECOMMENDATION:

We recommend that school officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever and wherever possible and practical.

Management's Response:

The school board president is the contact person responsible for the corrective action plan for these comments. These comments are the result of the size of the School District which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The School District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenues, expenditures, and payroll. The School District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties continues to exist.



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MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

## INDEPENDENT AUDITOR'S REPORT

School Board  
Deubrook Area School District No. 5-6  
White, 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 the Deubrook Area School District No. 5-6, South Dakota (School District), as of June 30, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the Table of Contents.

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

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

### ***Auditor's Responsibility***

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Deubrook Area School District No. 5-6 as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

#### *Adoption of New Accounting Standard*

As described in Note 10 to the financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As discussed in Note 10 to the financial statements, the School District has retroactively restated the previously reported Net Position in accordance with this statement. Our opinions are not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

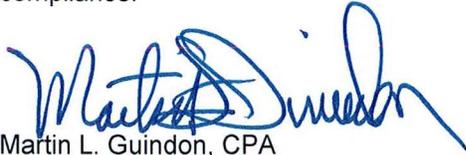
Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules, the Schedule of School District's Proportionate Share of the Net Pension Liability (Asset), and the Schedule of School District Contributions on pages 38 through 42, and 44 through 45 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.

The School District has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the 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. Our opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2016 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance

and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.



Martin L. Guindon, CPA  
Auditor General

June 8, 2016

**DEUBROOK AREA SCHOOL DISTRICT NO. 5-6**  
**STATEMENT OF NET POSITION**  
June 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 2,045,825.33	\$ 15,590.12	\$ 2,061,415.45
Advance Payments	5,000.00	1,000.00	6,000.00
Taxes Receivable	1,347,193.75		1,347,193.75
Inventories		3,902.37	3,902.37
Other Assets	102,041.36		102,041.36
Net Pension Asset	808,159.87		808,159.87
Capital Assets:			
Land, Improvements and Construction in Progress	95,799.68		95,799.68
Other Capital Assets, Net of Depreciation	4,296,169.88	19,312.96	4,315,482.84
<b>TOTAL ASSETS</b>	<b>\$ 8,700,189.87</b>	<b>\$ 39,805.45</b>	<b>\$ 8,739,995.32</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Pension Related Deferred Outflows	\$ 712,904.16	\$	\$ 712,904.16
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 712,904.16</b>	<b>\$ 0.00</b>	<b>\$ 712,904.16</b>
<b>LIABILITIES:</b>			
Accounts Payable	\$ 101,283.55	\$ 130.18	\$ 101,413.73
Other Current Liabilities	302,987.28	10,625.94	313,613.22
Unearned Revenue		4,278.72	4,278.72
Noncurrent Liabilities:			
Due Within One Year	217,809.67		217,809.67
Due in More than One Year	1,805,000.00		1,805,000.00
<b>TOTAL LIABILITIES</b>	<b>\$ 2,427,080.50</b>	<b>\$ 15,034.84</b>	<b>\$ 2,442,115.34</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Property Taxes Levied for Future Period	\$ 1,311,535.20	\$	\$ 1,311,535.20
Pension Related Deferred Inflows	935,985.37		935,985.37
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 2,247,520.57</b>	<b>\$ 0.00</b>	<b>\$ 2,247,520.57</b>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	\$ 2,371,969.56	\$ 19,312.96	\$ 2,391,282.52
Restricted For: (See Note 8)			
Capital Outlay Purposes	717,237.33		717,237.33
Special Education Purposes	44,068.28		44,068.28
Pension Purposes	185,448.18		185,448.18
SDRS Pension Purposes	585,078.66		585,078.66
Unrestricted	834,690.95	5,457.65	840,148.60
<b>TOTAL NET POSITION</b>	<b>\$ 4,738,492.96</b>	<b>\$ 24,770.61</b>	<b>\$ 4,763,263.57</b>

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

**DEUBROOK AREA SCHOOL DISTRICT NO. 5-6**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-Type Activities	
<b>Primary Government:</b>						
<b>Governmental Activities:</b>						
Instruction	\$ 2,014,135.21	\$	\$ 79,823.70	\$ (1,934,311.51)	\$	\$ (1,934,311.51)
Support Services	1,594,406.21	12,222.11	7,500.00	(1,574,684.10)		(1,574,684.10)
Nonprogrammed Charges	5,356.34			(5,356.34)		(5,356.34)
*Interest on Long-Term Debt	56,320.00			(56,320.00)		(56,320.00)
Cocurricular Activities	173,963.52	23,971.11		(149,992.41)		(149,992.41)
**Depreciation-Unallocated	121,874.36			(121,874.36)		(121,874.36)
<b>Total Governmental Activities</b>	<b>3,966,055.64</b>	<b>36,193.22</b>	<b>87,323.70</b>	<b>(3,842,538.72)</b>	<b>0.00</b>	<b>(3,842,538.72)</b>
<b>Business-Type Activities:</b>						
Food Service	197,746.43	83,033.80	82,275.03		(32,437.60)	(32,437.60)
Preschool	20,431.83	6,480.00			(13,951.83)	(13,951.83)
Drivers Education	2,710.41	2,250.00			(460.41)	(460.41)
<b>Total Business-Type Activities</b>	<b>220,888.67</b>	<b>91,763.80</b>	<b>82,275.03</b>	<b>0.00</b>	<b>(46,849.84)</b>	<b>(46,849.84)</b>
<b>Total Primary Government</b>	<b>\$ 4,186,944.31</b>	<b>\$ 127,957.02</b>	<b>\$ 169,598.73</b>	<b>(3,842,538.72)</b>	<b>(46,849.84)</b>	<b>(3,889,388.56)</b>
<b>General Revenues:</b>						
<b>Taxes:</b>						
Property Taxes				2,730,131.20		2,730,131.20
Utility Taxes				110,573.72		110,573.72
<b>Revenue from State Sources:</b>						
State Aid				1,434,252.20		1,434,252.20
<b>Revenue from Federal Sources</b>						
Unrestricted Investment Earnings				3,100.32	42.41	3,142.73
Other General Revenues				91,257.34		91,257.34
Transfers				(42,000.00)	42,000.00	0.00
<b>Total General Revenues and Transfers</b>				<b>4,339,597.05</b>	<b>42,042.41</b>	<b>4,381,639.46</b>
<b>Change in Net Position</b>				<b>497,058.33</b>	<b>(4,807.43)</b>	<b>492,250.90</b>
<b>Net Position - Beginning</b>				<b>3,896,669.34</b>	<b>29,578.04</b>	<b>3,926,247.38</b>
<b>Adjustments: (See Note 10)</b>						
GASB 68 Pension Reporting				433,962.05		433,962.05
Prior Period Loss on Disposal of Assets				(24,222.06)		(24,222.06)
Prior Period Unrecorded Building Depreciation				(64,974.70)		(64,974.70)
<b>Adjusted Net Position - Beginning</b>				<b>4,241,434.63</b>	<b>29,578.04</b>	<b>4,271,012.67</b>
<b>NET POSITION - ENDING</b>				<b>\$ 4,738,492.96</b>	<b>\$ 24,770.61</b>	<b>\$ 4,763,263.57</b>

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

\*\*This amount excludes the depreciation that is included in the direct expenses of the various functions. (See Note 6)

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

**DEUBROOK AREA SCHOOL DISTRICT NO. 5-6**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2015**

	<b>General Fund</b>	<b>Capital Outlay Fund</b>	<b>Special Education Fund</b>	<b>Pension Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS:</b>					
Cash and Cash Equivalents	\$ 999,327.36	\$ 765,192.40	\$ 94,231.53	\$ 187,074.04	\$ 2,045,825.33
Advance Payments	5,000.00				5,000.00
Taxes Receivable--Current	545,387.57	491,962.12	242,386.42	49,212.89	1,328,949.00
Taxes Receivable--Delinquent	9,140.16	5,752.60	2,776.85	575.14	18,244.75
Accounts Receivable, Net	100,739.21	154.89	1,131.79	15.47	102,041.36
<b>TOTAL ASSETS</b>	<b>\$ 1,659,594.30</b>	<b>\$ 1,263,062.01</b>	<b>\$ 340,526.59</b>	<b>\$ 236,877.54</b>	<b>\$ 3,500,060.44</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:</b>					
Liabilities:					
Accounts Payable	\$ 23,966.41	\$ 59,791.85	\$ 17,525.29	\$	\$ 101,283.55
Contracts Payable	230,364.75		34,641.94		265,006.69
Payroll Deductions and Withholdings and Employer Matching Payable	33,160.55		4,820.04		37,980.59
<b>Total Liabilities</b>	<b>287,491.71</b>	<b>59,791.85</b>	<b>56,987.27</b>	<b>0.00</b>	<b>404,270.83</b>
Deferred Inflows of Resources:					
Property Taxes Levied for Future Period	537,411.64	486,032.83	239,471.04	48,619.69	1,311,535.20
Unavailable Revenue-Property Taxes	9,140.16	5,752.60	2,776.85	575.14	18,244.75
<b>Total Deferred Inflows of Resources</b>	<b>546,551.80</b>	<b>491,785.43</b>	<b>242,247.89</b>	<b>49,194.83</b>	<b>1,329,779.95</b>
Fund Balances: (See Note 1.k.)					
Restricted		711,484.73	41,291.43	187,682.71	940,458.87
Unassigned	825,550.79				825,550.79
<b>Total Fund Balances</b>	<b>825,550.79</b>	<b>711,484.73</b>	<b>41,291.43</b>	<b>187,682.71</b>	<b>1,766,009.66</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 1,659,594.30</b>	<b>\$ 1,263,062.01</b>	<b>\$ 340,526.59</b>	<b>\$ 236,877.54</b>	<b>\$ 3,500,060.44</b>

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

**DEUBROOK AREA SCHOOL DISTRICT NO. 5-6**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**June 30, 2015**

Total Fund Balances - Governmental Funds		\$ 1,766,009.66
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.		808,159.87
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		4,391,969.56
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.		712,904.16
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		(2,022,809.67)
CO Certificates	\$	2,020,000.00
Early Retirement	\$	2,809.67
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.		(935,985.37)
Assets such as delinquent taxes receivable that are not available to pay for current period expenditures and therefore are deferred in the funds.		18,244.75
Net Position - Governmental Activities		\$ 4,738,492.96

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

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**DEUBROOK AREA SCHOOL DISTRICT NO. 5-6**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2015**

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
<b>Revenues:</b>					
Revenue from Local Sources:					
Taxes:					
Ad Valorem Taxes	\$ 1,137,081.57	\$ 984,922.52	\$ 495,751.65	\$ 98,492.81	\$ 2,716,248.55
Prior Years' Ad Valorem Taxes	3,287.64	1,522.27	740.16	152.19	5,702.26
Utility Taxes	110,573.72				110,573.72
Penalties and Interest on Taxes	2,694.80	1,810.74	914.19	180.95	5,600.68
Earnings on Investments and Deposits	1,428.28	1,114.54	83.14	474.36	3,100.32
Cocurricular Activities:					
Admissions	23,971.11				23,971.11
Other Revenue from Local Sources:					
Rentals	45.00				45.00
Contributions and Donations	200.00	4,269.91			4,469.91
Charges for Services	3,375.75		8,846.36		12,222.11
Other	13,687.25	500.00			14,187.25
Revenue from Intermediate Sources:					
County Sources:					
County Apportionment	34,421.30				34,421.30
Revenue in Lieu of Taxes	614.98	772.59	399.68	77.26	1,864.51
Revenue from State Sources:					
Grants-in-Aid:					
Unrestricted Grants-in-Aid	1,434,252.20				1,434,252.20
Restricted Grants-in-Aid	8,725.70				8,725.70
Revenue from Federal Sources:					
Grants-in-Aid:					
Unrestricted Grants-in-Aid					
Received from Federal Government Through an Intermediate Source	3,701.19				3,701.19
Restricted Grants-in-Aid					
Received from Federal Government Through the State	62,428.00				62,428.00

Other Federal Revenue	24,751.08				24,751.08
Total Revenues	<u>2,865,239.57</u>	<u>994,912.57</u>	<u>506,735.18</u>	<u>99,377.57</u>	<u>4,466,264.89</u>

**Expenditures:**

Instruction:

Regular Programs:

Elementary	741,228.09	54,942.43		31,713.00	827,883.52
Middle/Junior High	241,823.33	27,269.77		10,469.08	279,562.18
High School	467,904.75	98,116.49		19,442.38	585,463.62
Preschool Services				904.04	904.04

Special Programs:

Programs for Special Education			400,871.43		400,871.43
Educationally Deprived	41,697.14				41,697.14

Support Services:

Pupils:

Guidance	89,448.68		573.60	4,196.00	94,218.28
Health	840.00		7,092.00		7,932.00
Psychological			9,196.08		9,196.08
Speech Pathology			29,609.26		29,609.26
Student Therapy Services			13,946.28		13,946.28

Support Services - Instructional Staff:

Improvement of Instruction	14,705.45				14,705.45
Educational Media	156,322.69	15,744.03		2,387.00	174,453.72

Support Services - General Administration:

Board of Education	26,322.23				26,322.23
Executive Administration	118,102.66	1,362.99			119,465.65

Support Services - School Administration:

Office of the Principal	180,198.54	2,279.80			182,478.34
Title I Program Administration	500.00				500.00
Other	95.85				95.85

Support Services - Business:

Fiscal Services	79,786.59	5,123.07			84,909.66
Facilities Acquisition and Construction		93,546.37			93,546.37
Operation and Maintenance of Plant	408,768.47	48,712.10			457,480.57
Pupil Transportation		225,650.92			225,650.92
Food Services		1,259.60		3,483.96	4,743.56

Support Services - Special Education:

Transportation Costs			41,551.84		41,551.84
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Nonprogrammed Charges:

Payments to State - Unemployment	5,356.34				5,356.34
Early Retirement Payments				23,518.35	23,518.35

**DEUBROOK AREA SCHOOL DISTRICT NO. 5-6**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2015**  
**(Continued)**

	<b>General Fund</b>	<b>Capital Outlay Fund</b>	<b>Special Education Fund</b>	<b>Pension Fund</b>	<b>Total Governmental Funds</b>
Debt Services		276,320.00			276,320.00
Cocurricular Activities:					
Male Activities	34,331.45			699.96	35,031.41
Female Activities	38,911.21			1,016.20	39,927.41
Combined Activities	56,711.18	29,716.06		1,656.09	88,083.33
Total Expenditures	<u>2,703,054.65</u>	<u>880,043.63</u>	<u>502,840.49</u>	<u>99,486.06</u>	<u>4,185,424.83</u>
Excess of Revenues Over (Under) Expenditures	<u>162,184.92</u>	<u>114,868.94</u>	<u>3,894.69</u>	<u>(108.49)</u>	<u>280,840.06</u>
<b>Other Financing Sources (Uses):</b>					
Transfers Out	(42,000.00)				(42,000.00)
Sale of County Property	500.00				500.00
Compensation for Loss of General Capital Assets	1,633.00				1,633.00
Total Other Financing Sources (Uses)	<u>(39,867.00)</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>(39,867.00)</u>
Net Change in Fund Balance	122,317.92	114,868.94	3,894.69	(108.49)	240,973.06
Fund Balance - Beginning	<u>703,232.87</u>	<u>596,615.79</u>	<u>37,396.74</u>	<u>187,791.20</u>	<u>1,525,036.60</u>
FUND BALANCE - ENDING	<u>\$ 825,550.79</u>	<u>\$ 711,484.73</u>	<u>\$ 41,291.43</u>	<u>\$ 187,682.71</u>	<u>\$ 1,766,009.66</u>

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

**DEUBROOK AREA SCHOOL DISTRICT NO. 5-6**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2015**

Net Change in Fund Balances - Total Governmental Funds	\$	240,973.06
Amounts reported for governmental activities in the Statement of Activities are different because:		
This amount represents capital asset purchases which are reported as expenditures on the fund financial statements but increase assets on the government-wide statements.		13,561.08
This amount represents the current year depreciation expense reported in the Statement of Activities which is not reported on the fund financial statements because it does not require the use of current financial resources.		(154,774.38)
Payment of principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the Statement of Net Position.		220,000.00
In both the government-wide and fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the funds' statements differs from the accounting in the government-wide statements in that the fund financial statements require the amounts to be "available". This amount reflects the application of both the application period and "availability criteria".		2,579.71
Governmental funds recognize expenditures for amount of compensated absences and early retirement benefits actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the Statement of Activities, expenses for these benefits are recognized when the employees earn leave credits or elect to retire early.		23,602.25
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (e.g., accrued interest revenue, pension revenue)		34,136.37
Changes in the pension related deferred outflows/inflows are direct components of pension liability (asses) and are not reflected in the governmental funds.		116,980.24
Change in Net Position of Governmental Activities	<u>\$</u>	<u>497,058.33</u>

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

**DEUBROOK AREA SCHOOL DISTRICT NO. 5-6**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**June 30, 2015**

	<b>Enterprise Funds</b>		<b>Total</b>
	<b>Food Service Fund</b>	<b>Other Enterprise Fund</b>	
<b>ASSETS:</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 11,705.64	\$ 3,884.48	\$ 15,590.12
Advance Payments	1,000.00		1,000.00
Inventory of Supplies	644.02		644.02
Inventory of Stores Purchased for Resale	3,258.35		3,258.35
<b>Total Current Assets</b>	<b>16,608.01</b>	<b>3,884.48</b>	<b>20,492.49</b>
Noncurrent Assets:			
Capital Assets:			
Machinery and Equipment--Local Funds	72,169.10		72,169.10
Less: Accumulated Depreciation (Credit)	(52,856.14)		(52,856.14)
<b>Total Noncurrent Assets</b>	<b>19,312.96</b>	<b>0.00</b>	<b>19,312.96</b>
<b>TOTAL ASSETS</b>	<b>\$ 35,920.97</b>	<b>\$ 3,884.48</b>	<b>\$ 39,805.45</b>
<b>LIABILITIES:</b>			
Current Liabilities:			
Accounts Payable	\$ 88.80	\$ 41.38	\$ 130.18
Contracts Payable	6,792.30	2,457.33	9,249.63
Payroll Deductions and Withholdings and Employer Matching Payable	1,049.27	327.04	1,376.31
Unearned Revenue	4,278.72		4,278.72
<b>TOTAL LIABILITIES</b>	<b>\$ 12,209.09</b>	<b>\$ 2,825.75</b>	<b>\$ 15,034.84</b>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	\$ 19,312.96	\$	\$ 19,312.96
Unrestricted Net Position	4,398.92	1,058.73	5,457.65
<b>TOTAL NET POSITION</b>	<b>\$ 23,711.88</b>	<b>\$ 1,058.73</b>	<b>\$ 24,770.61</b>

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

**DEUBROOK AREA SCHOOL DISTRICT NO. 5-6**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2015**

	<b>Enterprise Funds</b>		<b>Total</b>
	<b>Food Service Fund</b>	<b>Other Enterprise Fund</b>	
<b>Operating Revenues:</b>			
Food Sales:			
Student	\$ 76,376.05	\$	\$ 76,376.05
Adult	5,077.50		5,077.50
Ala Carte	1,549.35		1,549.35
Tuition and Fees:			
School Tuition		8,730.00	8,730.00
Other Charges for Goods and Services	30.90		30.90
<b>Total Operating Revenues</b>	<b>83,033.80</b>	<b>8,730.00</b>	<b>91,763.80</b>
<b>Operating Expenses:</b>			
Salaries	58,383.84	16,962.09	75,345.93
Employee Benefits	28,127.69	5,311.22	33,438.91
Purchased Services	12,020.69		12,020.69
Supplies	4,726.64	868.93	5,595.57
Cost of Sales - Purchased	81,435.37		81,435.37
Cost of Sales - Donated	7,446.12		7,446.12
Other	166.50		166.50
Depreciation/Amortization	5,439.58		5,439.58
<b>Total Operating Expenses</b>	<b>197,746.43</b>	<b>23,142.24</b>	<b>220,888.67</b>
<b>Operating Income (Loss)</b>	<b>(114,712.63)</b>	<b>(14,412.24)</b>	<b>(129,124.87)</b>
<b>Nonoperating Revenues:</b>			
Investment Earnings	31.30	11.11	42.41
State Grants	1,023.51		1,023.51
Federal Grants	73,805.40		73,805.40
Donated Food	7,446.12		7,446.12
<b>Nonoperating Expenses</b>			<b>0.00</b>
<b>Total Nonoperating Revenues (Expenses)</b>	<b>82,306.33</b>	<b>11.11</b>	<b>82,317.44</b>
<b>Income (Loss) Before Transfers</b>	<b>(32,406.30)</b>	<b>(14,401.13)</b>	<b>(46,807.43)</b>
Transfers In	27,000.00	15,000.00	42,000.00
<b>Change in Net Position</b>	<b>(5,406.30)</b>	<b>598.87</b>	<b>(4,807.43)</b>
Net Position - Beginning	29,118.18	459.86	29,578.04
<b>NET POSITION - ENDING</b>	<b>\$ 23,711.88</b>	<b>\$ 1,058.73</b>	<b>\$ 24,770.61</b>

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

**DEUBROOK AREA SCHOOL DISTRICT NO. 5-6**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2015**

	Enterprise Funds		Total
	Food Service Fund	Other Enterprise Fund	
<b>Cash Flows from Operating Activities:</b>			
Cash Receipts from Customers	\$ 83,773.46	\$ 8,730.00	\$ 92,503.46
Cash Payments to Employees for Services	(86,310.46)	(22,684.02)	(108,994.48)
Cash Payments to Suppliers of Good or Services	(94,326.04)	(986.44)	(95,312.48)
Net Cash Provided (Used) by Operating Activities	<u>(96,863.04)</u>	<u>(14,940.46)</u>	<u>(111,803.50)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Transfers from General Fund	27,000.00	15,000.00	42,000.00
Operating Grants	74,828.91		74,828.91
Net Cash Flows from Noncapital Financing Activities	<u>101,828.91</u>	<u>15,000.00</u>	<u>116,828.91</u>
<b>Cash Flows from Investing Activities:</b>			
Cash Received for Interest	31.30	11.11	42.41
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 4,997.17</u>	<u>\$ 70.65</u>	<u>\$ 5,067.82</u>
Cash and Cash Equivalents at Beginning of Year	\$ 6,708.47	\$ 3,813.83	\$ 10,522.30
Cash and Cash Equivalents at End of Year	<u>11,705.64</u>	<u>3,884.48</u>	<u>15,590.12</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 4,997.17</u>	<u>\$ 70.65</u>	<u>\$ 5,067.82</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating Income (Loss)	\$ (114,712.63)	\$ (14,412.24)	\$ (129,124.87)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	5,439.58		5,439.58
Value of Donated Commodities Used	7,446.12		7,446.12
Change in Assets and Liabilities:			
Receivables	3.60		3.60
Inventories	4,181.06		4,181.06
Accounts and Other Payables	(157.90)	(117.51)	(275.41)
Accrued Wages Payable	201.07	(410.71)	(209.64)
Unearned Revenue	736.06		736.06
Net Cash Provided (Used) by Operating Activities	<u>\$ (96,863.04)</u>	<u>\$ (14,940.46)</u>	<u>\$ (111,803.50)</u>
<b>Noncash Investing, Capital and Financing Activities:</b>			
Value of Commodities Received	\$ 7,446.12		\$ 7,446.12

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

**DEUBROOK AREA SCHOOL DISTRICT NO. 5-6**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**June 30, 2015**

	<b>Private-Purpose Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS:</b>		
Cash and Cash Equivalents	\$ 17,945.01	\$ 41,264.34
<b>TOTAL ASSETS</b>	<b>\$ 17,945.01</b>	<b>\$ 41,264.34</b>
<b>LIABILITIES:</b>		
Amounts Held for Others	\$	\$ 41,264.34
<b>NET POSITION:</b>		
Held in Trust for Scholarships	17,945.01	
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 17,945.01</b>	<b>\$ 41,264.34</b>

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

**DEUBROOK AREA SCHOOL DISTRICT NO. 5-6**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**For the Year Ended June 30, 2015**

	<b>Private-Purpose Trust Funds</b>
<b>ADDITIONS:</b>	
Contributions and Donations	\$ 856.50
Earnings from Deposits and Investments	26.60
Total Additions	883.10
<b>DEDUCTIONS:</b>	
Trust Deductions for Scholarships	2,250.00
Change in Net Position	(1,366.90)
Net Position - Beginning	19,311.91
<b>NET POSITION - ENDING</b>	<b>\$ 17,945.01</b>

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

DEUBROOK AREA SCHOOL DISTRICT NO. 5-6  
NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity:

The reporting entity of Deubrook Area School District No. 5-6 (School District), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation:

*Government-wide Financial Statements:*

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

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by 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.

*Fund Financial Statements:*

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

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

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

**Governmental Funds:**

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

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

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

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

Pension Fund – A fund established by SDCL 13-10-6 for the purpose of paying pensions to retired employees of school districts, which have established such systems, paying the School District's share of retirement plan contributions, and for funding early retirement benefits to qualifying employees. This fund is financed by property taxes. The School District chose to report this as a major fund.

**Proprietary Funds:**

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

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

Food Service Fund – A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. The School District chose to report this as a major fund.

Other Enterprise Fund – A fund used to record financial transactions related to providing driver's education and pre-school services. The School District chose to report this as a major fund.

**Fiduciary Funds:**

Fiduciary funds consist of the following sub-categories and are never considered to be major funds:

*Private-Purpose Trust Funds – Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The School District maintains only the following private-purpose trust funds:*

DVC (Dakota Valley Conference) Scholarship Fund – A fund established from donations. The fund is used for athletic scholarships to students.

Ruby Schulz Scholarship Fund – A fund established from a donation to be used for unrestricted scholarships to students.

Milton Sorenson Scholarship Fund – A fund established from an estate given to the School District to be used for unrestricted scholarships to students.

Coca Cola Scholarship Fund – A fund established from a percentage of beverage sales received from the vendor to be used for unrestricted scholarships to students.

FFA Scholarship Fund – A fund established from a donation to the School District to be used for scholarships to FFA students.

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

c. Measurement Focus and Basis of Accounting:

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

**Measurement Focus:**

*Government-wide Financial Statements:*

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

*Fund Financial Statements:*

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

## **Basis of Accounting:**

### *Government-wide Financial Statements:*

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

### *Fund Financial Statements:*

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the School District is 30 days. The revenues which are accrued at June 30, 2015 are federal assistance, state remittance and collections made by the county (other than real estate taxes).

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

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

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

#### d. Capital Assets:

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

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

### *Government-wide 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. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

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

The total June 30, 2015 balance of capital assets for governmental activities includes approximately one percent for which the costs were determined by estimates of the original costs. The total June 30, 2015 balance of capital assets for business-type activities includes approximately one percent for which the values were determined by estimates of the original cost. These estimated original costs were established by reviewing applicable historical costs of similar items and based on estimates thereon.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	All	-----N/A-----	-----N/A-----
Improvements	\$ 15,000	Straight-line	15-25 years
Buildings	\$ 50,000	Straight-line	50-75 years
Machinery and Equipment – Governmental Activities	\$ 5,000	Straight-line	5-10 years
Machinery and Equipment – Business-Type Activities	\$ 2,000	Straight-line	5-10 years

Land is an inexhaustible capital asset and is not depreciated.

*Fund Financial Statements:*

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

e. Long-Term Liabilities:

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of early retirement benefits payable and capital outlay certificates payable.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due.

f. Program Revenues:

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

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

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

g. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, 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.

h. Cash and Cash Equivalents:

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

i. Equity Classifications:

*Government-wide Financial Statements:*

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

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

*Fund Financial Statements:*

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

j. Application of Net Position:

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

k. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the School District classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the School Board.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The School District does not have any Nonspendable Fund Balances to report.

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

The purpose of each major special revenue fund and revenue source is listed below:

**Major Special Revenue Fund**

Capital Outlay Fund  
 Special Education Fund  
 Pension Fund

**Revenue Source**

Tax Levy and State Grants  
 Tax Levy and State Grants  
 Tax Levy

A schedule of fund balances is provided as follows:

**DEUBROOK AREA SCHOOL DISTRICT NO. 5-6  
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2015**

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Pension Fund</u>	<u>Total Governmental Funds</u>
<b>Fund Balances:</b>					
Restricted for:					
Capital Outlay Fund	\$	\$ 711,484.73	\$	\$	\$ 711,484.73
Special Education Fund			41,291.43		41,291.43
Pension Fund				187,682.71	187,682.71
Unassigned	<u>825,550.79</u>				<u>825,550.79</u>
<b>Total Fund Balances</b>	<u><u>\$ 825,550.79</u></u>	<u><u>\$ 711,484.73</u></u>	<u><u>\$ 41,291.43</u></u>	<u><u>\$ 187,682.71</u></u>	<u><u>\$ 1,766,009.66</u></u>

I. Pensions:

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

2. **DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK**

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

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

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

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

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

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

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

3. RECEIVABLES AND PAYABLES

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

4. INVENTORY

Inventory held for consumption is stated at cost.

Inventory for Resale is stated at the lower of cost or market. The cost valuation method is First-In, First-Out (FIFO) Basis. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

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

5. PROPERTY TAXES

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

School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is not intended to be used to finance the current year's appropriations and therefore are not susceptible to accrual has been reported as deferred revenue in both the fund financial statements and 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."

## 6. CHANGES IN CAPITAL ASSETS

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

### Primary Government

	Balance 7/01/2014	Increases	Decreases	Balance 6/30/2015
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 95,799.68	\$	\$	\$ 95,799.68
Capital Assets, being Depreciated:				
Buildings	6,406,484.65			6,406,484.65
Improvements Other than Buildings	103,317.10			103,317.10
Machinery and Equipment	401,596.20	13,561.08	(76,892.86)	338,264.42
Total Capital Assets being Depreciated	6,911,397.95	13,561.08	(76,892.86)	6,848,066.17
<b>TOTAL CAPITAL ASSETS</b>	<b>\$ 7,007,197.63</b>	<b>\$ 13,561.08</b>	<b>\$ (76,892.86)</b>	<b>\$ 6,943,865.85</b>
Less Accumulated Depreciation for:				
Buildings	\$ (2,181,697.64)	\$ (119,041.30)	\$	\$ (2,300,738.94)
Improvements Other than Buildings	(57,178.59)	(2,833.06)		(60,011.65)
Machinery and Equipment	(210,916.48)	(32,900.02)	52,670.80	(191,145.70)
Total Accumulated Depreciation	(2,449,792.71)	(154,774.38)	52,670.80	(2,551,896.29)
Total Capital Assets, being Depreciated, Net	4,461,605.24	(141,213.30)	(24,222.06)	4,296,169.88
Governmental Activity Capital Assets, Net	<u>\$ 4,557,404.92</u>	<u>\$ (141,213.30)</u>	<u>\$ (24,222.06)</u>	<u>\$ 4,391,969.56</u>

Depreciation expense was charged to functions as follows:

Instruction	\$ 3,211.92
Support Services	18,766.73
Co-Curricular Activities	10,921.37
Depreciation-Unallocated	121,874.36

Total Depreciation Expense-Governmental Activities

\$ 154,774.38

	Balance 7/01/2014	Increases	Decreases	Balance 6/30/2015
Business-Type Activities:				
Capital Assets, being Depreciated:				
Machinery and Equipment	\$ 72,169.10	\$	\$	\$ 72,169.10
Less Accumulated Depreciation for:				
Machinery and Equipment	(47,416.56)	(5,439.58)		(52,856.14)
Business-Type Activity Capital Assets, Net	<u>\$ 24,752.54</u>	<u>\$ (5,439.58)</u>	<u>\$ 0.00</u>	<u>\$ 19,312.96</u>

Depreciation expense was charged to functions as follows:

Food Service	<u>\$ 5,439.58</u>
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7. LONG-TERM LIABILITIES

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

	Balance 7/1/2014	Additions	Reductions	Balance 6/30/2015	Amounts Due Within One Year
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
Bonds and Certificates Payable:					
Capital Outlay Certificates	\$ 2,240,000.00	\$	\$ 220,000.00	\$ 2,020,000.00	\$ 215,000.00
Early Retirement Payable	26,411.93		23,602.26	2,809.67	2,809.67
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 2,266,411.93</u>	<u>\$ 0.00</u>	<u>\$ 243,602.26</u>	<u>\$ 2,022,809.67</u>	<u>\$ 217,809.67</u>

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

*PRIMARY GOVERNMENT*

Governmental Activities:

Capital Outlay Certificates:

Limited General Obligation Refunding Certificates, Series 2013

Interest rate .5% to 3.8%, Certificates mature in July 2026 and are paid from the Capital Outlay Fund

\$ 1,660,000.00

Series 2010A Capital Outlay Refunding Certificates, Interest Rate 1.5% to 3.4%, Certificates mature in July 2018 and are paid from the Capital Outlay Fund

\$ 360,000.00

Early Retirement Payable:

Early retirement agreements with two employees, no interest due, agreements requiring annual payments mature in FY2016, payments from retirement benefits are made from the Pension Fund

\$ 2,809.67

The annual debt service requirements to maturity, except for compensated absences, for all debt outstanding as of June 30, 2015 are as follows:

Annual Requirements to Maturity for Long-Term Debt  
June 30, 2015

Year Ending June 30,	Capital Outlay Certificates Payable		Early Retirement Benefits Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 215,000.00	\$ 53,472.50	\$ 2,809.67	\$	\$ 217,809.67	\$ 53,472.50
2017	220,000.00	49,812.50			220,000.00	49,812.50
2018	235,000.00	45,252.50			235,000.00	45,252.50
2019	245,000.00	39,697.50			245,000.00	39,697.50
2020	145,000.00	35,025.00			145,000.00	35,025.00
2021-2025	785,000.00	112,577.50			785,000.00	112,577.50
2026-2030	175,000.00	6,650.00			175,000.00	6,650.00
<b>Totals</b>	<u>\$ 2,020,000.00</u>	<u>\$ 342,487.50</u>	<u>\$ 2,809.67</u>	<u>\$ 0.00</u>	<u>\$ 2,022,809.67</u>	<u>\$ 342,487.50</u>

8. RESTRICTED NET POSITION

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

<b>Major Purposes:</b>	<b><u>Restricted By</u></b>	
Capital Outlay Purposes	Law	\$ 717,237.33
Special Education Purposes	Law	44,068.28
Pension Purposes	Law	185,448.18
SDRS Pension Purposes	Law	<u>585,078.66</u>
<b>Total Restricted Net Position</b>		<b><u>\$ 1,531,832.45</u></b>

These balances are restricted due to federal grant and statutory requirements.

9. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2015 were as follows:

<b><u>Transfers From:</u></b>	<b><u>Transfers To:</u></b>		<b><u>Total</u></b>
	<b><u>Food Service Fund</u></b>	<b><u>Other Enterprise Funds</u></b>	
Major Funds:			
General Fund	\$ 27,000.00	\$ 15,000.00	\$ 42,000.00

The two enterprise funds are not self-supporting. The Board has made the decision to subsidize these programs since they felt it was not feasible to raise fees to cover all the expenses needed to operate them.

10. PRIOR PERIOD ADJUSTMENTS

The School District implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. As a result, beginning net position has been restated to reflect the related net pension asset and deferred outflows of resources as of July 1, 2014 as follows:

Net Position July 1, 2014, as previously reported	\$ 3,896,669.34
Restatement for pension accounting:	
Net Pension Asset	316,266.31
Pension related Deferred Outflows of Resources	<u>117,695.74</u>
Net Position July 1, 2014, restated for GASB No. 68	4,330,631.39
Additional Prior Period Adjustments related to disposal of assets and unrecorded building depreciation:	
Unrecorded loss on disposal of assets	(24,222.06)
Unrecorded building depreciation	<u>(64,974.70)</u>
Net Position July 1, 2014, as restated	<b><u>\$ 4,241,434.63</u></b>

## 11. PENSION PLAN

### **Plan Information:**

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

### **Benefits Provided:**

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

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

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

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

### **Contributions:**

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2015, 2014, and 2013 were \$116,980.24, \$117,695.70, and \$114,518.03, respectively, equal to the required contributions each year.

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

At June 30, 2014, SDRS is 107% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the School District as of June 30, 2014 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 11,898,801.49
Less proportionate share of total pension liability	<u>11,090,641.62</u>
Proportionate share of net pension liability (asset)	<u>\$ 808,159.87</u>

At June 30 2015, the School District reported an asset of \$808,159.87 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2014, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2014, the School District's proportion was 0.1121729%, which is an increase of 0% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the School District recognized pension revenue of \$151,832.11. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Difference between expected and actual experience	\$ 68,381.25	\$
Changes in assumption	527,542.67	
Net Difference between projected and actual earnings on pension plan investments		935,985.37
District contributions subsequent to the measurement date	<u>116,980.24</u>	
TOTAL	<u>\$ 712,904.16</u>	<u>\$ 935,985.37</u>

\$116,980.24 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

<u>Year Ended June 30,</u>	
2016	\$ 64,217.45
2017	64,217.45
2018	64,217.45
2019	<u>147,409.10</u>
TOTAL	<u>\$ 340,061.45</u>

**Actuarial Assumptions:**

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

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

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	64.0%	4.7%
Fixed Income	26.0%	1.8%
Real Estate	8.0%	5.5%
Cash	2.0%	0.8%
Total	100%	

**Discount Rate:**

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

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

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

	1% Decrease	Current Discount Rate	1% Increase
School District's proportionate share of the net pension liability (asset)	\$ 798,613.96	\$ (808,159.87)	\$ (2,118,651.63)

**Pension Plan Fiduciary Net Position:**

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

12. JOINT VENTURES

The School District participates in the Northeast Educational Services Cooperative, a cooperative service unit (co-op) formed for the purpose of providing appropriate educational services for all children and to offer, on a cooperative fee assessment basis, services that the districts would not be able to provide as effectively or as economically acting alone, to the member school districts.

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

Arlington School District No. 38-1	3.93%
Britton-Hecla School District No. 45-2	6.77%
Castlewood School District No. 28-1	3.66%
Clark School District No. 12-2	5.07%
DeSmet School District No. 38.2	4.39%
Deubrook School District No. 5-6	4.81%
Deuel School District No. 19-4	6.85%
Elkton School District No. 5-3	4.42%
Enemy Swim Day School	2.42%
Estelline School District No. 28-2	3.57%
Florence School District No. 14-1	2.88%
Grant-Deuel School District No. 25-3	1.47%
Hamlin School District No. 28-3	9.97%
Henry School District No. 14-2	2.40%
Iroquois School District No. 2-3	3.03%
Lake Preston School District No. 38-3	2.29%
Rosholt School District No. 54-4	2.93%
Sioux Valley School District No. 5-5	8.09%
Summit School District No. 54-6	2.28%
Waubay School District No. 18-3	2.33%
Waverly School District No. 14-5	2.97%
Webster School District No. 18-5	7.42%
Willow Lake School District No. 12-3	3.15%
Wilmot School District No. 54-7	2.88%

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

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

Separate financial statements for this joint venture are available from the Northeast Educational Services Cooperative.

At June 30, 2015, this joint venture had total assets of \$1,368,417.57, total liabilities of \$498,743.81, and total net position of \$869,673.76.

### 13. RISK MANAGEMENT

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

#### Employee Health Insurance:

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

#### Liability Insurance:

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

#### Worker's Compensation:

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

#### Unemployment Benefits:

The School District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. The school district does not reserve equity for the payment of future unemployment benefits, but budgets for any likely expenditure.

During the year ended June 30, 2015, two claims were filed for unemployment benefits. These claims resulted in the payment of benefits in the amount of \$5,356.34. At June 30, 2015, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

### 14. SIGNIFICANT CONTINGENCIES – LITIGATION

At June 30, 2015, the School District had a potential pending litigation whose ultimate outcome at that time remained unclear. This litigation stemmed from the placement of an order for laptop computers with MPC Computers (formerly Gateway). The School District received a partial shipment of the computers; however, many did not work as promised and the remaining computers were not received until after the delivery date specified in the contract. During the time between the two deliveries, MPC Computers filed for bankruptcy. As part of the bankruptcy proceedings, MPC Computers started an adversary proceeding (a lawsuit within the bankruptcy) against the State of South Dakota and various school districts. On May 13, 2016 the State of South Dakota and the school districts entered into a Settlement Agreement and Mutual Release related to the litigation. The School District's Settlement Agreement and Mutual Release resolves this litigation and did not have a material effect on the School District.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**DEUBROOK AREA SCHOOL DISTRICT NO. 5-6**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive (Negative)</u>
<b>Revenues:</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 1,065,693.00	\$ 1,065,693.00	\$ 1,137,081.57	\$ 71,388.57
Prior Years' Ad Valorem Taxes	4,000.00	4,000.00	3,287.64	(712.36)
Utility Taxes	110,000.00	110,000.00	110,573.72	573.72
Penalties and Interest on Taxes	2,700.00	2,700.00	2,694.80	(5.20)
Earnings on Investments and Deposits	6,500.00	6,500.00	1,428.28	(5,071.72)
Cocurricular Activities:				
Admissions	24,000.00	24,000.00	23,971.11	(28.89)
Other Revenue from Local Sources:				
Rentals	100.00	100.00	45.00	(55.00)
Contributions and Donations	0.00	0.00	200.00	200.00
Charges for Services	14,000.00	14,000.00	3,375.75	(10,624.25)
Other	19,000.00	19,000.00	13,687.25	(5,312.75)
Revenue from Intermediate Sources:				
County Sources:				
County Apportionment	32,000.00	32,000.00	34,421.30	2,421.30
Revenue in Lieu of Taxes	750.00	750.00	614.98	(135.02)
Revenue from State Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	1,486,979.00	1,486,979.00	1,434,252.20	(52,726.80)
Restricted Grants-in-Aid	15,525.00	15,525.00	8,725.70	(6,799.30)
Revenue from Federal Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid				
Received from Federal Government				
Through an Intermediate Source	3,000.00	3,000.00	3,701.19	701.19
Restricted Grants-in-Aid				
Received from Federal				
Government Through the State	62,083.00	62,083.00	62,428.00	345.00
Other Federal Revenue	16,136.00	16,136.00	24,751.08	8,615.08
<b>Total Revenues</b>	<b>2,862,466.00</b>	<b>2,862,466.00</b>	<b>2,865,239.57</b>	<b>2,773.57</b>
<b>Expenditures:</b>				
Instruction:				
Regular Programs:				
Elementary	737,709.00	741,229.00	741,228.09	0.91
Middle/Junior High	254,440.00	254,440.00	241,823.33	12,616.67
High School	491,365.00	491,365.00	467,904.75	23,460.25
Special Programs:				
Educationally Deprived	41,966.00	41,966.00	41,697.14	268.86
Support Services:				
Pupils:				
Guidance	90,057.00	90,057.00	89,448.68	608.32
Health	1,900.00	1,900.00	840.00	1,060.00
Support Services - Instructional Staff:				
Improvement of Instruction	12,200.00	14,800.00	14,705.45	94.55
Educational Media	155,125.00	157,884.00	156,322.69	1,561.31
Support Services - General Administration:				
Board of Education	35,950.00	35,950.00	26,322.23	9,627.77
Executive Administration	121,518.00	121,518.00	118,102.66	3,415.34
Support Services - School Administration:				
Office of the Principal	180,698.00	180,698.00	180,198.54	499.46
Title I Program Administration	500.00	500.00	500.00	0.00
Other	550.00	550.00	95.85	454.15

**REQUIRED SUPPLEMENTARY INFORMATION**  
**DEUBROOK AREA SCHOOL DISTRICT NO. 5-6**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended June 30, 2015**  
**(Continued)**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Support Services - Business:				
Fiscal Services	80,552.00	80,552.00	79,786.59	765.41
Operation and Maintenance of Plant	458,243.00	458,243.00	408,768.47	49,474.53
Nonprogrammed Charges:				
Payments to State - Unemployment	5,000.00	5,360.00	5,356.34	3.66
Cocurricular Activities:				
Male Activities	36,893.00	36,893.00	34,331.45	2,561.55
Female Activities	40,321.00	40,321.00	38,911.21	1,409.79
Combined Activities	65,506.00	65,506.00	56,711.18	8,794.82
Total Expenditures	<u>2,810,493.00</u>	<u>2,819,732.00</u>	<u>2,703,054.65</u>	<u>116,677.35</u>
Excess of Revenues Over (Under) Expenditures	<u>51,973.00</u>	<u>42,734.00</u>	<u>162,184.92</u>	<u>119,450.92</u>
<b>Other Financing Sources (Uses):</b>				
Transfers Out	(42,155.00)	(42,155.00)	(42,000.00)	155.00
Sale of County Property	0.00	0.00	500.00	500.00
Compensation for Loss of General Capital Assets	0.00	0.00	1,633.00	1,633.00
Total Other Financing Sources (Uses)	<u>(42,155.00)</u>	<u>(42,155.00)</u>	<u>(39,867.00)</u>	<u>2,288.00</u>
Net Change in Fund Balance	9,818.00	579.00	122,317.92	121,738.92
Fund Balance - Beginning	<u>703,232.87</u>	<u>703,232.87</u>	<u>703,232.87</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u>\$ 713,050.87</u>	<u>\$ 703,811.87</u>	<u>\$ 825,550.79</u>	<u>\$ 121,738.92</u>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**DEUBROOK AREA SCHOOL DISTRICT NO. 5-6**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**CAPITAL OUTLAY FUND**  
**For the Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive (Negative)</u>
<b>Revenues:</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 837,135.00	\$ 837,135.00	\$ 984,922.52	\$ 147,787.52
Prior Years' Ad Valorem Taxes	7,000.00	7,000.00	1,522.27	(5,477.73)
Penalties and Interest on Taxes	1,400.00	1,400.00	1,810.74	410.74
Earnings on Investments and Deposits	2,200.00	2,200.00	1,114.54	(1,085.46)
Other Revenue from Local Sources:				
Contributions and Donations	13,500.00	13,500.00	4,269.91	(9,230.09)
Other	0.00	0.00	500.00	500.00
Revenue from Intermediate Sources:				
Revenue in Lieu of Taxes	0.00	0.00	772.59	772.59
Revenue from State Sources:				
Other State Revenue	3,500.00	3,500.00	0.00	(3,500.00)
<b>Total Revenues</b>	<u>864,735.00</u>	<u>864,735.00</u>	<u>994,912.57</u>	<u>130,177.57</u>
<b>Expenditures:</b>				
Instruction:				
Regular Programs:				
Elementary	58,622.00	58,622.00	54,942.43	3,679.57
Middle/Junior High	33,778.00	33,778.00	27,269.77	6,508.23
High School	104,778.00	104,778.00	98,116.49	6,661.51
Preschool Services	400.00	400.00	0.00	400.00
Special Programs:				
Programs for Special Education	4,000.00	4,000.00	0.00	4,000.00
Support Services:				
Support Services - Instructional Staff:				
Educational Media	23,900.00	23,900.00	15,744.03	8,155.97
Support Services - General Administration:				
Executive Administration	2,500.00	2,500.00	1,362.99	1,137.01
Support Services - School Administration:				
Office of the Principal	3,500.00	3,500.00	2,279.80	1,220.20
Support Services - Business:				
Fiscal Services	6,100.00	6,100.00	5,123.07	976.93
Facilities Acquisition and Construction	94,286.00	94,286.00	93,546.37	739.63
Operation and Maintenance of Plant	59,500.00	59,500.00	48,712.10	10,787.90
Pupil Transportation	235,268.00	235,268.00	225,650.92	9,617.08
Food Services	8,000.00	8,000.00	1,259.60	6,740.40
Debt Services	276,320.00	276,320.00	276,320.00	0.00
Cocurricular Activities:				
Combined Activities	29,500.00	29,750.00	29,716.06	33.94
<b>Total Expenditures</b>	<u>940,452.00</u>	<u>940,702.00</u>	<u>880,043.63</u>	<u>60,658.37</u>
<b>Net Change in Fund Balance</b>	<b>(75,717.00)</b>	<b>(75,967.00)</b>	<b>114,868.94</b>	<b>190,835.94</b>
<b>Fund Balance - Beginning</b>	<u>596,615.79</u>	<u>596,615.79</u>	<u>596,615.79</u>	<u>0.00</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 520,898.79</u>	<u>\$ 520,648.79</u>	<u>\$ 711,484.73</u>	<u>\$ 190,835.94</u>

**REQUIRED SUPPLEMENTARY INFORMATION  
DEUBROOK AREA SCHOOL DISTRICT NO. 5-6  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
SPECIAL EDUCATION FUND  
For the Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 461,540.00	\$ 461,540.00	\$ 495,751.65	\$ 34,211.65
Prior Years' Ad Valorem Taxes	0.00	0.00	740.16	740.16
Penalties and Interest on Taxes	0.00	0.00	914.19	914.19
Earnings on Investments and Deposits	0.00	0.00	83.14	83.14
Other Revenue from Local Sources:				
Charges for Services	2,000.00	2,000.00	8,846.36	6,846.36
Revenue from Intermediate Sources:				
Revenue in Lieu of Taxes	0.00	0.00	399.68	399.68
Revenue from State Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid	17,702.00	17,702.00	0.00	(17,702.00)
<b>Total Revenues</b>	<u>481,242.00</u>	<u>481,242.00</u>	<u>506,735.18</u>	<u>25,493.18</u>
<b>Expenditures:</b>				
Instruction:				
Special Programs:				
Programs for Special Education	417,506.00	417,776.00	400,871.43	16,904.57
Support Services:				
Pupils:				
Guidance	632.00	632.00	573.60	58.40
Health	8,000.00	8,000.00	7,092.00	908.00
Psychological	10,160.00	10,160.00	9,196.08	963.92
Speech Pathology	27,454.00	31,054.00	29,609.26	1,444.74
Student Therapy Services	15,287.00	15,287.00	13,946.28	1,340.72
Support Services - Special Education:				
Transportation Costs	39,600.00	42,860.00	41,551.84	1,308.16
<b>Total Expenditures</b>	<u>518,639.00</u>	<u>525,769.00</u>	<u>502,840.49</u>	<u>22,928.51</u>
Net Change in Fund Balance	(37,397.00)	(44,527.00)	3,894.69	48,421.69
Fund Balance - Beginning	37,396.74	37,396.74	37,396.74	0.00
<b>FUND BALANCE - ENDING</b>	<u>\$ (0.26)</u>	<u>\$ (7,130.26)</u>	<u>\$ 41,291.43</u>	<u>\$ 48,421.69</u>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**DEUBROOK AREA SCHOOL DISTRICT NO. 5-6**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**PENSION FUND**  
**For the Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive (Negative)</u>
<b>Revenues:</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 85,718.00	\$ 85,718.00	\$ 98,492.81	\$ 12,774.81
Prior Years' Ad Valorem Taxes	300.00	300.00	152.19	(147.81)
Penalties and Interest on Taxes	200.00	200.00	180.95	(19.05)
Earnings on Investments and Deposits	1,500.00	1,500.00	474.36	(1,025.64)
Revenue from Intermediate Sources:				
Revenue in Lieu of Taxes	0.00	0.00	77.26	77.26
<b>Total Revenues</b>	<u>87,718.00</u>	<u>87,718.00</u>	<u>99,377.57</u>	<u>11,659.57</u>
<b>Expenditures:</b>				
Instruction:				
Regular Programs:				
Elementary	31,713.00	31,713.00	31,713.00	0.00
Middle/Junior High	10,723.00	10,723.00	10,469.08	253.92
High School	19,617.00	19,617.00	19,442.38	174.62
Preschool Services	906.00	906.00	904.04	1.96
Support Services:				
Pupils:				
Guidance	4,196.00	4,196.00	4,196.00	0.00
Support Services - Instructional Staff:				
Educational Media	2,387.00	2,387.00	2,387.00	0.00
Support Services - Business:				
Food Services	3,553.00	3,553.00	3,483.96	69.04
Nonprogrammed Charges:				
Early Retirement Payments	23,322.00	23,522.00	23,518.35	3.65
Cocurricular Activities:				
Male Activities	709.00	709.00	699.96	9.04
Female Activities	1,017.00	1,017.00	1,016.20	0.80
Combined Activities	1,787.00	1,787.00	1,656.09	130.91
<b>Total Expenditures</b>	<u>99,930.00</u>	<u>100,130.00</u>	<u>99,486.06</u>	<u>643.94</u>
<b>Net Change in Fund Balance</b>	<u>(12,212.00)</u>	<u>(12,412.00)</u>	<u>(108.49)</u>	<u>12,303.51</u>
<b>Fund Balance - Beginning</b>	<u>187,791.20</u>	<u>187,791.20</u>	<u>187,791.20</u>	<u>0.00</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 175,579.20</u>	<u>\$ 175,379.20</u>	<u>\$ 187,682.71</u>	<u>\$ 12,303.51</u>

DEUBROOK AREA SCHOOL DISTRICT NO. 5-6  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
Schedules of Budgetary Comparisons for the General Fund  
and for each major Special Revenue Fund with a legally required budget.

1. Budgets and Budgetary Accounting:

The School District followed these procedures in establishing the budgetary data reflected in the schedules:

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

2. USGAAP/Budgetary Accounting Basis Differences:

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

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY (ASSET)**

**South Dakota Retirement System**

\*Last 10 Fiscal Years

	2015
District's proportion of the net pension liability (asset)	0.1121729%
District's proportionate share of net pension liability (asset)	\$ (808,159.87)
District's covered-employee payroll	\$ 1,961,553.00
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	41.20%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107%

\*The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30 of previous fiscal year. Until a full 10-year trend is compiled, the School District will present information for those years for which information is available.

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS**

**South Dakota Retirement System**

\*Last 10 Fiscal Years

	<u>2015</u>
Contractually required contribution	\$ 116,980.24
Contributions in relation to the contractually required contribution	<u>116,980.24</u>
Contribution deficiency (excess)	<u>\$ 0.00</u>
District's covered-employee payroll	\$ 1,949,670.66
Contributions as a percentage of covered-employee payroll	6.00%

\*Until a full 10-year trend is compiled, the School District will present information for those years for which information is available.