



**DOUGLAS SCHOOL DISTRICT 51-1
MEADE AND PENNINGTON COUNTIES, SOUTH DAKOTA**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2016



Ketel Thorstenson, LLP
Certified Public Accountants/Business & Personal Consultants

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INDEPENDENT AUDITOR'S REPORT

School Board
Douglas School District 51-1
Meade and Pennington Counties, 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 **DOUGLAS SCHOOL DISTRICT 51-1** (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information, and pension information on pages 3 through 12 and 41 through 48 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* on pages 54-55 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 District's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

December 12, 2016

DOUGLAS SCHOOL DISTRICT 51-1

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

This section of Douglas School District 51-1's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2016. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The District's net position from governmental and business-type activities increased approximately \$775,000. The total revenue of the District decreased by approximately \$4,253,000, and the cost of the District's programs increased by approximately \$2,110,000.

The General Fund reported a decrease in fund balance as a result of current year activity of approximately \$2,598,000. The change in fund balance is attributable to the fact that Impact Aid is reported in the General Fund ending fund balance, and funds were transferred from Impact Aid to the Capital Projects Fund to cover the costs associated with building the new elementary school.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District government, reporting the District's operations in more detail than the government-wide statements.

The governmental funds statements tell how general government services were financed in the short-term, as well as what remains for future spending.

Proprietary fund statements offer short-term and long-term financial information about the activities that the District operates like businesses. The District's only proprietary funds are the Food Service Fund, Tuition Services Fund, and Internal Service Funds.

Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong. Most of these are school clubs or clearing accounts.

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

DOUGLAS SCHOOL DISTRICT 51-1

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-wide Financial Statements:

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

The two government-wide statements report the District's net position and how it has changed. Net position—the difference between the District's assets and liabilities—is one way to measure the District's financial health or position.

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

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

- **Governmental Activities** – This category includes the District's basic instructional services, such as elementary and high school educational programs, support services (guidance counselor, executive administration, board of education, fiscal services, etc.), extracurricular activities (sports, music, etc.), and capital equipment purchases or the construction of buildings. Property taxes, state grants, federal grants, and interest earnings finance most of these activities.
- **Business-Type Activities** – The District charges a fee to students to help cover the costs of providing hot lunch services to all students. They also charge for pre-school, after school, and driver's education services provided by the District. The Food Service Fund and Tuition Services Fund are the only business-type activities of the District.

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

- State Law requires some of the funds.
- The District Board of Education establishes other funds to control and manage money for particular purposes.

DOUGLAS SCHOOL DISTRICT 51-1

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements:

The District has three types of funds:

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

DOUGLAS SCHOOL DISTRICT 51-1

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Fund Financial Statements (Continued):

Figure A-1 summarizes the major features of the District’s financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of the overview section of the management’s discussion and analysis explains the structure and contents of each of the statements.

Figure A-1				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District government (except fiduciary funds).	The activities of the District that are not proprietary or fiduciary, such as elementary and high school education programs.	Activities the District operates similar to a private business- food service, other proprietary, and internal service.	Instances in which the District is the trustee or agent for someone else's resources.
Required Financial Statements	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balances	Balance Sheet Statement of Revenues, Expenses and Changes in Net Position Statement of Cash Flows	Statement of Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/ Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets although they can
Type of Inflow/ Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

DOUGLAS SCHOOL DISTRICT 51-1

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

Table A-1 illustrates an increase in overall net position of 1.51 percent for governmental activities. Business-type activities increased 9.90 percent from 2015 to 2016. The activities combined accounted for a total increase of 1.63 percent.

Table A-1 Statement of Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2015	2016	2015	2016	2015	2016
Current and Other Assets	\$ 22,001,184	\$ 17,841,743	\$ 675,465	\$ 633,539	\$ 22,676,649	\$ 18,475,282
Capital Assets	34,512,089	35,016,323	97,014	93,910	34,609,103	35,110,233
Total Assets	56,513,273	52,858,066	772,479	727,449	57,285,752	53,585,515
Pension Related Deferred Outflows of Resources	\$ 5,366,718	\$ 6,603,894	\$ 174,896	\$ 215,214	\$ 5,541,614	\$ 6,819,108
Long-Term Debt Outstanding	\$ 1,918,004	\$ 1,716,571	\$ -	\$ -	\$ 1,918,004	\$ 1,716,571
Accounts Payable and Other Current Liabilities	3,540,493	2,381,161	71,118	61,337	3,611,611	2,442,498
Total Liabilities	5,458,497	4,097,732	71,118	61,337	5,529,615	4,159,069
Taxes Levied for Future Period	2,456,371	2,502,735	-	-	2,456,371	2,502,735
Pension Related Deferred Inflows	6,998,357	5,184,291	228,069	168,951	7,226,426	5,353,242
Total Deferred Inflows	9,454,728	7,687,026	228,069	168,951	9,682,797	7,855,977
Net Position:						
Investment in Capital Assets	33,424,017	34,064,395	97,014	93,910	33,521,031	34,158,305
Restricted	5,376,926	6,477,649	143,688	160,766	5,520,614	6,638,415
Unrestricted	8,165,823	7,135,158	407,486	457,699	8,573,309	7,592,857
Total Net Position	\$ 46,966,766	\$ 47,677,202	\$ 648,188	\$ 712,375	\$ 47,614,954	\$ 48,389,577
Beginning Net Position	\$ 37,605,955	\$ 46,966,766	\$ 461,531	\$ 648,188	\$ 38,067,486	\$ 47,614,954
Change in Accounting Principle	3,241,546	-	105,638	-	3,347,184	-
Change in Net Position	6,119,265	710,436	81,019	64,187	6,200,284	774,623
Percentage of Change in Net Position	14.98%	1.51%	14.28%	9.90%	14.97%	1.63%

DOUGLAS SCHOOL DISTRICT 51-1

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

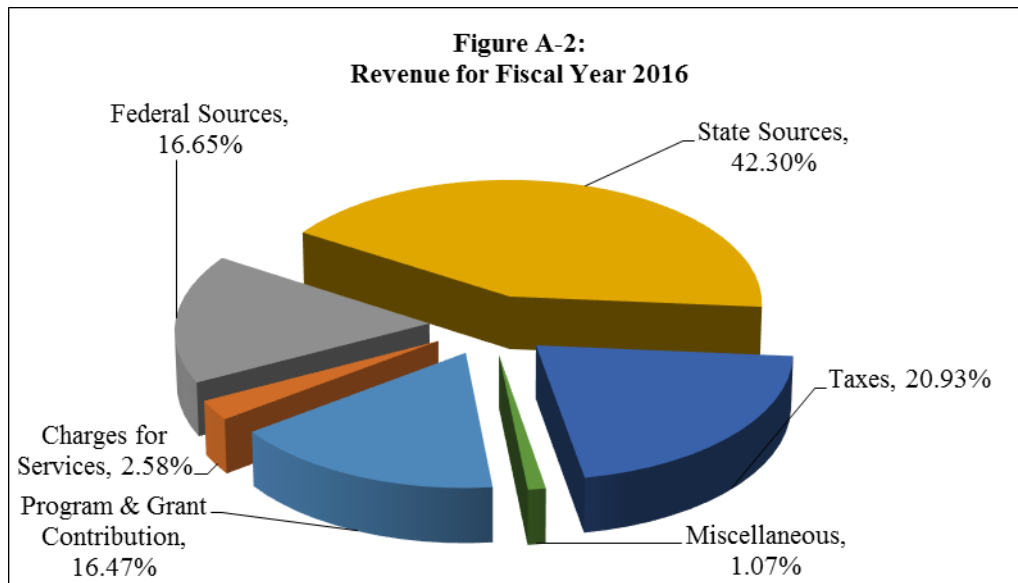
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Net Position (Continued)

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

Changes in Net Position

The District's revenues totaled \$25,927,787. Approximately 17 percent of the District's revenue comes from Federal Sources, 42 percent from State Sources, and 21 percent comes from taxes. (See Figure A-2.)



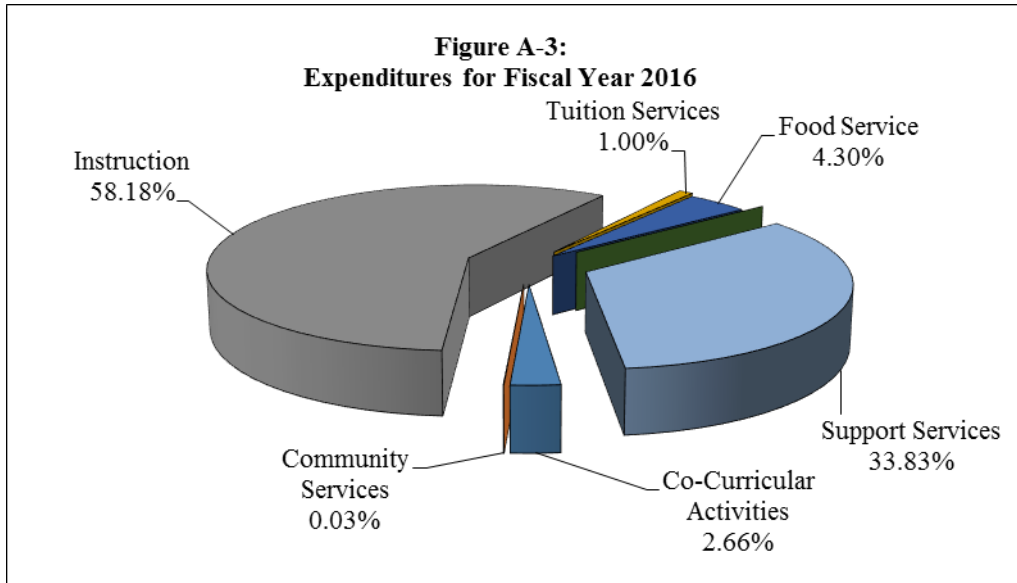
DOUGLAS SCHOOL DISTRICT 51-1

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

The District's expenses cover a wide range of services, but mainly cover instruction and support services. These account for approximately 92 percent of the total expenditures in 2016. (See Figure A-3.)



DOUGLAS SCHOOL DISTRICT 51-1

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

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

Table A-2 Changes in Net Position						
	Governmental Activities		Business-Type Activities		Grand Total	
	2015	2016	2015	2016	2015	2016
Revenues						
Program Revenues:						
Charges for Services	\$ 277,096	\$ 24,377	\$ 660,466	\$ 643,740	\$ 937,562	\$ 668,117
Operating Grants and Contributions	3,261,453	3,558,201	567,303	704,871	3,828,756	4,263,072
Capital Grants and Contributions	3,631,684	6,511	-	-	3,631,684	6,511
General Revenues:						
Taxes	5,292,951	5,426,924	-	-	5,292,951	5,426,924
State Sources	10,424,660	10,967,613	-	-	10,424,660	10,967,613
Federal Sources	5,774,936	4,318,014	-	-	5,774,936	4,318,014
Other General Revenues	288,475	276,266	28	57	288,503	276,323
Unrestricted Investment Earnings	1,629	1,213	-	-	1,629	1,213
Total Revenues	28,952,884	24,579,119	1,227,797	1,348,668	30,180,681	25,927,787
Expenses						
Instruction	13,777,291	14,637,060	-	-	13,777,291	14,637,060
Support Services	8,238,052	8,511,005	-	-	8,238,052	8,511,005
Community Services	9,331	6,444	-	-	9,331	6,444
Co-curricular Activities	639,095	667,680	-	-	639,095	667,680
Food Service	-	-	994,316	1,079,442	994,316	1,079,442
Tuition Services	-	-	322,312	251,533	322,312	251,533
Total Expenses	22,663,769	23,822,189	1,316,628	1,330,975	23,980,397	25,153,164
Excess Revenues (Expenses)						
Before Transfers	6,289,115	756,930	(88,831)	17,693	6,200,284	774,623
Transfers	(169,850)	(46,494)	169,850	46,494	-	-
Increase in Net Position	6,119,265	710,436	81,019	64,187	6,200,284	774,623
Beginning Net Position	37,605,955	46,966,766	461,531	648,188	38,067,486	47,614,954
Change in Accounting Principle	3,241,546	-	105,638	-	3,347,184	-
Ending Net Position	\$ 46,966,766	\$ 47,677,202	\$ 648,188	\$ 712,375	\$ 47,614,954	\$ 48,389,577

DOUGLAS SCHOOL DISTRICT 51-1

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONCLUDED)

Changes in Net Position (Concluded):

Governmental Activities

The revenues for the governmental activities decreased primarily due to an emergency construction grant that was received from the Impact Aid program to help pay for the construction of a new elementary school in the previous year. The increase in expenditures is a result of an increase in the cost of overall salaries.

Business-Type Activities

Revenues of the District’s business-type activities generated adequate funds to cover the costs associated with the Food Service program to continue to establish a fund balance for that fund. This indicates that the combination of the federal reimbursement and the prices being charged is sufficient to run the program effectively and efficiently. The revenue for the tuition services does not fully cover the costs associated with running those programs. There has been a tiered approach to increasing the fees charged for participating in those programs, and the Board will continue to review the program fees annually.

FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

The General Fund balance decreased in the current year due to the fact that Impact Aid is reported in the General Fund ending fund balance, and the Impact Aid fund balance is lower than in previous years because those funds were transferred to cover shortfall of revenue in other funds. The Capital Outlay Fund balance increased in the current year due to a reduction in expenses and an increase in local tax revenue. The Special Education Fund balance increased in the current year due to a reduction in expenses and an increase in revenue. The Pension Fund balance had a slight increase due to slightly greater tax revenue than what was transferred out to cover pension expenses. The Capital Projects Fund has a zero balance since the elementary school construction was completed, and the fund is no longer necessary.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Douglas School District Board of Education approved contingency transfers for unanticipated, yet necessary, expenses to provide items necessary for the education program of the District.

The District’s budget changes or variances for the year were minimal and due to unanticipated expenditures throughout the year.

CAPITAL ASSET ADMINISTRATION

By the end of 2016, the District had invested approximately \$35 million (net of depreciation) in a broad range of capital assets, including land, buildings, improvements, and equipment. Governmental Activities increased approximately \$504,000 from 2015 due to a combination of \$2,544,345 in purchases/construction and \$2,036,820 in annual depreciation. (See Table A-3.)

	Table A-3			
	Capital Assets			
	Governmental Activities		Business-Type Activities	
	2015	2016	2015	2016
Buildings	\$ 18,010,580	\$ 31,338,277	\$ -	\$ -
Improvements Other than Buildings	894,936	781,697	-	-
Equipment	2,596,100	2,274,449	97,014	93,910
Land	621,900	621,900	-	-
Construction Work in Progress	12,388,573	-	-	-
Total Capital Assets, Net of Depreciation	\$ 34,512,089	\$ 35,016,323	\$ 97,014	\$ 93,910

DOUGLAS SCHOOL DISTRICT 51-1

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED) FOR THE YEAR ENDED JUNE 30, 2016

CAPITAL ASSET ADMINISTRATION (CONTINUED)

The District's fiscal year 2016 capital projects consisted mainly of costs associated with the construction of a new elementary school.

LONG-TERM DEBT

At year-end, the District had \$1,716,571 in long-term debt consisting of vacation, voluntary separation, severance pay (sick leave) and energy efficient lighting debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

With the exception of spending down Impact Aid reserves to build the new elementary school in recent years, the District's economic position has shown little change recently. There has been some effect from the recent economic climate, and this has begun to be realized as both the Impact Aid funding and overall balance have declined. The District has again experienced an increase in total property valuation over the last year. The increase in property valuation allows the District the ability to increase the amount of revenue generated from property taxes, but the total amount that can be levied is limited by the State of South Dakota.

One of the primary sources of revenue to the District is based on a state aid funding formula they receive from the State of South Dakota. In previous years, this was based on a per student allocation. The state aid formula in the General Fund for the previous year ensured that property taxes plus state aid equaled approximately \$4877 per pupil. During the 2016 Legislative Session, the State increased South Dakota sales tax by .5% with the additional funding going to schools in the form of a different state aid funding formula which includes a target teacher salary, a target student to teacher ratio and funding for calculated overhead costs at the District. The formula is still limited by what the District can collect from local property taxes and the difference is made up by the state aid from the State of South Dakota.

There is ongoing concern that the Impact Aid funding at the federal level could be decreasing in the near term depending on what happens at the federal level through the Executive Branch, and if sequestration continues for years into the future. Because of the uncertainty of funding at the state and federal level – mainly in the form of Impact Aid – even though District enrollment has continued to increase slightly from one school year to the next – the District is proceeding cautiously with all expenditures, including filling of vacant positions, or any new hires, as well as salary negotiations with current staff. In addition, a long-term budget committee is being developed in order to plan the long-term future of the finances of the District with the hopes of eliminating any deficit-spending.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and other concerned individuals with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Douglas School District Business Office at 400 Patriot Drive, Box Elder, SD 57719.

DOUGLAS SCHOOL DISTRICT 51-1

**STATEMENT OF NET POSITION
JUNE 30, 2016**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS:			
Cash and Cash Equivalents (Note 2)	\$ 10,559,667	\$ 408,380	\$ 10,968,047
Taxes Receivable (Note 4)	2,608,065	-	2,608,065
Due from Other Governments	922,459	55,658	978,117
Inventories (Note 3)	7,134	46,310	53,444
Other Receivables and Prepaid Expenses	235,460	4,109	239,569
Internal Balances (Note 7)	(4,579)	4,579	-
Net Pension Asset (Note 11)	3,513,537	114,503	3,628,040
Capital Assets (Note 5):			
Land	621,900	-	621,900
Buildings, Net of Depreciation	31,338,277	-	31,338,277
Improvements Other than Buildings, Net of Depreciation	781,697	-	781,697
Equipment, Net of Depreciation	2,274,449	93,910	2,368,359
TOTAL ASSETS	52,858,066	727,449	53,585,515
DEFERRED OUTFLOWS OF RESOURCES:			
Pension Related Deferred Outflows of Resources (Note 11)	6,603,894	215,214	6,819,108
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 59,461,960	\$ 942,663	\$ 60,404,623
LIABILITIES:			
Accounts Payable	\$ 115,075	\$ 2,590	\$ 117,665
Other Current Liabilities	2,266,086	34,810	2,300,896
Unearned Revenue	-	23,937	23,937
Long-Term Liabilities (Note 6):			
Due Within One Year	562,459	-	562,459
Due in More than One Year	1,154,112	-	1,154,112
TOTAL LIABILITIES	4,097,732	61,337	4,159,069
DEFERRED INFLOWS OF RESOURCES:			
Taxes Levied for Future Period (Note 4)	2,502,735	-	2,502,735
Pension Related Deferred Inflows (Note 11)	5,184,291	168,951	5,353,242
TOTAL DEFERRED INFLOWS OF RESOURCES	7,687,026	168,951	7,855,977
NET POSITION:			
Invested in Capital Assets	34,064,395	93,910	34,158,305
Restricted:			
Capital Outlay	1,044,121	-	1,044,121
Pension - SDRS (Note 11)	4,933,140	160,766	5,093,906
Pension	319,969	-	319,969
Special Education	180,419	-	180,419
Unrestricted	7,135,158	457,699	7,592,857
TOTAL NET POSITION	47,677,202	712,375	48,389,577
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 59,461,960	\$ 942,663	\$ 60,404,623

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	
Governmental Activities:							
Instruction	\$ 14,637,060	\$ -	\$ 3,558,201	\$ -	\$ (11,078,859)	\$ -	\$ (11,078,859)
Support Services	8,511,005	-	-	-	(8,511,005)	-	(8,511,005)
Community Services	6,444	6,466	-	-	22	-	22
Co-Curricular Activities	667,680	17,911	-	6,511	(643,258)	-	(643,258)
Total Governmental Activities	23,822,189	24,377	3,558,201	6,511	(20,233,100)	-	(20,233,100)
Business-Type Activities:							
Preschool Service	93,004	68,503	-	-	-	(24,501)	(24,501)
Daycare Service	88,637	79,174	2,481	-	-	(6,982)	(6,982)
Afterschool Service	69,892	63,903	-	-	-	(5,989)	(5,989)
Food Service	1,079,442	432,160	702,390	-	-	55,108	55,108
Total Business-Type Activities	1,330,975	643,740	704,871	-	-	17,636	17,636
Total Primary Government	\$ 25,153,164	\$ 668,117	\$ 4,263,072	\$ 6,511	(20,233,100)	17,636	(20,215,464)
General Revenues							
Taxes:							
Property Taxes					5,215,938	-	5,215,938
Gross Receipts Taxes					210,986	-	210,986
Revenue from State Sources:							
State Aid					10,967,613	-	10,967,613
Revenue from Federal Sources					4,318,014	-	4,318,014
Unrestricted Investment Earnings					1,213	-	1,213
Other General Revenues					276,266	57	276,323
Transfers (Note 7)					(46,494)	46,494	-
Total General Revenues					20,943,536	46,551	20,990,087
Change in Net Position					710,436	64,187	774,623
Net Position - Beginning					46,966,766	648,188	47,614,954
Net Position - Ending					\$ 47,677,202	\$ 712,375	\$ 48,389,577

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2016

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
ASSETS:					
101 Cash and Cash Equivalents (Note 2)	\$ 8,117,040	\$ 761,560	\$ 326,972	\$ 317,659	\$ 9,523,231
110 Taxes Receivable--Current (Note 4)	1,400,105	707,696	365,175	70,770	2,543,746
112 Taxes Receivable--Delinquent (Note 4)	41,609	13,995	7,389	1,326	64,319
120 Accounts Receivable	1,075	20,441	-	-	21,516
135 Accrued Interest	8	-	-	-	8
140 Due from Other Governments	480,305	274,610	167,544	-	922,459
170 Inventory of Supplies (Note 3)	7,134	-	-	-	7,134
192 Prepaid Assets	209,186	4,750	-	-	213,936
TOTAL ASSETS	\$ 10,256,462	\$ 1,783,052	\$ 867,080	\$ 389,755	\$ 13,296,349
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:					
Liabilities:					
402 Accounts Payable	\$ 73,822	\$ 36,316	\$ 4,416	\$ -	\$ 114,554
404 Contracts Payable	1,522,674	-	260,094	-	1,782,768
410 Due to Other Fund	4,579	-	-	-	4,579
450 Payroll Deductions and Withholdings and Employer Matching Payable	351,646	-	54,672	-	406,318
Total Liabilities	1,952,721	36,316	319,182	-	2,308,219
Deferred Inflows of Resources:					
551 Taxes Levied for Future Periods (Note 4)	1,374,994	697,865	360,090	69,786	2,502,735
551 Unavailable Revenue-Property Taxes (Note 4)	41,609	13,995	7,389	1,326	64,319
Total Deferred Inflows of Resources	1,416,603	711,860	367,479	71,112	2,567,054
Fund Balance (Deficit):					
711 Nonspendable - Inventory	7,134	-	-	-	7,134
712 Nonspendable - Prepaid Assets	209,186	4,750	-	-	213,936
723 Restricted - Capital Outlay	-	1,030,126	-	-	1,030,126
724 Restricted - Special Education	-	-	180,419	-	180,419
725 Restricted - Pension	-	-	-	318,643	318,643
760 Unassigned (Note 10)	6,670,818	-	-	-	6,670,818
Total Fund Balance	6,887,138	1,034,876	180,419	318,643	8,421,076
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 10,256,462	\$ 1,783,052	\$ 867,080	\$ 389,755	\$ 13,296,349

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2016**

Total Fund Balances - Governmental Funds \$ 8,421,076

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. 3,513,537

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the funds. (Note 5) 35,016,323

Pension related deferred outflows are components of pension asset and therefore
are not reported in the funds. 6,603,894

Long-term liabilities, including energy efficient debt, vacation payable, severance
payable, and voluntary separation payable, are not due in the current period and
therefore are not reported in the funds. (Note 6) (1,716,571)

Delinquent taxes receivable are not available to pay for current period
expenditures and therefore are deferred in the funds. 64,319

Pension related deferred inflows are components of pension asset and therefore are
not reported in the funds. (5,184,291)

Internal service funds are used by management to charge the costs of activities,
such as insurance, to individual funds. The assets and liabilities of internal service
funds are included in the governmental activities in the Statement of Net Position. 958,915

Net Position - Governmental Funds \$ 47,677,202

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Capital Outlay Fund	Special Education Fund	Pension	Capital Projects	Total Governmental Funds
Revenues:						
<i>1000 Revenue from Local Sources (Note 4):</i>						
1110 Ad Valorem Taxes	\$ 2,822,189	\$ 1,411,789	\$ 741,616	\$ 141,166	\$ -	\$ 5,116,760
1120 Prior Years' Ad Valorem Taxes	36,991	14,970	7,915	1,516	-	61,392
1130 Tax Deed Revenue	266	172	-	17	-	455
1140 Gross Receipts Taxes	210,986	-	-	-	-	210,986
1190 Penalties and Interest on Taxes	7,156	2,850	1,596	285	-	11,887
1500 Earnings on Investments and Deposits (Note 10)	1,213	-	-	-	-	1,213
<i>1700 Co-curricular Activities:</i>						
1710 Admissions	14,620	-	-	-	-	14,620
1740 Rentals	190	-	-	-	-	190
1790 Other Pupil Activity Income	3,101	-	-	-	-	3,101
<i>1900 Other Revenue from Local Sources:</i>						
1910 Rentals	3,287	-	-	-	-	3,287
1950 Refund of Prior Year's Expenditures	2,357	-	822	-	-	3,179
1990 Other	22,605	1,868	-	-	-	24,473
2110 County Apportionment	244,135	-	-	-	-	244,135
<i>3000 Revenue from State Sources:</i>						
3110 Unrestricted Grants-in-Aid	10,967,613	-	-	-	-	10,967,613
3120 Restricted Grants-in-Aid	-	-	1,816,049	-	-	1,816,049
<i>4000 Revenue from Federal Sources:</i>						
4110 Unrestricted Grants-in-Aid Received						
Directly from Federal Government (Note 10)	4,058,673	-	-	-	-	4,058,673
4120 Unrestricted Grants-in-Aid Received from						
Federal Government Through State	595	-	-	-	-	595
4140 Restricted Grants-in-Aid Received						
Directly from Federal Government	31,961	-	92,676	-	-	124,637
4150-4199 Restricted Grants-in-Aid Received						
from Federal Government Through State	888,844	117,200	611,471	-	-	1,617,515
4900 Other Federal Revenue	91,513	167,233	-	-	-	258,746
Total Revenues	19,408,295	1,716,082	3,272,145	142,984	-	24,539,506
Expenditures:						
<i>1100 Instruction - Regular Programs:</i>						
1110 Elementary	5,271,599	314,749	-	60,750	-	5,647,098
1120 Middle/Junior High	2,728,861	24,374	-	33,750	-	2,786,985
1130 High School	2,929,826	84,877	-	40,500	-	3,055,203
<i>1200 Instruction - Special Programs:</i>						
1210 Programs for Gifted and Talented	25,081	-	-	-	-	25,081
1220 Programs for Special Education	-	1,621	1,844,306	-	-	1,845,927
1250 Culturally Different	40,338	-	-	-	-	40,338
1270 Educationally Deprived	479,201	-	-	-	-	479,201
1290 Other Special Programs	22,973	-	-	-	-	22,973
<i>2100 Support Services - Pupils:</i>						
2110 Attendance and Social Work	62,420	-	38,150	-	-	100,570
2120 Guidance	507,655	-	67,154	-	-	574,809
2130 Health	3,728	-	161,045	-	-	164,773
2140 Psychological	-	-	117,905	-	-	117,905
2150 Speech Pathology	-	-	286,622	-	-	286,622
2170 Student Therapy Services	-	-	106,850	-	-	106,850
<i>2200 Support Services - Instructional Staff:</i>						
2210 Improvement of Instruction	381,218	-	-	-	-	381,218
2220 Educational Media	972,835	77,666	-	-	-	1,050,501

DOUGLAS SCHOOL DISTRICT 51-1

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Capital Outlay Fund	Special Education Fund	Pension	Capital Projects Fund	Total Governmental Funds
<i>2300 Support Services - General:</i>						
2310 Board of Education	98,911	-	-	-	-	98,911
2320 Executive Administration	371,803	-	-	-	-	371,803
<i>2400 Support Services - School:</i>						
2410 Office of the Principal	920,847	-	-	-	-	920,847
2440 Title I Program Administration	10,166	-	-	-	-	10,166
<i>2500 Support Services - Business:</i>						
2520 Fiscal Services	260,552	-	-	-	-	260,552
2530 Facilities Acquisition and Construction	-	12,622	-	-	-	12,622
2540 Operation and Maintenance of Plant	2,164,830	16,496	-	-	-	2,181,326
2550 Pupil Transportation	657,620	9,932	-	-	-	667,552
2570 Internal Services	65,367	10,281	-	-	-	75,648
<i>2600 Support Services - Central:</i>						
2630 Information	3,990	-	-	-	-	3,990
2640 Staff	92,263	-	-	-	-	92,263
<i>2700 Support Services - Special Education:</i>						
2710 Administrative Costs	-	-	260,022	-	-	260,022
2730 Transportation Costs	-	-	196,824	-	-	196,824
2750 Other Special Education Costs	-	-	28,080	-	-	28,080
<i>3000 Community Services:</i>						
3400 Public Library	4,652	780	-	-	-	5,432
3900 Other	4,300	-	-	-	-	4,300
<i>4000 Nonprogrammed Charges:</i>						
4500 Early Retirement	159,808	-	-	-	-	159,808
5000 Debt Services	136,144	-	-	-	-	136,144
<i>6000 Co-curricular Activities:</i>						
6100 Male Activities	99,503	-	-	-	-	99,503
6200 Female Activities	56,171	-	-	-	-	56,171
6900 Combined Activities	471,122	31,888	-	-	-	503,010
7500 Capital Outlay	31,636	630,200	-	-	1,875,998	2,537,834
Total Expenditures	19,035,420	1,215,486	3,106,958	135,000	1,875,998	25,368,862
Excess of Revenue Over (Under) Expenditures	372,875	500,596	165,187	7,984	(1,875,998)	(829,356)
Other Financing Sources (Uses):						
5110 Transfers In (Note 7)	-	-	25,000	-	3,019,986	3,044,986
5130 Sale of Capital Assets and Surplus Property	3,594	4,064	-	-	-	7,658
8110 Transfers Out (Notes 7 and 10)	(2,974,280)	(117,200)	-	-	-	(3,091,480)
Total Other Financing Sources (Uses)	(2,970,686)	(113,136)	25,000	-	3,019,986	(38,836)
Net Change in Fund Balances	(2,597,811)	387,460	190,187	7,984	1,143,988	(868,192)
Fund Balance (Deficit) -- June 30, 2015	9,484,949	647,416	(9,768)	310,659	(1,143,988)	9,289,268
Fund Balance -- June 30, 2016	\$ 6,887,138	\$ 1,034,876	\$ 180,419	\$ 318,643	\$ -	\$ 8,421,076

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR YEAR ENDED JUNE 30, 2016

Net Change in Fund Balances - Total Governmental Funds \$ (868,192)

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 Statement of Net Position. 2,537,834

Capital assets contributed to the District. 6,511

In the Statement of Activities, losses on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds from the disposal of capital assets are reflected, regardless of whether a gain or loss is realized. (3,291)

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. (2,036,820)

The fund financial statement property tax accruals differ from the government wide statement property tax accruals as the fund financial statements require the amounts to be "available." 25,444

Governmental funds recognize expenditures for amounts of compensated absences and voluntary separation actually paid to employees with current financial resources. 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 employees earn leave or elect to retire early. 65,289

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 136,144

Changes in the pension related deferred outflows/inflows are direct components of pension asset and are not reflected in the governmental funds 921,817

Pension expenses in the Statement of Activities do not provide current financial resources and are not reported as expenses in the funds. (397,765)

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net expenses and transfers of the internal service funds is reported with governmental activities. 323,465

Change in Net Position of Governmental Activities \$ 710,436

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

PROPRIETARY FUNDS BALANCE SHEET
JUNE 30, 2016

	Food Service Fund	Tuition Services Fund	Total Proprietary Funds	Internal Service Funds
ASSETS:				
<i>Current Assets:</i>				
101 Cash and Cash Equivalents (Note 2)	\$ 400,094	\$ 8,286	\$ 408,380	\$ 1,036,436
120 Accounts Receivable	181	3,928	4,109	-
130 Due from General Fund	4,579	-	4,579	-
140 Due from State Government	55,658	-	55,658	-
170 Inventory of Supplies (Note 3)	11,893	-	11,893	-
172 Inventory of Donated Food (Note 3)	34,417	-	34,417	-
Total Current Assets	506,822	12,214	519,036	1,036,436
<i>Noncurrent Assets:</i>				
196 Net Pension Asset (Note 11)	75,002	39,501	114,503	-
204 Equipment (Note 5)	243,311	-	243,311	-
Less: Accumulated Depreciation (Note 5)	(149,401)	-	(149,401)	-
Total Noncurrent Assets	168,912	39,501	208,413	-
TOTAL ASSETS	675,734	51,715	727,449	1,036,436
DEFERRED OUTFLOWS OF RESOURCES:				
252 Pension Related Deferred Outflows (Note 11)	140,970	74,244	215,214	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 816,704	\$ 125,959	\$ 942,663	\$ 1,036,436
LIABILITIES:				
<i>Current Liabilities:</i>				
402 Accounts Payable	\$ 2,423	\$ 167	\$ 2,590	\$ 521
404 Contracts Payable	20,612	7,618	28,230	-
409 Incurred But Not Reported Claims (Note 9)	-	-	-	77,000
450 Payroll Deductions and Withholdings and Employer Matching Payable	5,344	1,236	6,580	-
475 Unearned Revenue	21,197	2,740	23,937	-
Total Current Liabilities	49,576	11,761	61,337	77,521
DEFERRED INFLOWS OF RESOURCES:				
554 Pension Related Deferred Inflows (Note 11)	110,666	58,285	168,951	-
NET POSITION:				
706 Investment in Capital Assets	93,910	-	93,910	-
725 Restricted Pension (Note 11)	105,305	55,461	160,766	-
708 Unrestricted (Note 9)	457,247	452	457,699	958,915
Total Net Position	656,462	55,913	712,375	958,915
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 816,704	\$ 125,959	\$ 942,663	\$ 1,036,436

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	Food Service Fund	Tuition Services Fund	Total Proprietary Funds	Internal Service Funds
Operating Revenue:				
<i>Sales:</i>				
1610 To Pupils	\$ 239,195	\$ -	\$ 239,195	\$ -
1620 To Adults	7,655	-	7,655	-
1630 A la Carte	154,726	-	154,726	-
1650 Child Care	27,889	211,580	239,469	-
1690 Miscellaneous	2,695	-	2,695	-
1971 Self-Insurance Premiums	-	-	-	2,100,622
Total Operating Revenue	432,160	211,580	643,740	2,100,622
Operating Expenses:				
<i>Business Expenses</i>				
100 Salaries	387,832	176,917	564,749	-
200 Employee Benefits	95,202	42,230	137,432	-
300 Purchased Services	12,511	631	13,142	-
400 Supplies	24,620	3,961	28,581	-
461 Cost of Sales	467,408	27,794	495,202	-
462 Cost of Sales - Donated Food	80,276	-	80,276	-
910 Depreciation - Local Funds (Note 5)	11,593	-	11,593	-
4620 Self Insurance Costs (Note 9)	-	-	-	1,000,616
4900 Other Premiums	-	-	-	776,541
Total Operating Expenses	1,079,442	251,533	1,330,975	1,777,157
Operating Income (Loss)	(647,282)	(39,953)	(687,235)	323,465
Nonoperating Revenue:				
<i>Local Sources:</i>				
1990 Other	39	18	57	-
3810 Cash Reimbursements	6,407	-	6,407	-
<i>Federal Sources:</i>				
4810 Cash Reimbursements	581,970	2,481	584,451	-
4820 Donated Food	114,013	-	114,013	-
Total Nonoperating Revenue	702,429	2,499	704,928	-
Income (Loss) Before Transfers	55,147	(37,454)	17,693	323,465
8110 Transfers In (Note 7)	-	46,494	46,494	-
Change in Net Position	55,147	9,040	64,187	323,465
Net Position -- Beginning	601,315	46,873	648,188	635,450
Net Position -- Ending	\$ 656,462	\$ 55,913	\$ 712,375	\$ 958,915

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

**PROPRIETARY FUNDS STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

	Food Service Fund	Tuition Services Fund	Total Proprietary Funds	Internal Service Funds
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 434,252	\$ 207,760	\$ 642,012	\$ -
Receipts from Interfund Services Provided	-	-	-	2,128,893
Payments to Suppliers	(498,816)	(32,219)	(531,035)	-
Payments to Employees	(497,001)	(237,010)	(734,011)	-
Claims Paid	-	-	-	(859,630)
Other Disbursements	-	-	-	(776,528)
Net Cash Provided by (Used in) Operating Activities	(561,565)	(61,469)	(623,034)	492,735
Cash Flows from Noncapital Financing Activities:				
Operating Subsidies	532,719	2,685	535,404	-
Transfers In	-	46,494	46,494	-
Receipts from (Payments to) Other Funds	(4,787)	208	(4,579)	-
Other Receipts	39	18	57	-
Net Cash Provided by Noncapital Financing Activities	527,971	49,405	577,376	-
Cash Flows Used in Capital and Related Financing Activities:				
Purchase of Equipment	(8,489)	-	(8,489)	-
Net Change in Cash and Cash Equivalents	(42,083)	(12,064)	(54,147)	492,735
Cash and Cash Equivalents at Beginning of Year	442,177	20,350	462,527	543,701
Cash and Cash Equivalents at End of Year	\$ 400,094	\$ 8,286	\$ 408,380	\$ 1,036,436
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Operating Income (Loss)	\$ (647,282)	\$ (39,953)	\$ (687,235)	\$ 323,465
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities:</i>				
Depreciation Expense	11,593	-	11,593	-
Value of Donated Commodities Used	80,276	-	80,276	-
<i>Change in Assets and Liabilities:</i>				
Accounts Receivable	(181)	(3,928)	(4,109)	28,271
Inventories	2,397	-	2,397	-
Prepaid Expense	903	-	903	63,986
Pension Asset	53,946	28,412	82,358	-
Pension Related Deferred Outflows	(26,409)	(13,909)	(40,318)	-
Accounts Payable	2,423	167	2,590	13
Incurred But Not Reported Claims	-	-	-	77,000
Contracts Payable	(692)	(8,388)	(9,080)	-
Accrued Payroll Deductions	(2,088)	(3,584)	(5,672)	-
Unearned Revenue	2,273	108	2,381	-
Pension Related Deferred Inflows	(38,724)	(20,394)	(59,118)	-
Net Cash Provided by (Used in) Operating Activities	\$ (561,565)	\$ (61,469)	\$ (623,034)	\$ 492,735
Noncash Investing, Capital and Financing Activities:				
Value of Commodities Received	\$ 114,013	\$ -	\$ -	\$ -

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

**STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016**

	<u>Agency Funds</u>
<u>ASSETS:</u>	
Cash and Cash Equivalents (Note 2)	\$ 142,041
<hr/> <hr/>	
<u>LIABILITIES:</u>	
Amounts Held for Others	\$ 142,041
<hr/> <hr/>	

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

(1) Summary of Significant Accounting Policies

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

Financial Reporting Entity

The reporting entity of Douglas School District No. 51-1 (the District), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The Funds included in this report are controlled by or dependent upon the Douglas School Board of Education.

The District participates in a cooperative service unit with several other school districts. See Note 8 entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the District.

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and the Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. Eliminations have been made to prevent the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. 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 is displayed in three components, as applicable, invested in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

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

DOUGLAS SCHOOL DISTRICT 51-1

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Fund Financial Statements (Continued):

A fund is considered major if it is the primary operating fund of the 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 five percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

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

Governmental Funds:

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

Special Revenue Fund Types – Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Special Revenue Funds of the District include the following:

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 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 District's share of retirement plan contributions, and for funding early retirement benefits to qualifying employees. This fund is financed by property taxes. This is a major fund.

Capital Projects Fund – Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Capital Projects Fund – This fund was established to account for financial resources to be used for the construction of the new school. This fund is financed by Impact Aid grant dollars. This is a major fund.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2016

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Concluded)

Proprietary Funds:

Enterprise Fund Types – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

Tuition Services Fund – A fund used to record the financial transactions related to daycare, driver's education, preschool, and after school program service operations. This fund is financed through user charges. This is a major fund.

Internal Service Fund Types – Internal Service Funds are used to report activities that provide goods or services to other funds, departments, or agencies of the District, or to other governments, on a cost-reimbursement basis. The Health Insurance, Dental Insurance, and Unemployment Insurance Funds are internal service funds maintained by the District. Internal service funds are never considered to be major funds.

Fiduciary Funds:

Agency Funds – Agency Funds are used to account for resources held by the District in a purely custodial capacity (assets equal liabilities). Since Agency Funds are custodial in nature, they do not involve the measurement of results of operations. The District maintains a variety of Agency Funds. Agency Funds are established to account for the monies earned by student organizations for various expenditures. The other Agency Funds account for the monies contributed by employees for health and dependent care expenses. A fiduciary fund is never considered to be a major fund.

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 funds.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2016

(1) Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting:

Government-wide Financial Statements:

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

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the District, the length of that cycle is 60 days. Reported deferred inflows of resources are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. For the District, these consist primarily of property taxes.

Expenditures generally are recognized when the related fund liability is incurred.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Unearned revenues reported in the proprietary fund consist of advance food service sales.

Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

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

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses," including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate.

Capital Assets

Capital assets include land, buildings, machinery and equipment, improvements, 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.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

(1) Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

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.

Depreciation of all exhaustible fixed 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) for land, buildings, improvements, and equipment are all set at \$5,000. The depreciation method used for buildings, improvements, and equipment is straight-line. Land is an inexhaustible capital asset and is not depreciated.

The estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

Buildings	10-60 years
Improvements Other than Buildings	10-20 years
Equipment	10-20 years

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.

Long-Term Liabilities

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist of vacation payable, voluntary separation (early retirement benefits) payable, sick leave/severance payable and Energy Efficient Lighting debt.

Annual vacation is earned by the employees at the rate of 10 to 20 days per year based on an employee's number of years of service. Upon termination, employees are entitled to receive compensation for their accrued vacation at their current rate of pay. The amount of this compensation shall not exceed vacation time earned during a two-year period.

Certified employees may participate in a voluntary separation program. Upon meeting certain criteria, cash benefits equal to their current salary times five percent times their years of service (maximum of 20 years) may be paid in one payment or multiple payments to the eligible employees upon termination. The District's total payments for voluntary separation may not exceed two percent of the budget for certified instructional salaries in any given year. A long-term liability is recognized for the total benefits calculated to be payable in future periods. As of June 30, 2016, there are four employees who have applied and been approved for separation. No discount rate was used to estimate the effect of making the cash payments over a three-year period, as it would be insignificant.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2016

(1) Summary of Significant Accounting Policies (Continued)

Long-Term Liabilities (Continued)

Sick leave/severance pay is earned by the employees at the rate of 6 to 15 days per year based on annual hours of work. Upon termination, administrators, directors, classified and certified employees attaining age 45 with at least ten years of service are entitled to receive compensation for their respective accrued sick leave balance at one-half of their accumulated balance at a rate equal to an average of the employee's daily rate of pay over the five-year period immediately preceding termination, in the form of a severance bonus.

Funding for annual leave, voluntary separation, and sick leave is expended in the General and the Special Education Funds.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. The payment of these long-term liabilities is reported as expenditures. The accounting for the proprietary fund is on the accrual basis, the same as in the government-wide statements.

Program Revenues

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

Proprietary Funds Revenue and Expense Classifications

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

Cash and Cash Equivalents

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

Use of Estimates

The preparation of the financial statements in accordance with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of certain financial statement balances. Actual results could vary from the estimates used.

DOUGLAS SCHOOL DISTRICT 51-1

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(1) Summary of Significant Accounting Policies (Continued)

Equity Classifications

Government-wide Financial Statements:

Equity is classified as net position and is displayed in three components:

1. Investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and related debt.
2. Restricted net position – Consists of net assets 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 assets that do not meet the definition of “restricted” or “invested in capital assets.”

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

Fund Financial Statements:

Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for the Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

Governmental fund equity is classified as fund balance and is classified 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, Superintendent and Business Manager.

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

The District uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made. As of year-end, the District had no committed or assigned fund balances.

The Government does not have a formal minimum fund balance policy.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

(1) Summary of Significant Accounting Policies (Concluded)

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

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

Pensions

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

(2) Deposits and Investments

The 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 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; 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 deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent. State law limits eligible investments for the District. The District has no investment policy that would further limit its investment choices or limit maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

As of June 30, 2016, the District's cash and investments consisted only of checking, savings, and SDFIT Money Market.

DOUGLAS SCHOOL DISTRICT 51-1

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(2) Deposits and Investments (Continued)

The bank balances at June 30, 2016 are as follows, excluding SDFIT:

	<u>Bank Balance</u>
Insured - FDIC	\$ 500,000
Uninsured, collateralized in accordance with SDCL 4-6A-3	10,045,448
Total Deposits	\$ 10,545,448

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing purposes. It is regulated by a nine member board with representation from municipalities, school districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis. SDFIT is measured as a Level 2 recurring fair value measurement according to the fair value hierarchy.

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The District's policy is to credit all income from deposits and investments to the General Fund. US GAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities. These interfund transfers are not violations of the statutory restrictions on interfund transfers.

(3) Inventory

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

In the government-wide financial statements and 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.

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

(4) Property Taxes

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, 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 counties bill and collect the District's taxes and remit them to the District.

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

DOUGLAS SCHOOL DISTRICT 51-1

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(5) Changes in Capital Assets

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

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	Balance <u>June 30, 2016</u>
Governmental Activities:					
Capital Assets, not Depreciated:					
Land	\$ 621,900	\$ -	\$ -	\$ -	\$ 621,900
Construction Work in Progress	12,388,573	-	-	(12,388,573)	-
	<u>13,010,473</u>	<u>-</u>	<u>-</u>	<u>(12,388,573)</u>	<u>621,900</u>
Capital Assets, Depreciated:					
Buildings	36,512,907	1,923,114	-	12,388,573	50,824,594
Improvements Other Than Buildings	3,106,234	31,134	-	-	3,137,368
Equipment	8,448,837	590,097	(149,818)	-	8,889,116
	<u>48,067,978</u>	<u>2,544,345</u>	<u>(149,818)</u>	<u>12,388,573</u>	<u>62,851,078</u>
Less Accumulated Depreciation for:					
Buildings	18,502,327	983,990	-	-	19,486,317
Improvements Other Than Buildings	2,211,298	144,373	-	-	2,355,671
Equipment	5,852,737	908,457	(146,527)	-	6,614,667
	<u>26,566,362</u>	<u>2,036,820</u>	<u>(146,527)</u>	<u>-</u>	<u>28,456,655</u>
Governmental Capital Assets, Net	\$ 34,512,089	\$ 507,525	\$ (3,291)	\$ -	\$ 35,016,323

Depreciation expense was charged to functions within governmental activities as follows:

Instruction	\$ 1,308,157
Support Services	708,555
Co-curricular Activities	20,108
Total Depreciation Expense	\$ 2,036,820

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

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2016</u>
Business-Type Activities:				
Capital Assets, Depreciated:				
Equipment	\$ 234,822	\$ 8,489	\$ -	\$ 243,311
Less Accumulated Depreciation for:				
Equipment	137,808	11,593	-	149,401
Business-Type Capital Assets, Net	\$ 97,014	\$ (3,104)	\$ -	\$ 93,910

DOUGLAS SCHOOL DISTRICT 51-1

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(6) Long-Term Liabilities

During the year ended June 30, 2013, the District entered into a non-interest bearing debt agreement to finance the purchase and installation of new energy efficient lighting. The loan requires annual payments of \$136,144 ending July 1, 2023. The loan is serviced out of the General Fund.

A summary of the changes in long-term liabilities for the year ended June 30, 2016, is as follows:

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
Energy Efficient Lighting Debt	\$ 1,088,072	\$ -	\$ (136,144)	\$ 951,928	\$ 136,144
Vacation Liability	77,338	67,281	(67,990)	76,629	77,000
Voluntary Separation Liability	16,624	174,064	(159,808)	30,880	18,315
Severance Pay (Sick Leave) Liability	735,970	76,581	(155,417)	657,134	331,000
General Long-Term Debt	\$ 1,918,004	\$ 317,926	\$ (519,359)	\$ 1,716,571	\$ 562,459

The remaining voluntary separation liability is payable from the General and Special Education Funds as follows for the fiscal years ending June 30:

2017	\$ 18,315
2018	6,282
2019	6,283
	<u>\$ 30,880</u>

The remaining energy efficient lighting debt is payable as follows for the fiscal years ending June 30:

	<u>Principal</u>
2017	\$ 136,144
2018	136,144
2019	136,144
2020	136,144
2021	136,144
2022-2023	271,208
	<u>\$ 951,928</u>

(7) Interfund Transfers and Balances

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

	Transfer In	Transfer Out
General Fund	\$ -	\$ (2,974,280)
Capital Outlay Fund	-	(117,200)
Capital Projects Fund	3,019,986	-
Special Education Fund	25,000	-
Tuition Services Fund	46,494	-
Total	\$ 3,091,480	\$ (3,091,480)

Transfers are used to move unrestricted Impact Aid revenue (included in the General Fund) to other funds to finance various programs in accordance with budgetary authorizations. Transfers are also used to move interest earnings from the fund making the investment to the General Fund and to move Impact Aid money for construction from the Capital Outlay Fund to the Capital Projects Fund.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

(7) Interfund Transfers and Balances (Continued)

The food service fund advanced \$4,579 to the general fund during the year ended June 30, 2016 for payment of workers' compensation insurance. The amount is anticipated to be repaid in fiscal year 2017.

(8) Joint Ventures

The District participates in the Black Hills Special Services Cooperative (the Co-op), a cooperative service unit formed for the purpose of providing special educational services to the member school districts. During the year ended June 30, 2016, the District paid **\$379,644** for services provided by the Co-op. The Co-op's governing board (the Board) is composed of one representative from each member school district, who is a school board member. The Board is responsible for adopting the Co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The District retains no equity in the net assets of the Co-op, but does have a responsibility to fund deficits of the Co-op in proportion to the relative participation described below.

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

Spearfish School District No. 40-2	8.33%
Lead-Deadwood School District No. 40-1	8.33%
Oelrichs School District No. 23-3	8.33%
Meade School District No. 46-1	8.33%
Rapid City Area School District No. 51-4	8.33%
Belle Fourche School District No. 9-1	8.33%
Custer School District No. 16-1	8.33%
Douglas School District No. 51-1	8.33%
Edgemont School District No. 23-1	8.33%
Haakon School District No. 27-1	8.33%
Hill City School District No. 51-2	8.33%
Hot Springs School District No. 23-2	8.33%

Separate financial statements for this joint venture are available from Black Hills Special Services Cooperative, Sturgis, South Dakota. At June 30, 2016, this joint venture had total fund equity of \$3,732,305 (unaudited) and long-term debt of \$145,128 (unaudited).

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

(9) Risk Management

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

Employee Health Insurance:

The District has self-insurance for health insurance through a third-party. The health insurance plan is accounted for in an Internal Service Fund of the District. As part of the health care coverage, the District purchases re-insurance which pays in excess of \$50,000 per employee and claims in excess of \$1,386,746 in the aggregate. The District's health insurance claims incurred but not reported at June 30, 2016 totaled **\$77,000**. The District had net position in the Health Insurance Fund in the amount of **\$869,650** and net position in the Dental Insurance Fund in the amount of **\$13,647** for the payment of health and dental insurance claims.

Changes in the aggregate liabilities of the self insurance funds during fiscal year 2015 were as follows:

	<u>Health Insurance</u>
Benefit Claims Payable at June 30, 2014	\$ 138,080
<i>Claims Incurred:</i>	
Attributable to Insured Events of the Current Year	650,218
<i>Claims Paid:</i>	
Attributable to Insured Events of Current and Prior Years	852,284
	<hr/>
Prepaid Expense at June 30, 2015	\$ (63,986)
	<hr/>

Changes in the aggregate liabilities of the self insurance funds during fiscal year 2016 were as follows:

	<u>Health Insurance</u>
Prepaid Expense at June 30, 2015	\$ (63,986)
<i>Claims Incurred:</i>	
Attributable to Insured Events of the Current Year	1,000,616
<i>Claims Paid:</i>	
Attributable to Insured Events of Current and Prior Years	859,630
	<hr/>
Benefit Claims Payable at June 30, 2016	\$ 77,000
	<hr/>

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2016

(9) Risk Management (Continued)

Property/Liability Insurance:

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

The agreement with the ASBSD-PLF provides that the above coverage will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$100,000 to the upper limit. The District carries various deductibles for various types of coverage.

The District carries additional insurance to cover claims in excess of the upper limit up to \$5 million. Settled claims resulting from these risks have not exceeded liability coverage during the past three years.

Unemployment Benefits:

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

The District has designated a part of its unrestricted net position as equity in the Unemployment Insurance - Internal Service Fund in the amount of **\$75,619** for the payment of future unemployment benefits.

During the year ended June 30, 2016, claims totaling approximately \$5,000 for unemployment benefits were filed.

Workmen's Compensation:

The 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.

(10) Impact Aid

The District receives a significant portion of their revenue from federal Impact Aid grants. Impact Aid activity is included in the General Fund for the year ended June 30, 2016, which includes unrestricted grants-in-aid received directly from federal government of \$4,058,673, earnings on investments and deposits of \$986, and expenditures (transfers out) of \$7,225,298. As of June 30, 2016, the General Fund fund balance resulting from Impact Aid activity totaled \$6,582,523, of which \$-0- is assigned to next year's budget.

(11) Pension Plan

All employees, working more than 20 hours per week during the school year, participate in the 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.

DOUGLAS SCHOOL DISTRICT 51-1

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(11) Pension Plan (Continued)

Benefits Provided:

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

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

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent 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, 2016, 2015, and 2014 were **\$949,610**, \$942,118, and \$906,159, respectively, equal to the required contributions each year.

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

At June 30, 2015, SDRS is 104.1 percent funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of SDRS, for the School District as of June 30, 2015 are as follows:

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 89,274,220	\$ 2,909,359	\$ 92,183,579
Less: Proportionate Share of Total Pension Liability	85,760,683	2,794,856	88,555,539
Proportionate Share of Net Pension Asset	\$ 3,513,537	\$ 114,503	\$ 3,628,040

DOUGLAS SCHOOL DISTRICT 51-1

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(11) Pension Plan (Continued)

At June 30 2016, the District reported an asset of \$3,628,040 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015 and the total pension asset used to calculate the net pension asset was based on a projection of the District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the District's proportion was 0.8554103%.

For the year ended June 30, 2016, the District recognized pension expense of \$410,727. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ 742,857	\$ -
Changes in Assumption	2,876,807	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	2,216,308	5,353,242
Changes in Proportion and Difference between District Contributions and Proportionate Share of Contributions	33,526	-
District Contributions Subsequent to the Measurement Date	949,610	-
Total	\$ 6,819,108	\$ 5,353,242

Deferred outflow of resources includes \$949,610 resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension revenue by the District in 2017 through 2020, and by the Plan as follows:

2016	\$ 181,659
2017	181,659
2018	(452,746)
2019	605,684
	<u>\$ 516,256</u>

Actuarial Assumptions:

The total pension asset in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Investment Rate of Return	7.25 percent through 2017 and 7.50 percent thereafter, net of pension plan investment expense

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

JUNE 30, 2016

(11) Pension Plan (Concluded)

Actuarial Assumptions (Continued):

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	61.0%	4.5%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.2%
Cash	2.0%	0.0%
	<u>100.0%</u>	

Discount Rate:

The discount rate used to measure the total pension asset was 7.25 percent through 2017 and 7.50 percent 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 will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of Asset to Changes in the Discount Rate:

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

	Current Discount		
	1% Decrease	Rate	1% Increase
District's Proportionate Share of the Net Pension Asset	\$ (9,131,735)	\$ 3,628,040	\$ 14,032,537

Pension Plan Fiduciary Net Position:

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

REQUIRED SUPPLEMENTARY INFORMATION

DOUGLAS SCHOOL DISTRICT 51-1

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final		
Revenues:				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 2,706,000	\$ 2,706,000	\$ 2,822,189	\$ 116,189
1120 Prior Years' Ad Valorem Taxes	100,000	100,000	36,991	(63,009)
1130 Tax Deed Revenue	90,000	90,000	266	(89,734)
1140 Gross Receipts Taxes	10,000	10,000	210,986	200,986
1190 Penalties and Interest on Taxes	20,000	27,375	7,156	(20,219)
1500 Earnings on Investments and Deposits	200	200	227	27
<i>1700 Co-curricular Activities:</i>				
1710 Admissions	16,000	16,000	14,620	(1,380)
1740 Rentals	250	250	190	(60)
1790 Other Pupil Activity Income	3,000	3,000	3,101	101
<i>1900 Other Revenue from Local Sources:</i>				
1910 Rentals	-	-	3,287	3,287
1950 Refund of Prior Year's Expenditures	-	-	2,357	2,357
1990 Other	8,000	8,000	22,605	14,605
2110 County Apportionment	195,000	195,000	244,135	49,135
<i>3000 Revenue from State Sources:</i>				
3110 Unrestricted Grants-in-Aid	10,654,120	10,654,120	10,967,613	313,493
<i>4000 Revenue from Federal Sources:</i>				
4120 Unrestricted Grants-in-Aid Received from Federal Government Through State	4,100	4,100	595	(3,505)
4140 Restricted Grants-in-Aid Received Directly from Federal Government	-	41,272	31,961	(9,311)
4150-4199 Restricted Grants-in-Aid Received from Federal Government Through State	-	908,649	888,844	(19,805)
4900 Other Federal Revenue	-	91,451	91,513	62
Total Revenues	13,806,670	14,855,417	15,348,636	493,219

Expenditures:

1100 Instruction - Regular Programs:

1110 Elementary	5,555,031	5,585,831	5,271,599	314,232
1120 Middle/Junior High	2,682,226	2,747,626	2,728,861	18,765
1130 High School	3,085,205	3,147,617	2,949,465	198,152

1200 Instruction - Special Programs:

1210 Gifted and Talented	26,369	26,370	25,081	1,289
1250 Culturally Different	42,759	42,760	40,338	2,422
1270 Educationally Deprived	-	472,395	479,201	(6,806)
1290 Other Special Programs	-	34,982	34,970	12

DOUGLAS SCHOOL DISTRICT 51-1

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final		
<i>2100 Support Services - Pupils:</i>				
2110 Attendance and Social Work	62,000	62,000	62,420	(420)
2120 Guidance	518,727	525,420	507,655	17,765
2130 Health	5,850	5,850	3,728	2,122
<i>2200 Support Services - Instructional Staff:</i>				
2210 Improvement of Instruction	51,154	400,367	381,218	19,149
2220 Educational Media	1,069,002	1,069,002	972,835	96,167
<i>2300 Support Services - General:</i>				
2310 Board of Education	112,742	114,917	98,911	16,006
2320 Executive Administration	379,988	379,988	371,803	8,185
<i>2400 Support Services - School:</i>				
2410 Office of the Principal	959,194	959,192	920,847	38,345
2440 Title I Program Administration	-	12,822	10,166	2,656
<i>2500 Support Services - Business:</i>				
2520 Fiscal Services	281,717	281,717	260,552	21,165
2540 Operation and Maintenance of Plant	2,183,488	2,265,870	2,164,830	101,040
2550 Pupil Transportation	716,240	717,223	657,620	59,603
2570 Internal Services	79,287	80,507	65,367	15,140
<i>2600 Support Services - Central:</i>				
2630 Information	16,000	16,000	3,990	12,010
2640 Staff	93,205	94,323	92,263	2,060
<i>3000 Community Services:</i>				
3400 Public Library	-	7,375	4,652	2,723
3900 Other	4,300	4,300	4,300	-
<i>4000 Nonprogrammed Charges:</i>				
4500 Early Retirement	209,105	209,105	159,808	49,297
<i>5000 Debt Services</i>				
5000 Debt Services	136,146	136,146	136,144	2
<i>6000 Cocurricular Activities:</i>				
6100 Male Activities	102,990	102,990	99,503	3,487
6200 Female Activities	54,650	54,542	56,171	(1,629)
6900 Combined Activities	542,086	542,086	471,122	70,964
7000 Contingencies	235,539	235,547	-	235,547
Total Expenditures	19,205,000	20,334,870	19,035,420	1,299,450
Excess of Revenue Over (Under) Expenditures	(5,398,330)	(5,479,453)	(3,686,784)	1,792,669
Other Financing Sources:				
5110 Transfers In	5,398,330	5,398,330	4,251,018	(1,147,312)
5130 Sale of Surplus Property	-	-	3,594	3,594
Total Other Financing Sources	5,398,330	5,398,330	4,254,612	(1,143,718)
Net Change in Fund Balances	-	(81,123)	567,828	648,951
Fund Balance -- Beginning	(263,213)	(263,213)	(263,213)	-
Fund Balance -- Ending	\$ (263,213)	\$ (344,336)	\$ 304,615	\$ 648,951

The accompanying supplementary notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

CAPITAL OUTLAY FUND

FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual -		Variance
	Original	Final	Budgetary Basis		
Revenues:					
<i>1000 Revenue from Local Sources:</i>					
1110 Ad Valorem Taxes	\$ 1,203,000	\$ 1,200,000	\$ 1,411,789	\$ 211,789	
1120 Prior Years' Ad Valorem Taxes	40,000	40,000	14,970	(25,030)	
1130 Tax Deed Revenue	-	-	172	172	
1190 Penalties and Interest on Taxes	10,000	10,000	2,850	(7,150)	
<i>1900 Other Revenue from Local Sources:</i>					
1990 Other	1,500	1,500	1,868	368	
<i>4000 Revenue from Federal Sources:</i>					
4150-4199 Restricted Grants-in-Aid Received from Federal Government Through State	-	-	117,200	117,200	
4900 Other Federal Revenue	103,030	103,030	167,233	64,203	
Total Revenues	1,357,530	1,354,530	1,716,082	361,552	
Expenditures:					
<i>1100 Instruction - Regular Programs:</i>					
1110 Elementary	469,500	469,500	377,805	91,695	
1120 Middle/Junior High	193,030	193,030	173,122	19,908	
1130 High School	164,590	164,590	113,780	50,810	
<i>1200 Special Programs</i>					
1220 Programs for Special Education	1,625	1,625	1,621	4	
<i>2200 Support Services - Instructional Staff:</i>					
2220 Educational Media	110,225	110,225	77,666	32,559	
<i>2500 Support Services - Business:</i>					
2520 Fiscal Services	9,070	9,070	-	9,070	
2530 Facilities Acquisition and Construction	45,000	45,000	43,756	1,244	
2540 Operation and Maintenance of Plant	124,670	124,670	55,277	69,393	
2550 Pupil Transportation	187,870	268,760	269,090	(330)	
2560 Food Services	5,525	5,525	-	5,525	
2570 Internal Services	-	-	59,372	(59,372)	
<i>3000 Community Services:</i>					
3400 Public Library	800	800	780	20	
<i>6000 Co-curricular Activities:</i>					
6900 Combined Activities	45,625	45,625	43,217	2,408	
Total Expenditures	1,357,530	1,438,420	1,215,486	222,934	
Excess of Revenue Over (Under) Expenditures	-	(83,890)	500,596	584,486	
Other Financing Sources (Uses):					
5130 Sale of Surplus Property	-	-	4,064	4,064	
8110 Transfers Out	-	-	(117,200)	(117,200)	
Total Other Financing Sources (Uses)	-	-	(113,136)	(113,136)	
Net Change in Fund Balances	-	(83,890)	387,460	471,350	
Fund Balance -- Beginning	647,416	647,416	647,416	-	
Fund Balance -- Ending	\$ 647,416	\$ 563,526	\$ 1,034,876	\$ 471,350	

The accompanying supplementary notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

SPECIAL EDUCATION FUND

FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual -	Variance
	Original	Final	Budgetary Basis	
Revenues:				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 689,000	\$ 689,000	\$ 741,616	\$ 52,616
1120 Prior Years' Ad Valorem Taxes	20,000	20,000	7,915	(12,085)
1190 Penalties and Interest on Taxes	4,000	4,000	1,596	(2,404)
<i>1900 Other Revenue from Local Sources:</i>				
1950 Refund of Prior Year's Expenditures	-	-	822	822
<i>3000 Revenue from State Sources:</i>				
3120 Restricted Grants-in-Aid	1,750,000	1,750,000	1,816,049	66,049
<i>4000 Revenue from Federal Sources:</i>				
4140 Restricted Grants-in-Aid Received				
Directly from Federal Government	100,000	100,000	92,676	(7,324)
4150-4199 Restricted Grants-in-Aid Received				
from Federal Government Through State	611,471	611,471	611,471	-
Total Revenues	3,174,471	3,174,471	3,272,145	97,674
Expenditures:				
<i>1200 Instruction - Special Programs:</i>				
1220 Programs for Special Education	1,916,308	1,916,315	1,844,306	72,009
<i>2100 Support Services - Pupils:</i>				
2110 Attendance and Social Work	38,150	37,400	38,150	(750)
2120 Guidance	68,231	68,234	67,154	1,080
2130 Health	167,931	167,934	161,045	6,889
2140 Psychological	117,905	117,905	117,905	-
2150 Speech Pathology	286,322	286,770	286,622	148
2170 Student Therapy Services	111,850	111,850	106,850	5,000
<i>2700 Support Services - Special Education</i>				
2710 Administrative Costs	275,368	275,366	260,022	15,344
2730 Transportation Costs	255,003	255,003	196,824	58,179
2750 Other Special Education Costs	77,000	77,000	28,080	48,920
4500 Early Retirement	25,902	25,902	-	25,902
7000 Contingencies	66,530	-	-	-
Total Expenditures	3,406,500	3,339,679	3,106,958	232,721
Excess of Revenue Over (Under) Expenditures	(232,029)	(165,208)	165,187	330,395
Other Financing Sources:				
5110 Transfers In	508,396	508,396	25,000	(483,396)
Net Change in Fund Balances	276,367	343,188	190,187	(153,001)
Fund Deficit -- Beginning	(9,768)	(9,768)	(9,768)	-
Fund Balance -- Ending	\$ 266,599	\$ 333,420	\$ 180,419	\$ (153,001)

The accompanying supplementary notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

PENSION FUND

FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final		
Revenues:				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 130,750	\$ 130,750	\$ 141,166	\$ 10,416
1120 Prior Years' Ad Valorem Taxes	3,750	3,750	1,516	(2,234)
1130 Tax Deed Revenue	-	-	17	17
1190 Penalties and Interest on Taxes	500	500	285	(215)
Total Revenues	135,000	135,000	142,984	7,984
Expenditures:				
<i>1100 Instruction - Regular Programs:</i>				
1110 Elementary	60,750	60,750	60,750	-
1120 Middle/Junior High	33,750	33,750	33,750	-
1130 High School	40,500	40,500	40,500	-
Total Expenditures	135,000	135,000	135,000	-
Net Change in Fund Balances	-	-	7,984	7,984
Fund Balance -- Beginning	310,659	310,659	310,659	-
Fund Balance -- Ending	\$ 310,659	\$ 310,659	\$ 318,643	\$ 7,984

The accompanying supplementary notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION ASSET
JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Asset	0.8554103%	0.8657797%
District's Proportionate Share of Net Pension Asset	\$ 3,628,040	\$ 6,237,588
District's Covered-Employee Payroll	\$ 15,609,731	\$ 15,158,516
District's Proportionate Share of the Net Pension Asset as a Percentage of its Covered-Employee Payroll	23.24%	41.15%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset	104%	107%

DOUGLAS SCHOOL DISTRICT 51-1

**SCHEDULE OF THE DISTRICT CONTRIBUTIONS
JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 949,610	\$ 942,118
Contributions in Relation to the Contractually Required Contribution	949,610	942,118
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 15,905,933	\$ 15,617,985
Contributions as a Percentage of Covered- Employee Payroll	6.0%	6.0%

DOUGLAS SCHOOL DISTRICT 51-1

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

1. Budgets and Budgetary Accounting

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

- 1) Prior to the first regular board meeting in May of each year, the 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 each year.
- 3) The proposed budget is published for public review no later than July 15th each year.
- 4) Public hearings are held to solicit taxpayer input prior to the approval of the budget.
- 5) Before October 1st of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, with the exception of 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 five percent of the total District budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
- 8) If it is determined during the year that sufficient amounts have not been budgeted, state statute allows 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) The budgets for the General Fund and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), except for the following:

The financial statements prepared in conformity with US GAAP 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 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 Required Supplementary Information Schedule, the purchase of a bus would be reported as an expenditure of the Support Services/Pupil Transportation function of government, along with all other current Pupil Transportation related expenditures.

The financial statements prepared in conformity with US GAAP present federal impact aid grants as revenue and related transfers out to the capital outlay fund and special education fund to meet operational needs of the other funds as blended activity in the General Fund following the implementation of GASB 54. However, under the budgetary basis of accounting, the impact aid revenue and related transfers out are not included in the Budgetary Required Supplementary Schedule for the General Fund. The following information is provided for purposes of reconciling the two schedules:

Impact Aid Revenue	
Unrestricted Grants-in-Aid Received Directly	
from Federal Government	\$ 4,058,673
Earnings on Investments and Deposits	986
Total Impact Aid Revenue	<u>4,059,659</u>
Transfers out of Impact Aid Revenue to Other Funds	<u>(7,225,299)</u>
Net Change in Fund Balance – Impact Aid	<u><u>\$ (3,165,640)</u></u>

SINGLE AUDIT SECTION

DOUGLAS SCHOOL DISTRICT 51-1

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2016**

The District is confident the financial statements are accurate and is willing to accept the risk associated with the auditors preparing the financial statement; therefore, this finding, originally issued years ago, will be repeated for the year ending June 30, 2016 as 2016-001.

The District continues to work on having all adjustments made prior to the annual audit, but the results of the current audit again resulted in significant audit adjustments; therefore, this finding, originally issued in fiscal year 2009, will be repeated for the year ending June 30, 2016 as 2016-002. The recurrence of the finding is due to incomplete review of depreciation schedules and mathematical errors in preparing year end adjusting entries. See Corrective Action Plan.

The District continues to update and implement to internal control processes when necessary and as a result finding 2015-003 will not be repeated in 2016.

The District implemented processes to track vendors that are suspended/debarred and as a result finding 2015-004 will not be repeated in 2016.

DOUGLAS SCHOOL DISTRICT 51-1

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016**

A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the financial statements of Douglas School District 51-1 (the District).
2. Material weaknesses and a significant deficiency were disclosed during the audit of the financial statements as reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of the District were disclosed during the audit.
4. There are no findings reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for the District expresses an unmodified opinion.
6. The programs tested as major programs are the Impact Aid Cluster, CFDA #84.041
7. The threshold for distinguishing Type A and B programs was \$750,000.
8. The District was not determined to be a low-risk auditee.

B. FINDINGS – Financial Statement Audit

Material Weaknesses

2016-001 Preparation of Financial Statements

Condition and Cause: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. From a practical standpoint, we do both for the District at the same time in connection with our audit. This is not unusual for us to do with organizations of the District's size.

Criteria and Effect: Accounting standards require auditors to communicate this situation to the School Board as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the District's financial statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. This deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the District's management.

DOUGLAS SCHOOL DISTRICT 51-1

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2016**

B. FINDINGS – Financial Statement Audit (Continued)

Material Weaknesses (Continued)

2016-001 Preparation of Financial Statements (Continued)

Questioned Costs: None

Recommendation: We have instructed management to review a draft of the auditor prepared financials in detail for its accuracy; we have answered any questions they might have and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the District's statements. We are satisfied that the appropriate steps have been taken to provide the District with the completed financial statements. It is the responsibility of management and the School Board to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Applicable Major Programs: None

Response/Corrective Action Plan: Management is in agreement with the finding. See attached Corrective Action Plan.

2016-002 Audit Adjustments

Condition and Cause: During the course of our engagement, we proposed material audit adjustments. We also assisted in recording the current year effects of GASB 68 *Accounting and Reporting for Pensions*. Additionally, other entries were proposed as part of the audit, but were not recorded due to the overall insignificance on the financial statements.

Criteria and Effect: District management is responsible for year-end account balances. These adjustments were not recorded through the District's existing internal controls, and therefore, resulted in misstatements of the District's financial statements.

Recommendation: We recommend management do the following:

- Severance pay liabilities for sick leave should be calculated consistently and in accordance with District policy.
- Amounts owed (or prepaid) for health insurance activity should be agreed to the lag report from the insurance vendor at year-end and adjusted accordingly in the general ledger.
- Property tax receivable and deferred inflows of resources should be adjusted, at least annually, to agree to figures received from the various counties.
- Assets should be capitalized when appropriate.

Response/Corrective Action Plan: Management is in agreement with the finding. See attached Corrective Action Plan.

Significant Deficiency

2016-003 Internal Control Processes

Condition and Cause: During our walk through of the internal control process, we noted that electronic payments made for health insurance and pharmacy claims are not reviewed before payment is made.

DOUGLAS SCHOOL DISTRICT 51-1

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)
JUNE 30, 2016**

B. FINDINGS – Financial Statement Audit (Concluded)

Significant Deficiency (Continued)

2016-003 Internal Control Processes (Continued)

Criteria and Effect: Approval of all electronic payments should be performed by the Business Manager before payment is made. The review of electronic payments will allow for proper internal control of all expenditures to be achieved. Lack of proper authorization and review of electronic payments could lead to unauthorized expenditures or theft.

Recommendations: We recommend that all payments, whether made electronically or otherwise should follow the same internal control and review processes.

Response/Corrective Action Plan: Management is in agreement with the finding. See attached Corrective Action Plan.

C. FINDINGS AND QUESTIONED COSTS – Major Federal Award Program Audit

There were no findings or questioned costs related to the major federal award program audit.

DOUGLAS SCHOOL DISTRICT 51-1

**CORRECTIVE ACTION PLAN
JUNE 30, 2016**

2016-001 Preparation of Financial Statements

Both management and the School Board have been informed of this process and are confident that the information is accurate and are willing to accept this risk. Trista Hedderman, Business Manager, is responsible for the corrective action plan for this finding. There is no anticipated date to change the current process being utilized.

2016-002 Audit Adjustments

The Business Office will develop procedures to review account balances and record necessary adjusting entries prior to fieldwork. Trista Hedderman, Business Manager, is responsible for the corrective action plan for this finding. The anticipated completion date is ongoing.

2016-003 Internal Control Processes

All payments, whether made electronically or otherwise will follow the same internal control and review processes. The anticipated completion date is immediate and has already been implemented. Trista Hedderman, Business Manager, is responsible for the corrective action plan for this finding.

DOUGLAS SCHOOL DISTRICT 51-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

	CFDA Numbers	Amount
<i>U.S. Department of Agriculture:</i>		
Pass-Through the S.D. Department of Education:		
Non-Cash Assistance		
National School Lunch Program (Note 4)	10.555	\$ 80,276
Cash Assistance		
School Breakfast Program (Note 2)	10.553	106,117
National School Lunch Program (Note 2)	10.555	405,317
Total Child Nutrition Cluster		591,710
Fresh Fruit and Vegetable Program	10.582	70,535
Child and Adult Care Food Program	10.558	2,481
Total U.S. Department of Agriculture		664,726
<i>U.S. Department of Defense:</i>		
Direct Federal Funding:		
Promoting K-12 Student Achievement at Military Connected Schools	12.556	85,429
National Defense Authorization Act - Section 386	12.XXX	167,233
Total U.S. Department of Defense		252,662
<i>U.S. Department of the Interior:</i>		
Pass-Through the S.D. Department of Education:		
Taylor Grazing (Note 1)	15.226	100
National Mineral Leasing (Note 1)	15.227	495
Total U.S. Department of the Interior		595
<i>National Science Foundation:</i>		
Pass-Through the S.D. Department of Education		
EpsCore Grant	47.083	19,998
Total National Science Foundation		19,998
<i>U.S. Department of Education:</i>		
Direct Federal Funding:		
Impact Aid -- Maintenance and Operations	84.041	7,435,174
Pass-Through the S.D. Department of Education:		
Title I Programs -- Local Educational Agencies	84.010	649,513
Vocational Education -- Basic Grants to States	84.048	34,971
Title VII Indian Education Grant	84.060	31,961
Improving Teacher Quality	84.367	184,363
<i>Special Education Cluster:</i>		
Special Education -- State Grants (P.L. 94-142)	84.027	588,367
Special Education -- Preschool Grants (P.L. 99-457)	84.173	23,104
Total Special Education Cluster		611,471
Total U.S. Department of Education		8,947,453
Total		\$ 9,885,434

DOUGLAS SCHOOL DISTRICT 51-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 1: Federal reimbursements are not based on specific expenditures; therefore, the amounts reported here represent cash received rather than federal expenditures.

Note 2: These amounts reflect cash received. Federal reimbursements are based on approved rates for services provided rather than reimbursement for specific expenditures.

Note 3: Basis of Presentation: The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting.

Note 4: These amounts include non-monetary assistance which is reported at fair market value of the commodities received and disbursed.

Note 5: The District did not elect to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.



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

School Board
Douglas School District 51-1
Meade and Pennington Counties, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **DOUGLAS SCHOOL DISTRICT NO. 51-1** (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 12, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 Findings and Questioned Costs as Findings 2016-001 and 2016-002 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Finding 2016-003 to be a significant deficiency.

Compliance and Other Matters

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

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The 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 the response.

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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

December 12, 2016



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

School Board
Douglas School District 51-1
Meade and Pennington Counties, South Dakota

Report on Compliance for Each Major Federal Program

We have audited **DOUGLAS SCHOOL DISTRICT'S** (the District's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of audit results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Programs

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

December 12, 2016