



Financial Statements  
June 30, 2015

# Faith School District No. 46-2

School District Officials .....	1
Independent Auditor's Report.....	2
Management's Discussion and Analysis.....	4
Financial Statements	
Statement of Net Position – Exhibit I .....	14
Statement of Activities – Exhibit II .....	15
Balance Sheet – Governmental Funds – Exhibit III.....	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position – Exhibit IV.....	17
Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Exhibit V.....	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities – Exhibit VI .....	20
Statement of Fiduciary Net Position – Fiduciary Funds – Exhibit VII.....	21
Notes to Financial Statements.....	22
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund.....	43
Budgetary Comparison Schedule – Capital Outlay .....	46
Budgetary Comparison Schedule – Special Education .....	47
Schedule of Employer's Share of Net Pension Asset and Schedule of Employer's Contributions .....	48
Notes to the Required Supplementary Information .....	49
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 <i>Government Auditing Standards</i> .....	50
Auditor's Comments.....	52

School Board Chairman	Scott Vance
School Board Vice-Chairman	Noma Welter
School Board Members	Mellissa Vig Lynn Halligan Kevin Groves
Superintendent	Kelly Daughters
Business Manager	Amie Schauer



## Independent Auditor's Report

Members of the School Board  
Faith School District No. 46-2  
Meade County, South Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Faith School District No. 46-2, Meade County, South Dakota (the "School District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Faith School District No. 46-2, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Adoption of New Accounting Standard**

As described in Note 1 and 8 to the financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of July 1, 2014. Our opinions are not modified with respect to this matter.

## **Other Matters**

### **Required Supplementary Information**

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

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Faith School District No. 46-2's financial statements. The school district officials listing is presented for purposes of additional analysis and is not a required part of the financial statements. The school district officials listing has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2015 on our consideration of Faith School District No. 46-2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Faith School District No. 46-2's internal control over financial reporting and compliance.

*Eide Bailly LLP*

Bismarck, North Dakota  
November 25, 2015

This section of Faith School District 46-2's annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year ended on June 30, 2015. Please read it in conjunction with the School's financial statements, which follow this section.

### **Overview of the Financial Statements**

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

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the School's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School government, reporting the School's operations in more detail than the government-wide statements.
  - The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
  - Fiduciary fund statements provide information about the financial relationships – such as the Class of 2015, or the Athletic Fund - in which the School acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

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

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

**Figure A-2**  
**Major Features of Faith School District's Government-wide and Fund Financial Statements**

	Government-wide Statements	Fund Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire School government (except fiduciary funds)	The activities of the School that are not fiduciary, such as elementary and high school education programs.	Instances in which the School 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	*Statement of Fiduciary Net Position *Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.
Type of Asset/Deferred Outflow of Resources/Liability/Deferred Inflow of Resources Information	All assets, deferred outflows, liabilities, and deferred inflows of resources 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, deferred outflows, liabilities, and deferred inflows, both short-term and long-term, the School's funds do not currently contain capital assets although they can.
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid.

**Government-Wide Statements**

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

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

- Increases or decreases in the School's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the School you need to consider additional non-financial factors such as changes in the School's property tax base and changes in the school's state aid funding formula from the State of South Dakota.
- **Governmental Activities** - This category includes the School's basic instructional services, such as elementary, middle and high school educational programs, support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, oral interp, music, etc.) and capital equipment purchases. Property taxes, state grants, federal grants and interest earnings finance most of these activities.

### **Fund Financial Statements**

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

- State Law requires some of the funds (such as Capital Outlay and Special Education.)
- The School Board establishes other funds to control and manage money for particular purposes (such as class accounts).

The School has two kinds of funds:

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

**Financial Analysis of the School as a Whole**

**Net Position**

The School's combined net position increased as follows:

**Table A-1  
Faith School District 46-2  
Statement of Net Position**

	2015	2014
Assets		
Current and other assets	\$ 3,551,946	\$ 2,820,765
Capital assets	4,154,641	4,230,345
Total assets	7,706,587	7,051,110
Deferred outflows of resources		
Pension plans	331,484	-
Liabilities		
Long-term debt outstanding	3,668,606	3,670,842
Other liabilities	121,978	145,269
Total liabilities	3,790,584	3,816,111
Deferred inflows of resources		
Pension plans	432,714	-
Taxes levied for future periods	447,361	421,910
Total deferred inflows of resources	880,075	421,910
Net position		
Net investment in capital assets	512,521	585,045
Restricted	2,268,664	1,655,293
Unrestricted	586,227	572,751
Total net position	\$ 3,367,412	\$ 2,813,089

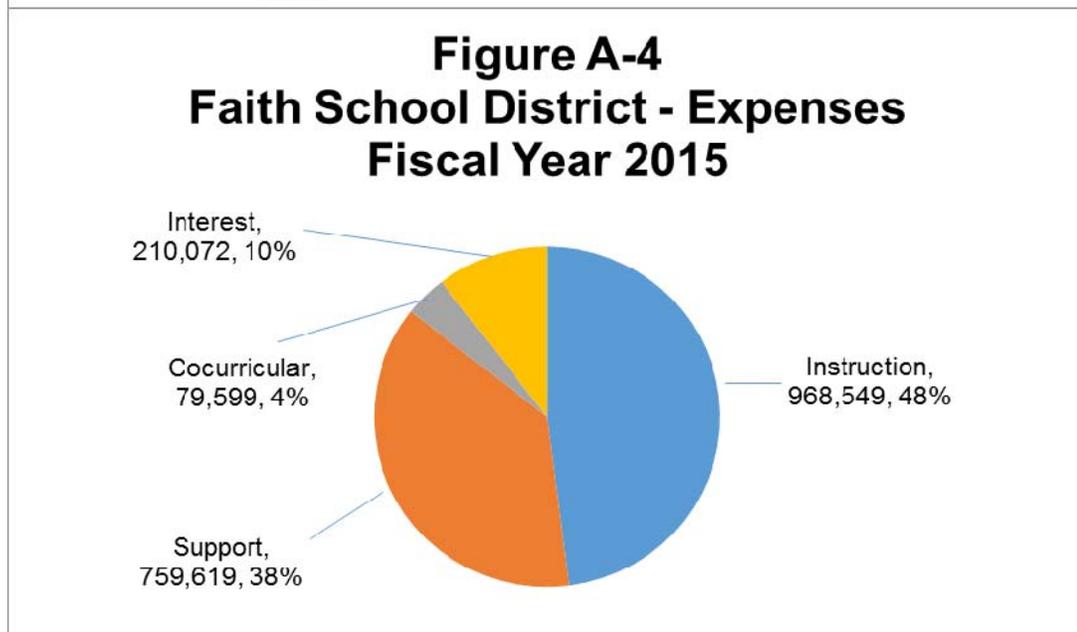
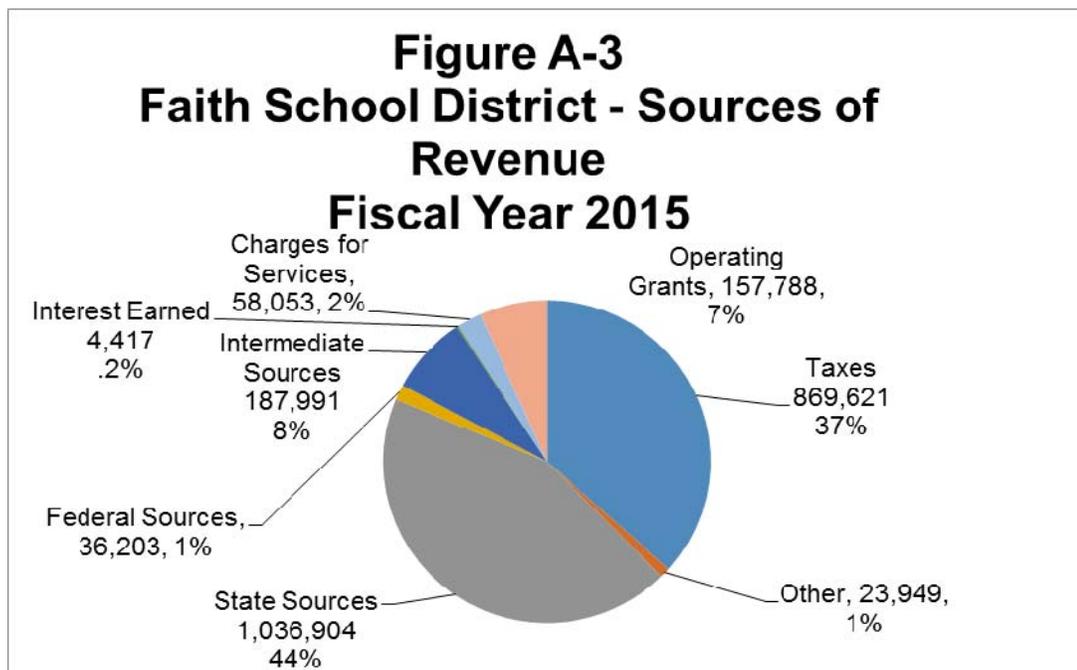
\* Due to the implementation of GASB 68 in the current year, figures may not be comparable to the prior year for some areas of the financial statements.

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and deferred outflows of resources, and liabilities and deferred inflows of resources in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the school, consisting of compensated absences payable, Qualified Zoning Academy Bonds Payable, and capital outlay certificates payable, have been reported on the Statement of Net Position. The difference between the school's assets and deferred outflows of resources, and liabilities and deferred inflows of resources is its net position.

**Changes in Net Position**

The School's total revenues totaled \$2,374,926. (See Table A-2.) Approximately 38% of the School's revenue comes from property and other tax revenue, with another 44% coming from state aid. (See Figure A-3).

The School's expenses totaled \$2,017,839 with approximately 48% to instruction and 38% going to support services. The School's expenses cover a range of services, encompassing instruction, support services co-curricular and interest expense. (See Figure A-4).



**Governmental Activities**

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

**Table A-2  
Faith School District 46-2  
Changes in Net Position**

	<u>Total Governmental Activities 2015</u>	<u>Total Governmental Activities 2014</u>
Revenues		
Program revenues		
Charges for services	\$ 58,053	\$ 50,948
Operating grants and contributions	157,788	216,751
Capital grants and contributions	-	11,488
General revenues		
Taxes	869,621	798,646
Other	23,949	32,518
Revenue state sources	1,036,904	1,016,302
Revenue federal sources	36,203	24,556
Revenue intermediate sources	187,991	185,540
Unrestricted investment earnings	4,417	4,069
Total revenues	<u>2,374,926</u>	<u>2,340,818</u>
Expenses		
Instruction	968,549	1,027,420
Support services	759,619	739,110
Cocurricular activities	79,599	82,797
Interest (unallocated)	210,072	210,070
Total expenses	<u>2,017,839</u>	<u>2,059,397</u>
Revenues over expenses	357,087	281,421
Insurance proceeds	-	13,026
Loss on sale of capital assets	<u>(3,237)</u>	<u>(2,501)</u>
Increase in Net Position	353,850	291,946
Net Position - Beginning of Year (as restated)	<u>3,013,562</u>	<u>2,521,143</u>
Net Position - End of Year	<u>\$ 3,367,412</u>	<u>\$ 2,813,089</u>

\* Due to the implementation of GASB 68 in the current year, figures may not be comparable to the prior year for some areas of the financial statements.

Revenues for governmental activities were \$2,374,926, while total expenses amounted to \$2,017,839, an increase of \$357,087 in net position before other miscellaneous items. The main reasons are:

- An increase in ad valorem taxes and other taxes collected.
- An increase in Bank Franchise tax collected from Ziebach County.

#### **Financial Analysis of the School's Funds**

- In governmental funds, major fund balances changed as follows: General Fund increased \$113,426 due to a conscience effort to limit spending and increased revenue in the form of Bank Franchise tax; Capital Outlay increased \$25,547 over 2014 due to minimal maintenance needed on the new building; and Special Education increased \$19,674 due to additional tax revenue and a change in the billing practices from the NWS Cooperative which supplies the Special Education services for the district.

#### **Budgetary Highlights**

- Fiscal Year 2013 was the first year in the new school facility funded by 17-year 0% federal bonds.
- Faith School staff salaries were increased 1% across the board.
- Enrollment is always a major factor. The fewer the enrollment the less State Aid.

#### **Net Pension Asset**

The District had a net pension asset of \$373,620 at year end due to the implementation of GASB Statement No. 68, which required the reporting of the asset as well as other pension amounts on the statement of activities.

#### **Capital Asset Administration**

By the end of 2015, the School had invested \$4,154,641 in a broad range of capital assets, including, land, buildings, construction in progress and various machinery and equipment. (See Table A-3.) This amount represents a net decrease of \$75,704 (including additions and deletions) over last year resulting from the addition and deletion of equipment and net accumulated depreciation and the restatement of assets. See Note 3 for further information on capital assets.

**Table A-3**  
**Faith School District 46-2**  
**Capital Assets (Net of Depreciation)**

	Governmental Activities	
	2015	2014
Land	\$ 17,377	\$ 17,377
Buildings (net)	3,943,256	3,998,789
Machinery and equipment (net)	194,008	214,179
Total capital assets (net)	\$ 4,154,641	\$ 4,230,345

A group of landowners who have students that attend the Faith School District and also have land that borders the Faith School District but is included in the Meade 46-1 district, petitioned the Meade 46-1 school board to have their land moved from Meade 46-1 into the Faith School District. Their petition was denied and the landowners appealed to the Circuit Court. The appeal failed was appealed to the South Dakota Supreme Court and was denied in April 2013.

**Long-Term Debt**

During Fiscal Year 2011, Qualified School Construction Bonds for the new school were acquired as newly acquired debt. During Fiscal Year 2005, Qualified Zoning Academy Bonds and a loan from the US Department of Agriculture were acquired as debt. At year-end the School had \$3,668,606 in net Capital Outlay Certificates and other long-term obligations. See Table A-4 below.

**Table A-4**  
**Faith School District 46-2**  
**Outstanding Debt and Obligations**

	Governmental Activities		Change 2014-2015	Change 2014-2015
	2015	2014		
Compensated absences	\$ 26,486	\$ 25,542	\$ 944	3.70%
Capital lease	2,120	5,300	(3,180)	-60.00%
Capital outlay certificates/QZAB/ QSCB	3,640,000	3,640,000	-	0.00%
Total outstanding debt and obligations	\$ 3,668,606	\$ 3,670,842	\$ (2,236)	-0.06%

The School is liable for the accrued vacation leave payable to 12-month contracts of the superintendent, business manager, head custodian and head secretary. Accumulated sick leave of 30 days per qualifying employee is also included here. This increase is the result of the value of the days paid out in accumulated sick leave and vacation leave.

The Qualified School Construction Bonds were awarded in the amount of \$3,340,000 at a rate of 0% for 16 years. The transitions projects were funded through a Qualified Zoning Academy Bond, or QZAB. These dollars, awarded in August 2004, are a federal loan in the amount of \$250,000 at 0% interest over 14 years. Another QZAB award of \$50,000 was received in June of 2005. This award was also at the 0% interest rate for 16 years and the total to be repaid being only \$44,219, 88.5% of the original award. Capital Leases include a copier lease in the amount of \$15,900 that was secured in 2011.

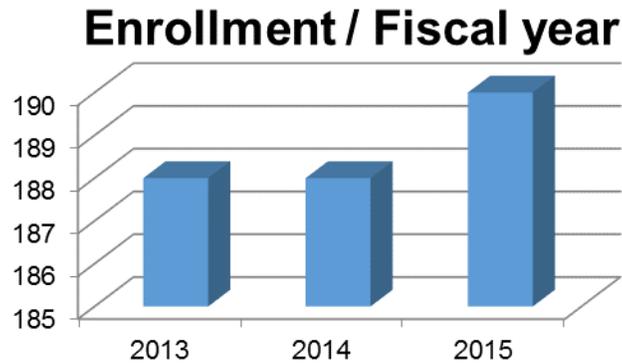
See Note 4 for further information on long-term debt.

### **Economic Factors and Next Year's Budgets and Rates**

The School's current economic position has shown a shift with both an increase to assets and liabilities with the condemnation of our buildings, the purchase of the modular units in 2004 and the eventual building of the new school in 2012. An increase in property valuation allows the School the ability to increase the amount of revenue generated from property taxes, however, the total amount that can be levied is limited by the State of South Dakota. That levy amount has decreased from \$2.388 in 2011 to \$1.782 in 2014 (payable 2015). This has caused many districts in the State of South Dakota to Opt-Out of the tax limitation. The Faith School passed an opt-out for \$175,000 in 2002 for four years. This opt-out, along with sparsity funding will allow the district to continue to operate until a change in the funding formula is approved. An increase in the valuation will help improve the Capital Outlay and Special Education dollars. The school increased utilizes the Capital Outlay levy of \$3.00/1,000; Special Education levy of \$1.478/1,000; and Pension Fund levy of \$.30/1,000. The school also passed a bond issue to authorize additional taxes to be levied in order to pay for the new building built in 2012.

One of the primary sources of revenue to the School is based on a per student allocation received from the State of South Dakota. The state aid formula for the current year ensures that property taxes plus state aid will equal \$4,781.14. School Districts will receive funding based on the number of students enrolled in their districts on the last Friday in September. The formula continues to provide additional funding payments to schools with less than 251 students. The Small School factor is based on a formula that adds approximately \$850.00 per student to the state aid amount. In 2007 a Sparsity Factor was added to the funding formula. The Sparsity Factor formula pays 75% of the per student allocation for each student between 232 and the actual fall enrollment. The Sparsity Factor added an additional \$110,000 to the District's fiscal year 2015 state aid payment. This additional Sparsity Factor will help to offset the Opt-Out dollars that expired in 2007; however the limit on the amount of the sparsity factor is \$110,000 and possibly less depending on how much the legislature decides to appropriate to the funding. Thus, the further the drop in enrollment and the additional schools meeting the qualifying criteria will result in less revenue for the district will receive.

The School's enrollment for the last three years has been as follows:



During the 2014-2015 school year the school experienced an unexpected increase in enrollment to 196. This will benefit the district through the state aid formula which pays state aid based on the current year's fall enrollment or the average of the prior two years enrollment, whichever is greater. The 196 will increase the average for the next two year.

The base teacher salary was \$27,000.

The health insurance benefits for all employees remains capped at \$315 per month, or \$3,780 per year, to curb some of the employees benefits.

#### **Contacting the School's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional information, contact the Faith School District 46-2; PO Box 619; Faith, SD 57626.

Faith School District No. 46-2  
Statement of Net Position – Exhibit I  
June 30, 2015

	Governmental Activities
<b>Assets</b>	
Cash	\$ 1,666,585
Taxes receivable	415,781
Inventories	2,412
Other receivables	55,113
Restricted cash	1,038,435
Net pension asset	373,620
Capital assets, not being depreciated	
Land	17,377
Capital assets, net of accumulated depreciation	
Buildings	3,943,256
Machinery and equipment	194,008
Total assets	7,706,587
<b>Deferred outflows of resources</b>	
Pension plans	331,484
<b>Liabilities</b>	
Retainage payable	5,000
Other current liabilities	116,978
Noncurrent liabilities	
Due within one year- compensated absences and capital lease	17,120
Due in more than one year- capital outlay certificate, bonds, compensated absences, and capital lease	3,651,486
Total liabilities	3,790,584
<b>Deferred Inflows of Resources</b>	
Pension plans	432,714
Taxes levied for future periods	447,361
Total deferred inflows of resources	880,075
<b>Net Position</b>	
Net investment in capital assets	512,521
Restricted for	
Capital outlay	769,682
Special education	9,635
Debt service	1,031,370
Capital projects	62,261
Pension fund	2,653
SDRS net pension asset	373,620
Food service	19,443
Unrestricted	586,227
Total net position	\$ 3,367,412

Faith School District No. 46-2  
Statement of Activities – Exhibit II  
Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position Total
					Governmental Activities
Primary Government					
Governmental activities					
Instruction	\$ 968,549	\$ -	\$ 102,396	\$ -	\$ (866,153)
Support services	759,619	35,085	55,392	-	(669,142)
Cocurricular activities	79,599	22,968	-	-	(56,631)
Interest expense-unallocated	210,072	-	-	-	(210,072)
<b>Total Primary Government</b>	<b>\$ 2,017,839</b>	<b>\$ 58,053</b>	<b>\$ 157,788</b>	<b>\$ -</b>	<b>(1,801,998)</b>
General Revenues					
Taxes					
					869,621
					23,949
Revenue from state sources					
					1,036,904
Revenue from federal sources					
					36,203
Unrestricted investment earnings					
					4,417
Other general revenues					
					187,991
					<b>2,159,085</b>
Loss on sale of capital assets					
					(3,237)
Change in Net Position					
					353,850
Net Position - June 30, 2014, as restated (Note 8)					
					<b>3,013,562</b>
Net Position - June 30, 2015					
					<b>\$ 3,367,412</b>

Faith School District No. 46-2  
Balance Sheet – Governmental Funds – Exhibit III  
June 30, 2015

	General Fund	Special Revenue Funds		Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Ed				
<b>Assets</b>							
104 Cash	\$ 769,728	\$ 778,310	\$ 25,800	\$ 284	\$ 67,261	\$ 25,202	\$ 1,666,585
104 Cash with fiscal agent	-	-	-	1,038,435	-	-	1,038,435
110 Taxes receivable--current	109,135	122,921	66,866	102,605	-	12,305	413,832
112 Taxes receivable--delinquent	856	458	229	374	-	32	1,949
120 Accounts receivable, net	259	-	-	-	-	-	259
140 Due from other governments	30,495	115	63	69	-	12	30,754
150 Advance to Agency Fund	22,873	-	1,227	-	-	-	24,100
170 Inventory	-	-	-	-	-	2,412	2,412
<b>Total assets</b>	<b>\$ 933,346</b>	<b>\$ 901,804</b>	<b>\$ 94,185</b>	<b>\$ 1,141,767</b>	<b>\$ 67,261</b>	<b>\$ 39,963</b>	<b>\$ 3,178,326</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>							
<b>Liabilities</b>							
402 Retainage payable	\$ -	\$ -	\$ -	\$ -	\$ 5,000	\$ -	\$ 5,000
402 Accounts payable	6,579	-	-	-	-	-	6,579
404 Contracts payable	80,384	-	8,423	-	-	-	88,807
450 Payroll deductions and withholdings and employer matching payable	16,272	-	3,078	-	-	2,242	21,592
<b>Total liabilities</b>	<b>103,235</b>	<b>-</b>	<b>11,501</b>	<b>-</b>	<b>5,000</b>	<b>2,242</b>	<b>121,978</b>
<b>Deferred Inflows of Resources</b>							
551 Unavailable Revenue - Property Taxes	856	458	229	374	-	32	1,949
551 Taxes Levied for Future Periods	120,900	131,664	71,593	110,023	-	13,181	447,361
<b>Total deferred inflows of resources</b>	<b>121,756</b>	<b>132,122</b>	<b>71,822</b>	<b>110,397</b>	<b>-</b>	<b>13,213</b>	<b>449,310</b>
<b>Fund Balances (Deficit)</b>							
703 Nonspendable	22,873	-	1,227	-	-	2,412	26,512
720 Restricted							
Debt Service	-	-	-	1,031,370	-	-	1,031,370
Capital Outlay	-	769,682	-	-	-	-	769,682
Special Education	-	-	9,635	-	-	-	9,635
Capital Projects	-	-	-	-	62,261	-	62,261
Pension	-	-	-	-	-	2,653	2,653
Food Service	-	-	-	-	-	19,443	19,443
704 Unassigned	685,482	-	-	-	-	-	685,482
<b>Total fund balances</b>	<b>708,355</b>	<b>769,682</b>	<b>10,862</b>	<b>1,031,370</b>	<b>62,261</b>	<b>24,508</b>	<b>2,607,038</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 933,346</b>	<b>\$ 901,804</b>	<b>\$ 94,185</b>	<b>\$ 1,141,767</b>	<b>\$ 67,261</b>	<b>\$ 39,963</b>	<b>\$ 3,178,326</b>

Total Fund Balances - Governmental Funds	\$ 2,607,038
Amounts reported for governmental activities in the statement of net position are difference because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,154,641
Assets, such as taxes receivable that are not available to pay for current period expenditures, are deferred inflows in the fund level statements.	1,949
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	(101,230)
The net pension asset is not available in the current period and therefore is not reported in the funds.	373,620
Long-term liabilities, including capital outlay certificates, bonds, capital leases and compensated absences payable are not due and payable in the current period and therefore are not reported in the funds.	<u>(3,668,606)</u>
Net Position - Governmental Activities	<u><u>\$ 3,367,412</u></u>

Faith School District No. 46-2

Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Exhibit V

Year Ended June 30, 2015

	General Fund	Special Revenue Funds		Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Education				
<b>Revenues</b>							
1000 Revenue from local sources							
1100 Taxes							
1110 Ad Valorem taxes	\$ 232,682	\$ 256,283	\$ 137,509	\$ 211,894	\$ -	\$ 25,647	\$ 864,015
1120 Prior years' Ad Valorem taxes	5,032	3,227	1,484	2,692	-	323	12,758
1140 Utility taxes	23,949	-	-	-	-	-	23,949
1190 Penalties and interest on taxes	2,379	1,537	711	1,473	-	154	6,254
1500 Earnings on investments and deposits	1,885	1,716	20	561	157	78	4,417
1600 Sales	-	-	-	-	-	35,085	35,085
1700 Cocurricular activities							
1710 Admissions	20,442	-	-	-	-	-	20,442
1790 Other pupil activity income	2,526	-	-	-	-	-	2,526
1900 Other revenue from local sources							
1920 Contributions and donations	406	-	193	-	-	-	599
1970 Charges for services	2,789	-	303	-	-	-	3,092
1990 Other	5,647	-	-	153,344	-	-	158,991
2000 Revenue from intermediate sources							
2100 County sources							
2110 County apportionment	22,147	-	-	-	-	-	22,147
3000 Revenue from state sources							
3110 Unrestricted grants-in-aid	1,036,904	-	-	-	-	-	1,036,904
3120 Restricted grants-in-aid	-	-	24,227	-	-	-	24,227
3810 State Reimbursements	-	-	-	-	-	463	463
4000 Revenue from federal sources through the State	36,203	-	-	-	-	-	36,203
4150-4199 Restricted grants-in-aid received from Federal Government through the State	93,655	-	-	-	-	-	93,655
4810 Federal Reimbursements	-	-	-	-	-	29,673	29,673
4820 Donated Food	-	-	-	-	-	6,678	6,678
<b>Total revenue</b>	<b>1,486,646</b>	<b>262,763</b>	<b>164,447</b>	<b>369,964</b>	<b>157</b>	<b>98,101</b>	<b>2,382,078</b>

Faith School District No. 46-2

Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Exhibit V (cont.)

Year Ended June 30, 2015

	General Fund	Special Revenue Funds		Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Education				
Expenditures							
Current							
1000 Instruction							
1110 Elementary	371,126	-	-	-	-	14,090	385,216
1120 Middle/junior high	87,421	-	-	-	-	3,270	90,691
1130 High school	310,424	3,297	-	-	-	8,000	321,721
1200 Special programs							
1220 Programs for Special Education	-	-	106,186	-	-	-	106,186
1270 Educationally deprived	74,850	-	-	-	-	-	74,850
2000 Support services							
2120 Guidance	10,599	-	-	-	-	-	10,599
2130 Health	310	-	-	-	-	-	310
2150 Speech pathology	-	-	10,600	-	-	-	10,600
2170 Student therapy services	-	-	27,967	-	-	-	27,967
2200 Support services - instructional staff							
2210 Improvement of instruction	3,924	-	-	-	-	-	3,924
2220 Educational media	59,162	-	-	-	-	-	59,162
2300 Support services - general administration							
2310 Board of Education	50,934	-	-	-	-	-	50,934
2320 Executive administration	39,094	-	-	-	-	-	39,094
2400 Support services - school administration							
2410 Office of the principal	70,990	-	-	-	-	-	70,990
2490 Other	44,080	-	-	-	-	-	44,080
2500 Support services - business							
2520 Fiscal services	36,550	-	-	-	-	-	36,550
2540 Operation and maintenance of plant	141,060	146,652	-	-	-	-	287,712
2550 Pupil transportation	-	25,715	-	-	-	-	25,715
2560 Food service	-	-	-	-	-	75,609	75,609
5000 Debt services	-	3,180	-	210,072	-	-	213,252
6000 Cocurricular activities							
6100 Male activities	17,145	-	-	-	-	-	17,145
6200 Female activities	15,723	-	-	-	-	-	15,723
6500 Transportation	27,165	-	-	-	-	-	27,165
6900 Combined activities	15,483	-	-	-	-	-	15,483
Capital outlay	-	9,735	-	-	-	-	9,735
<b>Total expenditures</b>	<b>1,376,040</b>	<b>188,579</b>	<b>144,753</b>	<b>210,072</b>	<b>-</b>	<b>100,969</b>	<b>2,020,413</b>
Excess of revenue over (under) expenditures	110,606	74,184	19,694	159,892	157	(2,868)	361,665
Other Financing Sources (Uses)							
5110 Transfers in	1,932	-	-	46,921	-	-	48,853
8110 Transfers out	-	(48,637)	(20)	-	(157)	(39)	(48,853)
5130 Sale of surplus property	888	-	-	-	-	-	888
<b>Total other financing sources (uses)</b>	<b>2,820</b>	<b>(48,637)</b>	<b>(20)</b>	<b>46,921</b>	<b>(157)</b>	<b>(39)</b>	<b>888</b>
<b>Net Change in Fund Balances</b>	<b>113,426</b>	<b>25,547</b>	<b>19,674</b>	<b>206,813</b>	<b>-</b>	<b>(2,907)</b>	<b>362,553</b>
Fund Balance (Deficit) - June 30, 2014	594,929	744,135	(8,812)	824,557	62,261	27,415	2,244,485
Fund Balance - June 30, 2015	\$ 708,355	\$ 769,682	\$ 10,862	\$ 1,031,370	\$ 62,261	\$ 24,508	\$ 2,607,038

Faith School District No. 46-2  
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-  
 Wide Statement of Activities – Exhibit VI  
 Year Ended June 30, 2015

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Net Change in Fund Balances - Total Governmental Funds \$ 362,553

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 9,735

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 is reflected, regardless of whether a gain or loss is realized. (4,125)

Capital outlay depreciation expense. (81,314)

Governmental funds report property taxes as revenue in the period for which the tax is levied, subject to availability, but the statement of activities includes the property taxes as revenue in the period for which the taxes are levied, regardless of when collections occurs. (7,152)

Principal payments on capital leases are an expenditure in the governmental funds, but the payments decrease long-term liabilities in the statement of net position. 3,180

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (944)

In the statement of activities the cost of pension benefits earned net of employee contributions is reported in pension expense. In the governmental funds, however, the contributions are reported as expense. 71,917

Change in Net Position of Governmental Activities \$ 353,850

Faith School District No. 46-2  
Statement of Fiduciary Net Position – Fiduciary Funds – Exhibit VII  
June 30, 2015

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	<u>Agency Funds</u>
Assets	
Cash	\$ 63,025
Liabilities	
Amounts held for others	38,925
Due to general government	<u>24,100</u>
Total liabilities	<u><u>\$ 63,025</u></u>

## **Note 1 - Summary of Significant Accounting Policies**

The following is a summary of the District's significant accounting policies:

### **Reporting Entity**

The reporting entity of the Faith School District No. 46-2 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.

Faith School District No. 46-2 (the School District) participates in a cooperative service unit with six other school districts, Northwest Area Schools Cooperative. (See detailed note entitled "Joint Ventures" for specific disclosures). Joint Ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the School District.

### **Basis of Presentation**

The financial statements of the School District have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard setting body for governmental accounting and financial reporting.

### **Government-Wide Statements**

The statement of net position and statement of activities display information about the School District. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. As a general rule, the effect of interfund activity has been eliminated from the government wide financial statements.

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

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

**Fund Financial Statements**

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures/expense. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. 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 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 fund are at least 5 percent of the corresponding total for all governmental combined or

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

	Description
General Fund	The general fund is the general operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund. The general fund is always a major fund.
Special Education Fund	A fund established by South Dakota Codified (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.
Capital Outlay Fund	A fund established by SDCL 13-16-6 to meet expenditures which result in the acquisition of or additions to real property, plant or equipment. This fund is financed by property taxes.
Debt Service Fund	This fund is used to account for the sinking fund accounts restricted to use for the payment of principal on the Series 2004 and Series 2005 Qualified Zoning Academy Bonds, Capital Outlay Certificates and 2010 Qualified School Construction Bonds.
Capital Projects Fund	This fund is used to account for the construction of the new school building.

**Fiduciary Funds**

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

## **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, governmental 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 similar fiduciary funds.

### **Basis of Accounting**

#### **Government-Wide Financial Statements**

In the government-wide Statement of Net Position and Statement of Activities, governmental 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 Faith School District No. 46-2, the length of that cycle is 60 days. The revenues which are accrued at June 30, 2015 are revenues from federal sources.

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

All similar 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.

**Deposits and Investments**

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

Deposits – the school deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 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 110 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.

Deposits are reported at cost plus interest, if the account is of the add-on type. State law allows income from deposits and investments to be credited to either the general fund or the fund making the investment. The School’s policy is to credit all income from investments to the general fund.

**Restricted Cash and Investments**

The School District’s restricted cash for debt service are as follows:

2004 QZAB Redemption Bond	\$ 178,571
2005 QZAB Redemption Bond	29,483
2010 QSCB Bond Sinking Fund	830,381
Total restricted cash	\$ 1,038,435

**Custodial and Concentration Credit Risk**

For deposits and investments, the custodial credit risk is that, in the event of the failure of a depository financial institution, the School District will not be able to recover collateral securities that are in the possession of an outside party. The School District’s deposits are insured and collateralized by the South Dakota Public Deposit Protection Collateral Program. All deposits are held at First National Bank in Faith.

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

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

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

Investments are stated at fair value.

The School District had no investments at June 30, 2015.

State law allows income from deposits and investments to be credited to either the general fund or the fund making the investment. The School District's policy is to credit all income from deposits and investments to the General Fund, except the income from investments of the Food Service Fund and the Private Purpose Trust Funds are credited to those funds. United States generally accepted accounting principles, 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, they have been eliminated.

### **Inventory**

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

In the government-wide financial statements and in the 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, the "consumption method" of recording inventory is used.

### **Capital Assets**

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

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Interest costs incurred during construction of capital assets are not capitalized along with other capital asset costs.

The total June 30, 2015 balance of capital assets for governmental activities includes estimates of the original costs. These estimated original costs were established by deflated current replacement cost.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$ 1,000	N/A	N/A
Buildings	50,000	Straight-line	80 years
Machinery/equipment	5,000	Straight-line	5-20 years

Land is not depreciated.

### **Fund Financial Statements**

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition.

### **Long-Term Liabilities**

The accounting treatment of long-term liabilities used in governmental fund operations is reported in the government-wide statements.

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of compensated absences, capital leases, capital outlay certificates payable, and QZAB and QSCB bonds payable.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenues and payments of principal and interest are reported as expenditures.

Annual leave is earned by the administrative and support staff employees at the rate of two to four weeks per year. Upon termination, employees are entitled to receive compensation for their accrued annual leave balance up to 30 days on the basis of the current pay.

Sick leave is earned by the employees at the rate of 5 to 10 days per year. Upon termination, certified employees are entitled to receive compensation for their accrued sick leave balance on the basis of \$25 per day up to a maximum of 30 days and \$50 per discretionary day. Discretionary days are earned at the rate of 5 days per year and are non-accumulative.

As of June 30, 2015, a liability of \$26,486 existed for accumulated unpaid leave balance (annual and sick) calculated at the employees' June 30, 2015 pay rates.

### **Implementation of GASB Statement No. 68 and GASB Statement No. 71**

As of July 1, 2014 the School District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments to calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension liability/asset, deferred outflows of resources, deferred inflows of resources, and pension expense (revenue). The effect of the implementation of these standards on beginning net position is disclosed in Note 8 and the additional disclosures required by these standards are included in Note 7.

### **Deferred Outflows and Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expenses/ expenditure) until then. The District has two items that qualify for reporting in this category. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end, and changes in the net pension liability (asset) not included in pension expense (revenue) reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two types of items that qualifies for reporting in this category. The District reports unavailable revenues from property taxes on the government-wide statement of net position and the government funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item is changes in the net pension liability (asset) not included in pension expense (revenue) reported in the government-wide statement of net position.

Receivables, such as taxes receivable, may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported unearned revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met. According to SDCL 10-33, unearned revenue would also be recognized for gross receipts tax if they are received after their 60 day period of availability after the current period (September 1<sup>st</sup>).

### **Pensions**

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

### **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.

### **Equity Classifications**

#### **Government-wide Statements**

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the School District's government-wide financial statements, and is displayed in three components:

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

### **Restricted and Unrestricted Resources**

It is the School District's policy to first apply restricted resources when an expenditure is incurred for purposes for which both restricted and unrestricted net position are available.

**Fund Balance Classification Policies and Procedures**

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

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

The School District uses *restricted/committed* amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the School District would first use *committed, then assigned, and lastly unassigned amounts* of unrestricted fund balance when expenditures are made.

The School District does not have a formal minimum fund balance policy.

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

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Capital Outlay Fund	Property Taxes
Special Education Fund	Property Taxes

**Note 2 - Property Tax**

Property taxes attach as an enforceable lien on property as of July 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year. Approximately 50% is considered to be applied to finance the budget of the current fiscal year, and the remaining percentage (50%) is considered to be applied to finance the budget for the subsequent year. The county bills and collects the school’s taxes and remits them to the school. School district property tax revenues are recognized to the extent that they are used to finance each year’s appropriations. Current year property taxes receivable which are not available as a resource that can be used to finance the current year’s appropriations and therefore are not susceptible to accrual have been reported as deferred inflows of resources in both the fund financial statements and the government-wide financial statements.

**Note 3 - Changes in Capital Assets**

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

**Governmental Activities**

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets, not being depreciated				
Land	\$ 17,377	\$ -	\$ -	\$ 17,377
Capital assets, being depreciated				
Buildings	4,307,796	-	-	4,307,796
Machinery/equipment	453,876	9,735	(7,500)	456,111
Total capital assets being depreciated	<u>4,761,672</u>	<u>9,735</u>	<u>(7,500)</u>	<u>4,763,907</u>
Less accumulated depreciation for				
Buildings	(309,007)	(55,533)	-	(364,540)
Machinery/equipment	(239,697)	(25,781)	3,375	(262,103)
Total accumulated depreciation	<u>(548,704)</u>	<u>(81,314)</u>	<u>3,375</u>	<u>(626,643)</u>
Total capital assets being depreciated, net	<u>4,212,968</u>	<u>(71,579)</u>	<u>(4,125)</u>	<u>4,137,264</u>
Governmental type activity capital assets, net	<u>\$ 4,230,345</u>	<u>\$ (71,579)</u>	<u>\$ (4,125)</u>	<u>\$ 4,154,641</u>

Depreciation expense was charged to functions as follows:

Governmental activities	
Instruction	\$ 60,858
Support services	16,373
Co-curricular activities	<u>4,083</u>
Total depreciation expense - governmental	<u>\$ 81,314</u>

**Note 4 - Non-Current Liabilities**

A summary of the changes in long-term liabilities follows:

**Governmental Activities**

	Capital Outlay Certificate	QZAB	QSCB	Compensated Absences	Capital Lease	Total
Noncurrent liabilities payable, July 1, 2014	\$ 340,000	\$ 300,000	\$ 3,000,000	\$ 25,542	\$ 5,300	\$ 3,670,842
Payments of debt obligations	-	-	-	-	(3,180)	(3,180)
Payment of compensated absences	-	-	-	944	-	944
Noncurrent liabilities payable, June 30, 2015	<u>340,000</u>	<u>300,000</u>	<u>3,000,000</u>	<u>26,486</u>	<u>2,120</u>	<u>3,668,606</u>
Current liabilities, due within one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>2,120</u>	<u>17,120</u>
Noncurrent liabilities, due in more than one year	<u>\$ 340,000</u>	<u>\$ 300,000</u>	<u>\$ 3,000,000</u>	<u>\$ 11,486</u>	<u>\$ -</u>	<u>\$ 3,651,486</u>

Compensated absences for governmental activities typically have been liquidated from the General Fund. The capital outlay certificate, QZAB bonds, and the capital lease are paid from property taxes from the Capital Outlay Fund. The QSCB bonds are paid from property taxes from its own Debt Service Fund.

Series 2010 Capital Outlay Certificates are due October 20, 2027. No payment on principal is due until that time. However semi-annual interest payments are required for the Series 2010 certificates at a rate of 6.25%. The annual payment requirements to maturity for the capital outlay certificate outstanding as of June 30, 2015 are as follows:

Year Ending	2010 Capital Outlay Certificate		
	Principal	Interest	Total
2016	\$ -	\$ 21,250	\$ 21,250
2017	-	21,250	21,250
2018	-	21,250	21,250
2019	-	21,250	21,250
2020	-	21,250	21,250
2021-2025	-	106,250	106,250
2026-2028	<u>340,000</u>	<u>53,125</u>	<u>393,125</u>
Totals	<u>\$ 340,000</u>	<u>\$ 265,625</u>	<u>\$ 605,625</u>

Series 2004 Qualified Zoning Academy Bonds are due August 10, 2018 and are interest free. Series 2005 Qualified Zoning Academy Bonds are due June 29, 2021 and are interest free. The annual payment requirements to maturity for all qualified zoning academy bonds outstanding as of June 30, 2015 are as follows:

Year Ending	QZAB Bonds		
	Principal	Interest	Total
2016	\$ -	\$ -	\$ -
2017	-	-	-
2018	-	-	-
2019	250,000	-	250,000
2020	-	-	-
2021	50,000	-	50,000
Totals	<u>\$ 300,000</u>	<u>\$ -</u>	<u>\$ 300,000</u>

Series 2010 Qualified School Construction Bonds are due October 20, 2027. No payment on principal is due until that time. However semi-annual interest payments are required for the Series 2010 bonds at a rate of 6.25%. The annual payment requirements to maturity for all qualified school construction bonds outstanding as of June 30, 2015 are as follows:

Year Ending	QSCB Bonds		
	Principal	Interest	Total
2016	\$ -	\$ 187,500	\$ 187,500
2017	-	187,500	187,500
2018	-	187,500	187,500
2019	-	187,500	187,500
2020	-	187,500	187,500
2021-2025	-	937,500	937,500
2026-2028	3,000,000	468,750	3,468,750
Totals	<u>\$ 3,000,000</u>	<u>\$ 2,343,750</u>	<u>\$ 5,343,750</u>

The copier capital lease is due in monthly installments of \$265 and is interest free. The copier capital lease matures on March 1, 2016. The capital asset included in the balance sheet related to this capital lease is \$15,900 and related accumulated amortization is \$15,900. Annual payment requirements to maturity for the capital lease as of June 30, 2015 are as follows:

Year Ending	Capital Lease		
	Principal	Interest	Total
2016	\$ 2,120	\$ -	\$ 2,120
Totals	<u>\$ 2,120</u>	<u>\$ -</u>	<u>\$ 2,120</u>

**Note 5 - Individual Fund Interfund Transactions/Due from/to other Funds**

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

	Transfer to		Total
	General Fund	Debt Service Fund	
Transfer from			
Capital Outlay Fund	\$ 1,716	\$ 46,921	\$ 48,637
Capital Projects Fund	157	-	157
Special Education Fund	20	-	20
Other governmental funds	39	-	39
	\$ 1,932	\$ 46,921	\$ 48,853

South Dakota state law 13-16-18 allows income from deposits and investments to be credited to either the general fund or the fund making the investment. The School District's policy is to credit all income from deposits and investments to the general fund. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for the investment, a transfer to the designated fund is reported. These interfund transfers are not violations of the statutory regulations on interfund transfers.

The transfer from the capital outlay fund to the debt service fund was made to fund the sinking fund accounts for the QZAB bonds. The QZAB debt is an obligation legally required to be repaid from proceeds of the capital outlay fund tax levy, but GAAP requires the use of a debt service fund to account for the accumulation of resources to make the future debt repayment. Accordingly, the reported transfer from the Capital Outlay Fund to the Debt Service Fund is reported to comply with GAAP, and it does not result in a violation of the statutory prohibition of transfers out of the Capital Outlay Fund.

**Note 6 - Advance from/to Other Funds**

Advances from/to other funds for the year ended June 30, 2015 consisted of the following:

	Advance from General	Advance from Special Education
Agency Fund	\$ 22,873	\$ 1,227

The advance between the funds was made to cover the flex spending account paid for out of the agency fund to account for timing differences between the date employee payroll deductions are deposited in the account and the date withdrawals are made.

## Note 7 - Retirement Plan

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

### Benefits Provided

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

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

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

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

### Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2015, 2014, and 2013 were \$55,983, \$54,260, and \$52,327, 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, 2014, SDRS is 107% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the School District as of June 30, 2014 are as follows:

Proportionate share of net position restricted for pension benefits	\$ (5,500,919)
Less proportionate share of total pension liability	<u>5,127,299</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (373,620)</u></u>

At June 30 2015, the School District reported an (asset) of \$373,620 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014 and the total pension liability used to calculate the net pension asset was based on a projection of the School’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2014, the School District’s proportion was .0518585%.

For the year ended June 30, 2015, the School District recognized pension revenue of \$15,782. At June 30, 2015 the School 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	\$ 31,613	\$ -
Changes in assumption	243,888	-
Net difference between projected and actual earnings on pension plan investments	-	432,714
District contributions subsequent to the measurement date	<u>55,983</u>	<u>-</u>
Total	<u><u>\$ 331,484</u></u>	<u><u>\$ 432,714</u></u>

\$55,983 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension revenue as follows:

<u>Year Ending</u>		
2016		\$ (29,688)
2017		(29,688)
2018		(29,688)
2019		(68,149)
		(157,213)
Totals		\$ (157,213)

**Actuarial Assumptions**

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

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

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

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

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

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

**Discount Rate**

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

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

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

	1% Decrease	Current Discount Rate	1% Increase
School District's proportionate share of the net pension liability (asset)	\$ 369,206	\$ (373,620)	\$ (979,471)

**Pension Plan Fiduciary Net Position**

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

**Note 8 - Adoption of New Standard**

As of July 1, 2014, the School District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the cost and obligations associated with pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date as follows:

	Governmental Activities
Net position - June 30, 2014, as previously reported	\$ 2,813,089
Restatement for pension accounting	
Net Pension Asset	146,213
Pension related Deferred Outflows of Resources	54,260
Net position - July 1, 2014, as restated	\$ 3,013,562

**Note 9 - Joint Ventures**

The school district participates in the Nwas Cooperative, a cooperative service unit (co-op) formed for the purpose of providing vocational and special education services to the member school districts.

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

Dupree School District No. 64-2	14.29%
Faith School District No. 46-2	14.29%
Harding County School District No. 31-1	14.29%
Isabel School District No. 20-2	14.29%
McIntosh School District No. 15-1	14.28%
McLaughlin School District No. 15-2	14.28%
Timber Lake School District No. 20-3	14.28%
	100.00%

The co-ops governing board is composed of seven representatives, one from each member school district, who are School Board members. The board is responsible for adopting the co-op’s budget and setting services fees at a level adequate to fund the adopted budget.

The School District retains no equity in the net position of the co-op, but does have responsibility to fund deficits of the co-op. As of June 30, 2015, this joint venture had fund equity of \$2,378,311 and liabilities of \$228,103.

Separate financial statements for this joint venture are available from the Northwest Area Schools Multi-District Education Cooperative.

**Note 10 - Risk Management**

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

**Employee Health Insurance**

The School purchases health insurance for its employees from South Dakota School District Benefits Fund (ASBSD). The school district pays \$315 per month per employee towards the monthly premium. The coverage provides various deductibles per calendar year and has a co-insurance of 80%. Included in the health insurance premium is a \$15,000 life insurance policy.

### **Liability Insurance**

The School District joined the Associated School Boards of South Dakota Property Liability Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota school districts. The School District pays an annual premium to provide coverage related to torts; theft or damage to property; and errors and omissions of public officials.

The agreement with the Associated School Boards of South Dakota Property Liability Fund provides that the above coverage will be provided to a \$2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for re-insurance for claims in excess of \$50,000 to the upper limit. The School District carries a \$1,000 deductible for the liability, property and errors and omissions coverages.

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

### **Workers Compensation**

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provided workers' compensation insurance coverage and the Associated School Boards of South Dakota Property and Liability Fund for participating members of the pool. The School District is responsible for payment of a premium to the insurance pool along with other pool participants. The School District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. For the year ended June 30, 2015, the pool's retained risk was \$250,000 per occurrence with additional insurance purchased from a private insurance company for an additional \$750,000 for total coverage of \$1,000,000 per occurrence for the workers compensation.

### **Unemployment Benefits**

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

**Note 11 - Leases**

The District leases gymnasium space under a long-term lease agreement classified as an operating lease. The lease commenced November 2003 and has a fifteen year term. Total lease expense under this agreement was \$36,167 for the year ended June 30, 2015.

The following details the lease payments due under this operating lease:

2016		\$ 36,167
2017		36,167
2018		36,167
		\$ 108,501
		\$ 108,501

The capital outlay fund is responsible for making payments under this lease.

**Note 12 - Issued But Non-effective Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the School District. The first statement issued but not yet implemented that will significantly affect the School District is statement No. 72, *Fair Value Measurement and Application*. This statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. This statement will be implemented at the School District in the year ended June 30, 2016. The second statement issued but not yet implemented that will significantly affect the School District is statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement replaces the requirements of Statements No. 45 and No. 57. This statement addresses accounting and financial reporting for OPEB that is provided to employees of state and local governmental employers, and establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This statement will be implemented at the School District in the year ended June 30, 2018. Management has not yet determined the effect these pronouncements will have on the School District's financial statements.



Required Supplementary Information  
June 30, 2015

# Faith School District No. 46-2

Faith School District No. 46-2  
 Budgetary Comparison Schedule – General Fund  
 Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources				
1100 Taxes				
1100 Ad Valorem taxes	\$ 218,500	\$ 218,500	\$ 232,682	\$ 14,182
1120 Prior years' Ad Valorem taxes	2,000	2,000	5,032	3,032
1140 Gross receipts taxes	20,000	20,000	23,949	3,949
1190 Penalties and interest on taxes	1,000	1,000	2,379	1,379
1500 Earnings on investments and deposits	1,500	1,500	1,885	385
1700 Cocurricular activities				
1710 Admissions	17,400	17,400	20,442	3,042
1790 Other pupil activity income	2,250	2,250	2,526	276
1900 Other revenue from local sources				
1910 Rentals	500	500	-	(500)
1920 Contributions and donations	2,500	2,500	406	(2,094)
1950 Refund of prior years' expenditures	500	500	-	(500)
1970 Charges for services	11,000	11,000	2,789	(8,211)
1990 Other	2,500	2,500	5,647	3,147
2000 Revenue from intermediate sources				
2100 County source				
2110 County apportionment	22,500	22,500	22,147	(353)
3000 Revenue from state sources				
3100 Grants-in-aid				
3110 Unrestricted grants-in-aid	1,024,850	1,024,850	1,036,904	12,054
4000 Revenue from federal sources				
4100 Grants-in-aid				
4120 Unrestricted grants-in-aid received from Federal Government through State	25,000	25,110	36,203	11,093
4150-4199 Restricted grants-in-aid received from Federal Government through the State	117,978	117,978	93,655	(24,323)
Total revenue	<u>1,469,978</u>	<u>1,470,088</u>	<u>1,486,646</u>	<u>16,558</u>

Faith School District No. 46-2  
 Budgetary Comparison Schedule – General Fund  
 Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
1000 Instruction				
1100 Regular program				
1110 Elementary	389,200	389,200	371,126	18,074
1120 Middle/junior high	92,350	92,350	87,421	4,929
1130 High school	316,850	316,850	310,424	6,426
1200 Special programs				
1270 Educationally deprived	82,215	82,215	74,850	7,365
2000 Support services				
2100 Pupils				
2120 Guidance	11,450	11,560	10,599	961
2130 Health	600	600	310	290
2200 Instructional staff				
2210 Improvement of instruction	4,600	4,600	3,924	676
2220 Educational media	68,800	68,800	59,162	9,638
2300 General administration				
2310 Board of education	52,300	52,300	50,934	1,366
2320 Executive administration	40,000	40,000	39,094	906
2400 School administration				
2420 Office of the principal	67,500	67,500	70,990	(3,490)
2440 Title I Director	3,685	3,685	-	3,685
2490 Other	46,100	46,100	44,080	2,020
2500 Business				
2520 Fiscal services	37,250	37,250	36,550	700
2540 Operation and maintenance of plant	166,800	166,800	141,060	25,740
6000 Cocurricular activities				
6100 Male activities	21,400	21,400	17,145	4,255
6200 Female activities	17,450	17,450	15,723	1,727
6500 Transportation	29,000	29,630	27,165	2,465
6900 Combined activities	20,050	20,050	15,483	4,567
7000 Contingencies	25,000	24,370	-	24,370
Total expenditures	<u>1,492,600</u>	<u>1,492,710</u>	<u>1,376,040</u>	<u>116,670</u>
Revenue over (under) expenditures	<u>(22,622)</u>	<u>(22,622)</u>	<u>110,606</u>	<u>133,228</u>

Faith School District No. 46-2  
 Budgetary Comparison Schedule – General Fund  
 Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Other Financing Sources				
5130 Sale of surplus property	-	-	888	888
5200 Transfer In	-	-	1,932	1,932
Total other financing sources	-	-	2,820	2,820
Net Change in Fund Balance	(22,622)	(22,622)	113,426	136,048
Fund Balance - June 30, 2014	594,929	594,929	594,929	-
Fund Balance - June 30, 2015	<u>\$ 572,307</u>	<u>\$ 572,307</u>	<u>\$ 708,355</u>	<u>\$ 136,048</u>

Faith School District No. 46-2  
 Budgetary Comparison Schedule – Capital Outlay  
 Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources				
1100 Taxes				
1110 Ad Valorem taxes	\$ 251,900	\$ 251,900	\$ 256,283	\$ 4,383
1120 Prior years' Ad Valorem taxes	1,500	1,500	3,227	1,727
1190 Penalties and interest on taxes	1,000	1,000	1,537	537
1500 Earnings on investments and deposits	750	750	1,716	966
Total revenue	<u>255,150</u>	<u>255,150</u>	<u>262,763</u>	<u>7,613</u>
<b>Expenditures</b>				
1000 Instruction				
1110 Elementary	2,500	2,500	-	2,500
1120 Middle/junior high	1,500	1,500	-	1,500
1130 High School	3,500	3,500	3,297	203
2500 Support services - business				
2540 Operation and maintenance of plant	153,870	163,870	156,387	7,483
2550 Pupil transportation	40,000	30,000	25,715	4,285
5000 Debt services	3,780	3,780	3,180	600
Total expenditures	<u>205,150</u>	<u>205,150</u>	<u>188,579</u>	<u>16,571</u>
Revenue over expenditures	<u>50,000</u>	<u>50,000</u>	<u>74,184</u>	<u>24,184</u>
<b>Other financing uses</b>				
8110 Transfers out	(50,000)	(50,000)	(48,637)	1,363
Total other financing uses	<u>(50,000)</u>	<u>(50,000)</u>	<u>(48,637)</u>	<u>1,363</u>
Net Change in Fund Balance	-	-	25,547	25,547
Fund Balance - June 30, 2014	<u>744,135</u>	<u>744,135</u>	<u>744,135</u>	<u>-</u>
Fund Balance - June 30, 2015	<u>\$ 744,135</u>	<u>\$ 744,135</u>	<u>\$ 769,682</u>	<u>\$ 25,547</u>

Faith School District No. 46-2  
 Budgetary Comparison Schedule – Special Education  
 Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources				
1100 Taxes				
1100 Ad valorem taxes	\$ 127,200	\$ 127,200	\$ 137,509	\$ 10,309
1120 Prior years' ad valorem taxes	750	750	1,484	734
1190 Penalties and interest on taxes	550	550	711	161
1500 Earnings on investments and deposits	-	-	20	20
1900 Other revenue from local sources				
1920 contributions and donations	-	-	193	193
1970 Charges for services	1,100	1,100	303	(797)
3000 Revenue from state sources				
3100 Grants-in-aid				
3120 Restricted grants-in-aid	25,000	25,000	24,227	(773)
Total revenue	<u>154,600</u>	<u>154,600</u>	<u>164,447</u>	<u>9,847</u>
<b>Expenditures</b>				
1200 Special program				
1220 Programs for special education	86,060	86,060	106,186	(20,126)
2000 Support services				
2100 Pupils				
2140 Psychological	3,435	3,435	-	3,435
2150 Speech pathology	15,190	15,190	10,600	4,590
2160 Audiology services	1,000	1,000	-	1,000
2170 Student therapy services	36,890	36,890	27,967	8,923
2700 Support Services				
2710 Administrative costs	22,730	22,730	-	22,730
Total expenditures	<u>165,305</u>	<u>165,305</u>	<u>144,753</u>	<u>20,552</u>
Revenue over (under) expenditures	<u>(10,705)</u>	<u>(10,705)</u>	<u>19,694</u>	<u>30,399</u>
<b>Other financing sources (uses)</b>				
5110 Transfers in	10,735	10,735	-	(10,735)
8110 Transfers out	(30)	(30)	(20)	10
Total other financing sources (uses)	<u>10,705</u>	<u>10,705</u>	<u>(20)</u>	<u>(10,725)</u>
Net Change in Fund Balance	-	-	19,674	19,674
Fund Balance (Deficit) - June 30, 2014	<u>(8,812)</u>	<u>(8,812)</u>	<u>(8,812)</u>	<u>-</u>
Fund Balance (Deficit) - June 30, 2015	<u>\$ (8,812)</u>	<u>\$ (8,812)</u>	<u>\$ 10,862</u>	<u>\$ 19,674</u>

Faith School District No. 46-2  
 Schedule of Employer's Share of Net Pension Asset and Schedule of Employer's Contributions  
 June 30, 2015

**Schedule of Employer's Share of Net Pension Asset  
 Last 10 Fiscal Years\***

Pension Plan	Measurement Date	Employer's Proportion (Percentage) of the Net Pension Asset	Employer's Proportionate Share (Amount) of the Net Pension Asset (a)	Employer's Covered Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Asset as a Percentage of its Covered Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Asset
SDRS	6/30/2014	<u>0.0518585%</u>	<u>\$ 373,620</u>	<u>\$ 906,857</u>	<u>41.20%</u>	<u>107.00%</u>

\*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

**Schedule of Employer's Contributions  
 Last 10 Fiscal Years\***

Pension Plan	Fiscal Year Ending	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Employee Payroll (d)	Contributions as a Percentage of Covered Employee Payroll (b/d)
SDRS	6/30/2015	<u>\$ 55,983</u>	<u>\$ 55,983</u>	<u>\$ -</u>	<u>\$ 933,052</u>	<u>6.00%</u>

\*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

**Notes to Required Supplementary Information**

There are no factors that affect trends in the amounts reported, such as change of benefit terms or assumptions. With only one year reported in the RSI, there is no additional information to include in notes. Details, if necessary, can be obtained from SDRS CAFR.

### **Note 1 - Basis of Presentation**

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

### **Note 2 - Budgetary Legal Requirements**

South Dakota Codified Law prescribes the budgetary procedures to be followed by the School District as follows:

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



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

To the School Board  
Faith School District No. 46-2  
Meade County, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Faith School District No. 46-2, Meade County, South Dakota, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Faith School District No. 46-2's basic financial statements, and have issued our report thereon dated November 25, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Faith School District No. 46-2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Faith School District No. 46-2's internal control. Accordingly, we do not express an opinion on the effectiveness of Faith School District No. 46-2's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying auditor's comments as items 2015-A and 2015-C 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 auditor's comments as item 2015-B, to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Faith School District No. 46-2'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*.

### **Faith School District No. 46-2's Response to Findings**

Faith School District No. 46-2's responses to the findings identified in our audit are described in the accompanying auditor's comments. Faith School District No. 46-2's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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



Bismarck, North Dakota  
November 25, 2015

## **Status of Prior Audit Recommendations**

### **2014-A Segregation of Duties – Material Weakness**

Condition: The District has a lack of segregation of duties in certain areas due to a limited staff.

Criteria: A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause: The control deficiency could result in the improper recording of a transaction.

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

Recommendation: While we recognize that your office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the District. We recommend that someone other than the Business manager keep a log of the sequence of checks and that the sequence of checks be included in the packet given to the Board for approval to ensure they are receiving the complete listing.

Status: This is a continuing condition.

### **2014-B Recording of Transactions – Material Weakness**

Condition: We identified misstatements in the District's financial statements causing us to propose material audit adjustments. The misstatements identified included the understatement of amounts previously reported for accumulated depreciation and depreciation expense as of and prior to June 30, 2013 which resulted in a restatement to amounts previously reported for net position and accumulated depreciation as of June 30, 2013.

Criteria: A good system of internal accounting control contemplates proper reconciliations of all general ledger accounts and adjustments of those accounts to the reconciled balances. This also includes accounting for transactions in accordance with generally accepted accounting principles.

Cause: The District has limited staff available to research and obtain training when transactions outside of the typical day to day activities of the District occur.

Effect: Material misstatements to the financial statements could result from inadequate controls over recording of transactions and it affects the District's ability to detect misstatements in amount that could be material in relation to the financial statements.

Recommendation: While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the District.

Status: This is a continuing condition.

**2014-C Preparation of Financial Statements – Material Weakness**

Condition: The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Criteria: Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Cause: The control deficiency could result in a misstatement in the presentation of the financial statements.

Effect: Inadequate controls over financial reporting of the District result in more than a remote likelihood that the District would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation: While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the District and changes in reporting requirements.

Status: This is a continuing condition.

**2014-D Reconciliation of Cash – Material Weakness**

Condition: The District's bank reconciliations did not balance to the general ledger cash amounts recorded.

Criteria: A good system of internal accounting control contemplates proper reconcilements of all general ledger accounts and adjustments of those accounts to the reconciled balances.

Cause: There were certain errors noted in some cash transactions in the general ledger, it was also noted that there were some errors in the bank reconciliations causing the bank reconciliations from the bank balances to differ from those recorded in the general ledger cash accounts. The bank reconciliations are done in a system outside the general ledger so the two systems did not match on some transactions.

Effect: Inadequate internal controls over recording of cash transactions affect the District's ability to detect misstatements in amounts that could be material in relation to the financials.

Recommendation: We recommend that the bank reconciliations be completed within the same accounting system as the general ledger accounts to ensure all transactions are properly recorded and tracked within the general ledger system. We also recommend that someone should be reviewing the bank reconciliations on a monthly basis that does not complete the reconciliations, to ensure all items are properly recorded and match what is recorded on the District's financial statements.

Status: This has been corrected in the current year.

## **Current Audit Findings and Recommendations – Financial Statements**

### **2015-A Segregation of Duties – Material Weakness**

Condition: The District has a lack of segregation of duties in certain areas due to a limited staff.

Criteria: A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause: The control deficiency could result in the improper recording of a transaction.

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

Recommendation: While we recognize that your office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the District.

Management's Response – A check listing will be given to the board members each month and signed off on by the Board President at the regular meeting. The current board president does not wish to have a signature stamp. The president and/or vice-president physically sign the checks. Internal controls will be examined to see if we might be able to mitigate this risk. Financially it is not feasible to hire enough additional staff to avoid this finding.

### **2015-B Recording of Transactions – Significant Deficiency**

Condition: We identified misstatements in the District's financial statements causing us to propose significant audit adjustments.

Criteria: A good system of internal accounting control contemplates proper reconciliations of all general ledger accounts and adjustments of those accounts to the reconciled balances. This also includes accounting for transactions in accordance with generally accepted accounting principles.

Cause: The District has limited staff available to research and obtain training when transactions outside of the typical day to day activities of the District occur.

Effect: Misstatements to the financial statements could result from inadequate controls over recording of transactions and it affects the District's ability to detect misstatements to the financial statements.

Recommendation: While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the District.

Management's Response – The District is aware that the limited staff poses an issue for all involved. That being said, every effort is made to record all transactions properly. Additional training and advice is sought through the SD Association of School Business Officials and Department of Legislative Audit when questions arise and throughout the year.

### **2015-C Preparation of Financial Statements – Material Weakness**

Condition: The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Criteria: Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Cause: The control deficiency could result in a misstatement in the presentation of the financial statements.

Effect: Inadequate controls over financial reporting of the District result in more than a remote likelihood that the District would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation: While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the District and changes in reporting requirements.

Management's Response – The District is aware that the limited staff poses a risk of misstatement. It is the hope that the additional training through SDASBO will provide insight and clarity for the reporting process.