

**HARRISBURG SCHOOL
DISTRICT NO. 41-2**

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

JUNE 30, 2015

HARRISBURG SCHOOL DISTRICT NO 41-2
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2015

School Board

Linda Heerde

Mike Knudson

Amber Ellngsen

Juanita Schmunk

Michelle Schirado

Business Manager

Jennifer Koehler

Superintendent

Jim Holbeck

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INDEPENDENT AUDITOR'S REPORT

School Board
Harrisburg School District No. 41-2
Lincoln County, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Harrisburg School District No. 41-2, Lincoln County, South Dakota, as of June 30, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School'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.

Basis for Qualified Opinions

Management has elected not to record their long-term financial obligations and commitments related to other postemployment benefits (OPEB) in the governmental activities Statement of Net Position. Accounting principles generally accepted in the United States of America require OPEB costs to be recognized and reported in a systematic, accrual-basis measurement over a period that approximates employees' years of service, which would most likely increase long-term liabilities

and expenditures and decrease net assets in the governmental activities Statement of Net Position. Accounting principles generally accepted in the United States of America also require information to be provided about actuarial accrued liabilities associated with OPEB and whether, and to what extent, progress is being made in funding the plan. The amount by which this departure would affect the liabilities, net position and expenditures of the governmental activities is not reasonably determinable.

Qualified Opinions

In our opinion, except for the effects of not recording their long-term financial obligations and commitments related to OPEB as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Harrisburg School District as of June 30, 2015, and the respective changes in financial position and, where applicable cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit

The financial statements referred to above do not include financial data for the Harrisburg School District's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the Harrisburg School District's primary government unless the School District also issues financial statements for the financial reporting entity that include the financial data for its component unit. The School District has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net position, revenues, and expenses of the aggregate discretely presented component unit is not determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component unit of the Harrisburg School District No. 41-2, South Dakota, as of June 30, 2015, or the changes in financial position or cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information for the Harrisburg School District No. 41-2 as of June 30, 2015, and the respective changes in financial position and, where applicable cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Adoption of New Accounting Standard

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A, the Pension Schedules and the Budgetary Comparison Schedules 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Harrisburg School District's basic financial statements. The Schedule of Expenditures of Federal Awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2016 on our consideration for the Harrisburg School District's internal control over financial reporting and 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 the School's internal control over financial reporting and compliance.

Quam & Berglin, P.C.

Quam and Berglin, P.C.
Certified Public Accountants

March 26, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Harrisburg School District 41-2's annual financial report presents our discussion and analysis of the School District's financial performance during the fiscal year ended on June 30, 2015. Please read it in conjunction with the School District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position from governmental and business-type activities increased approximately \$4,670,513.
- During the year, the District's revenues generated from taxes and other revenues of the governmental and business-type programs were \$538,045 more than the \$35,243,736 governmental and business-type program expenditures.
- The total cost of the District's instructional programs decreased by approximately 3%, which is primarily due to a decrease in Capital Outlay expenditures such as textbooks and technology. However, in the General Fund, the District experienced an increase due to a student enrollment increase of 305 students 22 certified staff.

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 Harrisburg School District:

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

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

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-1 shows how the required parts of this annual report are arranged and relate to one another.

Figure A-1

**Required Components of Harrisburg School District No. 41-2's
Annual Financial Report**

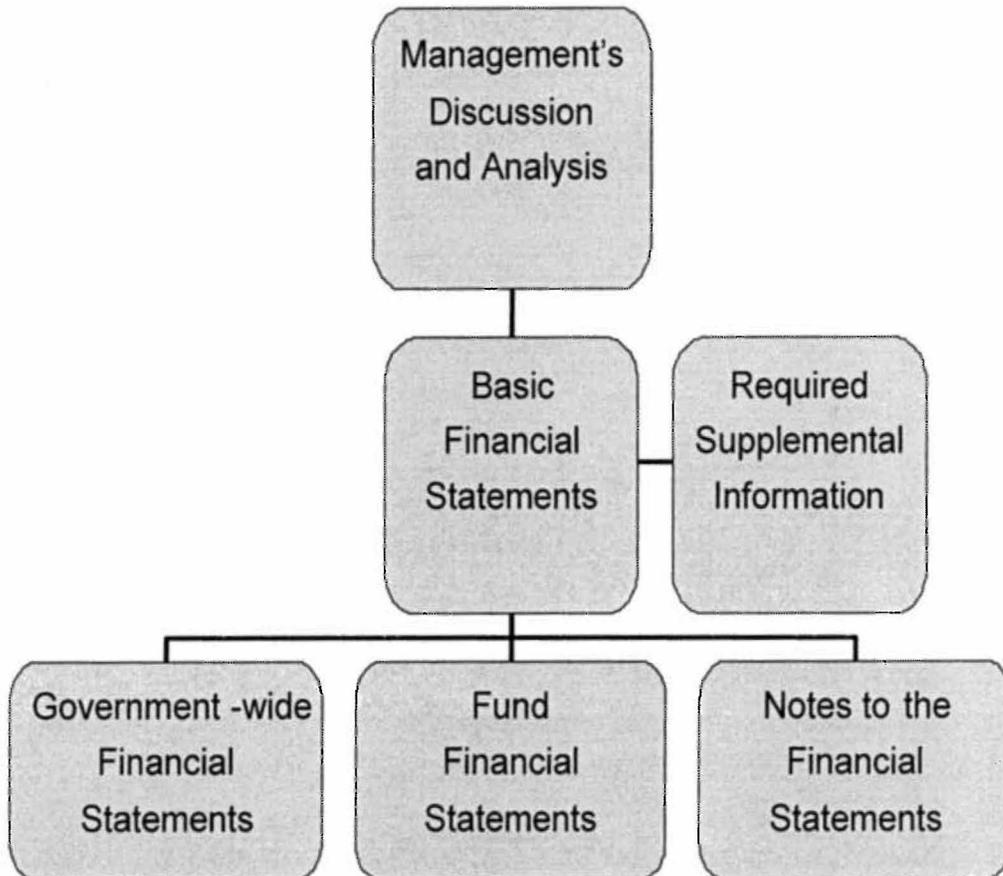


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the School government covered and the types of information contained. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each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

Figure A-2

Major Features of Harrisburg School's Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the School that are not proprietary or fiduciary, such as elementary and high school education programs.	Activities the School operates similar to private businesses, the food service operation.	Instances in which the School is the trustee or agent for someone else's resources.
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Net Position *Statement of Revenues, Expenses and Changes in Net Position *Statement of Cash Flows	*Statement of Net Position *Statement of Changes in Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the 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	All revenues and expense 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 District's net position and how they have changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Increases or decreases in the District's net position 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 District's property tax base and changes in the state school aid funding formula from the State of South Dakota.

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

- **Governmental Activities** - This category includes the District's basic instructional services, such as elementary and high school educational programs, support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, debate, music, etc.) and capital equipment purchases. Property taxes, state grants, federal grants and interest earnings finance most of these activities.
- **Business-type Activities** - The school charges a fee to students to help cover the costs of providing hot lunch services to all students. The school also charges a Driver's Education Fee to pay for the costs incurred with providing a Driver's education program which is offered to anyone. These two funds are the only business-type activities of the School.

Fund Financial Statements

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

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

The School has three kinds of funds:

- **Governmental Funds** – Most of the District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the School charges customers a fee are generally reported in proprietary funds. Proprietary fund statements offer short- and long-term financial information about the activities that the school operates like businesses. Two proprietary funds are operated by the school; Food Service and Driver's Education.
- **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 District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the School cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Statement of Net Position

The District's combined net position changed as follows:

Table A-1
HARRISBURG SCHOOL DISTRICT #41-2
Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2015	2014	2015	2014	2015
Current and Other Assets	\$ 30,332,160.00	\$ 50,984,390.50	\$ 245,223.05	\$ 266,188.62	\$ 30,577,383.05	\$ 51,250,579.12
Capital Assets	107,833,372.56	112,803,640.82	83,943.14	64,020.89	107,917,315.70	112,867,661.71
Total Assets	138,165,532.56	163,788,031.32	329,166.19	330,209.51	138,494,698.75	164,118,240.83
Pension Related Deferred Outflows		5,930,342.27				5,930,342.27
Total Deferred Outflows of Resources		5,930,342.27				5,930,342.27
Long-Term Debt Outstanding	114,834,184.07	129,963,453.58			114,834,184.07	129,963,453.58
Other Liabilities	3,705,002.58	6,698,353.42	102,185.62	109,067.94	3,807,188.20	6,807,421.36
Total Liabilities	118,539,186.65	136,661,807.00	102,185.62	109,067.94	118,641,372.27	136,770,874.94
Taxes levied for Future Period	8,822,096.49	10,005,598.16				10,005,598.16
Pension Related Deferred Inflows		7,570,367.22				7,570,367.22
Total Deferred Inflows of Resources	8,822,096.49	17,575,965.38				17,575,965.38
Net Position:						
Net Investment in Capital Assets	3,926,794.60	2,598,471.25	83,943.14	64,020.89	4,010,737.74	2,662,492.14
Restricted	3,606,282.43	9,411,355.02			3,606,282.43	9,411,355.02
Unrestricted	3,271,172.39	3,470,774.94	143,037.43	157,120.68	3,414,209.82	3,627,895.62
Total Net Position	10,804,249.42	15,480,601.21	226,980.57	221,141.57	11,031,229.99	15,701,742.78
Beginning Net Assets	15,220,313.85	10,804,249.42	289,844.49	226,980.57	15,510,158.34	11,031,229.99
Increase (Decrease) in Net Position	(4,416,064.43)	4,676,351.79	(62,863.92)	(5,839.00)	(4,478,928.35)	4,670,512.79
Ending Net Position	\$ 10,804,249.42	\$ 15,480,601.21	\$ 226,980.57	\$ 221,141.57	\$ 11,031,229.99	\$ 15,701,742.78
Percentage of Increase (Decrease) in Net Position	-29.01%	43.28%	-21.69%	-2.57%	-28.88%	42.34%

This section is used to explain the differences between the current and prior year's assets, liabilities, and changes in net position.

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

GOVERNMENTAL ACTIVITIES

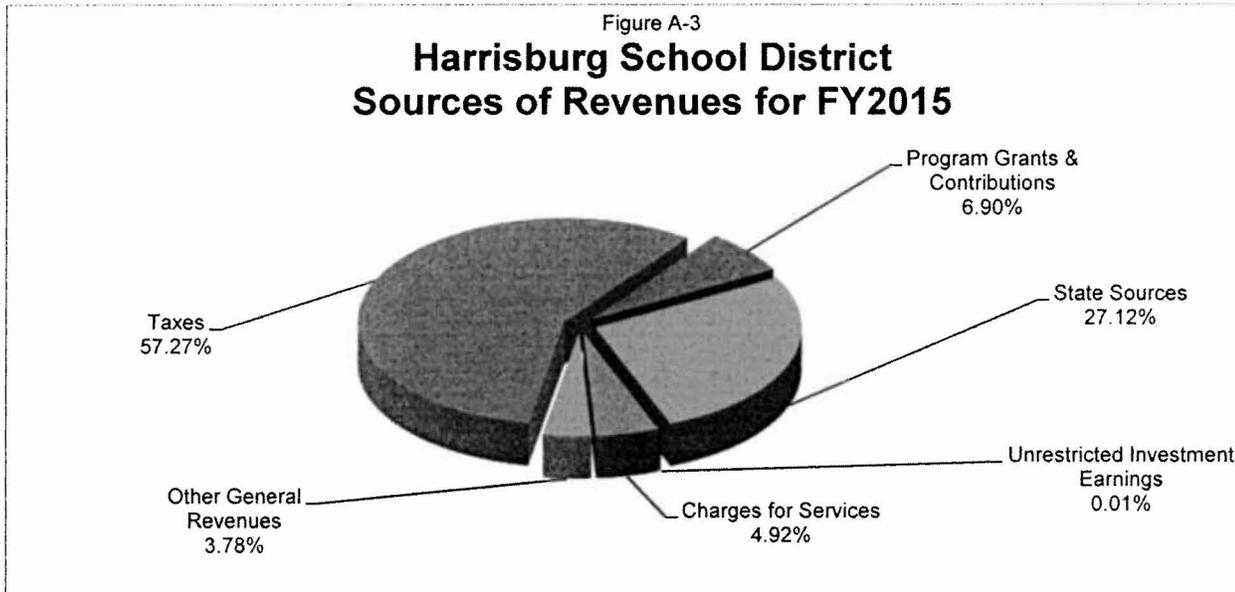
Table A-2 and the narrative that follows consider the operations of the governmental activities.

Table A-2
HARRISBURG SCHOOL DISTRICT #41-2
Changes in Net Position

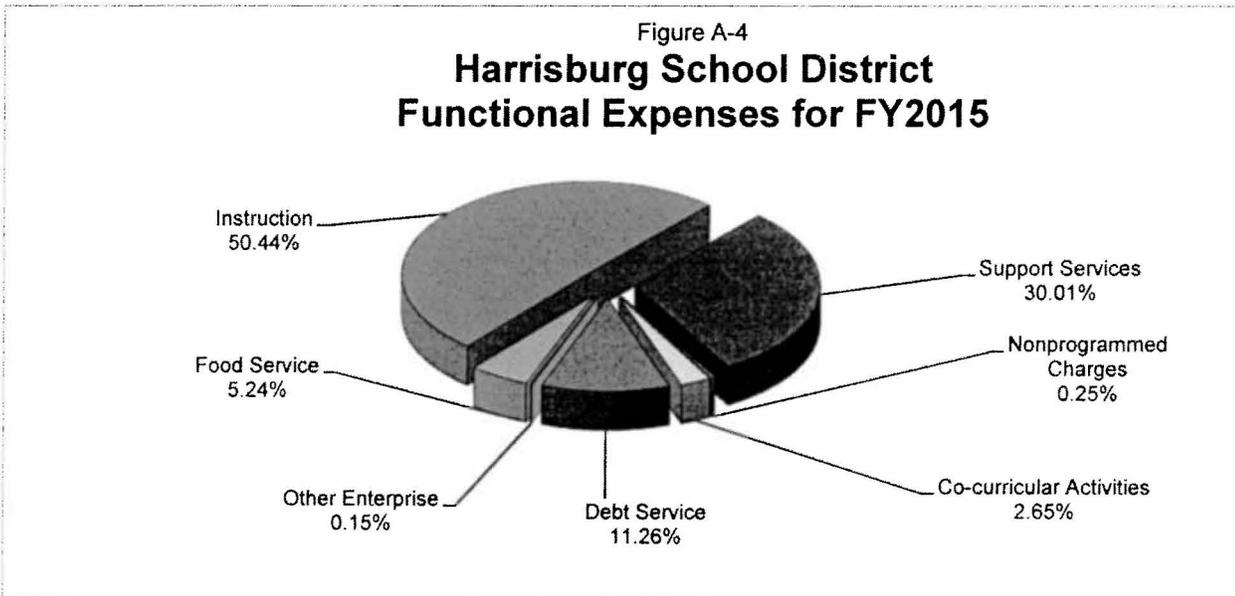
	Total		Total		Total	
	Governmental		Business-Type		Total	
	Activities		Activities		Total	
	2014	2015	2014	2015	2014	2015
Revenues						
Program Revenues:						
Charges for Services	\$ 90,607.26	\$ 341,995.46	\$1,251,155.41	\$ 1,418,948.93	\$ 1,341,762.67	\$ 1,760,944.39
Operating Grants and Contributions	1,939,566.20	2,004,918.80	415,443.52	463,928.11	2,355,009.72	2,468,846.91
General Revenues:						
Property Taxes	19,052,535.90	20,278,437.69			19,052,535.90	20,278,437.69
Gross Receipt taxes	217,404.34	214,620.14			217,404.34	214,620.14
State Sources	8,613,053.45	9,703,397.08			8,613,053.45	9,703,397.08
Other General Revenues	1,478,889.99	1,352,017.37			1,478,889.99	1,352,017.37
Unrestricted Investment Earnings	8,030.52	3,517.31			8,030.52	3,517.31
Total Revenues	31,400,087.66	33,898,903.85	1,666,598.93	1,882,877.04	33,066,686.59	35,781,780.89
Expenses						
Instruction	18,364,856.29	17,777,097.75			18,364,856.29	17,777,097.75
Support Services	12,005,839.05	10,574,972.24			12,005,839.05	10,574,972.24
Nonprogrammed Charges	93,276.87	86,634.33			93,276.87	86,634.33
Debt Service	4,439,078.43	3,970,143.60			4,439,078.43	3,970,143.60
Co-Curricular Activities	913,101.45	935,172.07			913,101.45	935,172.07
Drivers Education			32,849.15	34,563.56	32,849.15	34,563.56
Newspaper & Bookstore				18,026.10		18,026.10
Food Service			1,696,613.70	1,847,126.38	1,696,613.70	1,847,126.38
Total Expenses	35,816,152.09	33,344,019.99	1,729,462.85	1,899,716.04	37,545,614.94	35,243,736.03
Excess (Deficiency) Before Special Transfers	(4,416,064.43)	554,883.86	(62,863.92)	(16,839.00)	(4,478,928.35)	538,044.86
Special Items		(11,000.00)		11,000.00		
		622,524.98				622,524.98
Increase (Decrease) in Net Position	(4,416,064.43)	1,166,408.84	(62,863.92)	(5,839.00)	(4,478,928.35)	1,160,569.84
Beginning Net Position	15,220,313.85	10,804,249.42	289,844.49	226,980.57	15,510,158.34	11,031,229.99
Prior Period Adjustment		3,509,942.95				3,509,942.95
Net Postion-Ending	\$10,804,249.42	\$15,480,601.21	\$ 226,980.57	\$ 221,141.57	\$11,031,229.99	\$15,701,742.78

Changes in Net position

This section will show condensed financial comparison of revenues and expenses and provide explanations for significant differences. The District's total revenues totaled \$35,781,781. (See Table A-2) Approximately 57% of the District's revenue comes from property and other taxes, with another 27% coming from state aid. (See Figure A-3).



The total cost of all programs and services decreased by \$2,301,879 or approximately 6%. As explained earlier, it is mainly due to growth; increased enrollment and programming. The District's expenses cover a range of services encompassing instruction, support services and food services. (See Figure A-4).



BUSINESS-TYPE ACTIVITIES

Revenues of the District's business-type activities increased by \$216,278 - approximately 13%, and expenses increased by 10%. Factors contributing to these results included:

- There was an increase in the number of students attending the school during 2015. This resulted in an increase in the number of meals served by the food service operations.
- The primary reason for the increase in expenses was due to normal increases in salaries and wages, increases in supplies and food purchases due to the increased enrollment.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Special Education fund decreased slightly from 2014, however due to the increased child count and salaries and benefits expenditures, this was expected. Fund balances in Capital Outlay increased from the past year mostly due to insurance proceeds and the sale of Fritz land. The majority of the District's buildings are new and require less maintenance. Bond Redemption fund balances have increased due to two new General Obligation issues during the year. The Capital Projects fund increased due to the new projects in which the bond money was raised.

BUDGETARY HIGHLIGHTS

Over the course of the year, the School Board revised the School budget. These amendments fall into three categories:

- Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for the education program of this district.
- Increases in appropriations, primarily by contingency transfer, to prevent budget overruns.

CAPITAL ASSET ADMINISTRATION

By the end of 2015, the School had invested \$112,867,662 in a broad range of capital assets, including, land, buildings, various machinery and equipment. (See Table A-3.) This amount represents a net increase (including additions, deletions and depreciation) of \$4,950,346, or 5%, over the previous year.

Table A-3
HARRISBURG SCHOOL DISTRICT 41-2 - Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Totals	
	2014	2015	2014	2015	2014	2015
Capital Assets Not Being Depreciated						
Land	\$ 5,536,038	\$ 5,536,038	\$	\$	\$ 5,536,038	\$ 5,536,038
Construction Work in Progress		7,058,972				7,058,972
Total Capital Assets Not Being Depreciated	5,536,038	12,595,011			5,536,038	12,595,011
Other Capital Assets Being Depreciated						
Buildings	105,764,121	105,850,611			105,764,121	105,850,611
Improvements	4,945,012	4,990,012			4,945,012	4,990,012
Library Books	923,102	971,207			923,102	971,207
Machinery and Equipment	4,772,699	4,994,325	424,605	424,605	5,197,304	5,418,930
Total Other Capital Assets Being Depreciated	116,404,934	116,806,154	424,605	424,605	116,829,539	117,230,760
Accumulated Depreciation	(14,107,600)	(16,597,524)	(340,662)	(360,584)	(14,448,262)	(16,958,108)
Capital Assets, Net of Depreciation	102,297,334	100,208,630	83,943	64,021	102,381,277	100,272,651
Total All Capital Assets (Net of Depreciation)	\$ 107,833,373	\$ 112,803,641	\$ 83,943	\$ 64,021	\$ 107,917,316	\$ 112,867,662

This year's capital asset expenditure was primarily from the High School Addition, Elementary #6, and the Alternative School/Central Receiving Capital Projects that were in completion as of June 30, 2015.

LONG-TERM DEBT

Table A-4
HARRISBURG SCHOOL DISTRICT 41-2 - Outstanding Debt and Obligations

	Governmental Activities		Total Dollar Change	Total Percentage Change
	2014	2015	2014-2015	2014-2015
Bonds Payable	\$ 99,835,000.00	\$ 115,045,000.00	\$ 15,210,000.00	15.24%
Early Retirement	204,915.07	220,927.47	16,012.40	7.81%
Financing Leases	893,415.62	755,789.42	(137,626.20)	-15.40%
Capital Outlay Certificates	11,140,000.00	10,655,000.00	(485,000.00)	-4.35%
Premium on Bonds	2,760,853.38	3,286,736.69	525,883.31	19.05%
Total Outstanding Debt and Obligations	\$ 114,834,184.07	129,963,453.58	15,129,269.51	13.17%

The School also maintains an early retirement plan, which allows those meeting certain qualifications, to retire early and receive 80% of their last year's salary in one lump sum or in equal payments spread over the next five years. This plan allows the school to reduce the overall program cost by hiring lower paid teachers to replace the higher paid teachers. During 2015 the school entered into a computer financing lease and issued two General Obligation Bonds.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's current economic position has shown significant changes. The School did experience an increase in total property valuation of \$177,985,735 or approximately 12% from the prior year. The increase in property valuation allows the School the ability to increase the amount of revenue generated from property taxes, however, the total amount which can be levied is limited by the State of South Dakota.

One of the primary sources of revenue to the School is based on a per student allocation received from the State of South Dakota. The state aid formula ensures that property taxes plus state aid will equal \$4,781.14 per pupil. The allocation for FY2015 increased 3% from FY2014. The district has continually experienced an increase average daily membership (ADM) each year.

The School District's enrollment went up from 3,267 in the FY 2014 to 3,572 in FY 2015, an increase of 305 students, or 9%

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Harrisburg School District's Business Office, 200 Willow Street, Harrisburg, SD 57032.

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HARRISBURG SCHOOL DISTRICT NO. 41-2
STATEMENT OF NET POSITION
JUNE 30, 2015

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
ASSETS:			
Cash and Cash Equivalents	\$ 33,001,780.45	\$ 224,065.04	\$ 33,225,845.49
Taxes Receivable	10,130,353.37		10,130,353.37
Accounts Receivable	28,349.30	52.50	28,401.80
Inventories		42,071.08	42,071.08
Due from Other Government	267,408.87		267,408.87
Due from Component Unit	1,020,000.00		1,020,000.00
Net Pension Asset	6,536,498.51		6,536,498.51
Capital Assets:			
Land	12,595,010.57		12,595,010.57
Other Capital Assets, Net of Depreciation	100,208,630.25	64,020.89	100,272,651.14
TOTAL ASSETS	<u>163,788,031.32</u>	<u>330,209.51</u>	<u>164,118,240.83</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Pension Related Deferred Outflows	5,930,342.27		5,930,342.27
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>5,930,342.27</u>		<u>5,930,342.27</u>
LIABILITIES :			
Accounts Payable	502,897.81	412.09	503,309.90
Accrued Wages & Benefits Payable	2,867,214.57	42,338.79	2,909,553.36
Construction Payable	2,308,241.04		2,308,241.04
Unearned Revenue	1,020,000.00	66,317.06	1,086,317.06
Noncurrent Liabilities:			
Due Within One Year	3,622,342.78		3,622,342.78
Due in More than One Year	126,341,110.80		126,341,110.80
TOTAL LIABILITIES	<u>136,661,807.00</u>	<u>109,067.94</u>	<u>136,770,874.94</u>
DEFERRED INFLOWS OF RESOURCES:			
Taxes levied for Future Period	10,005,598.16		10,005,598.16
Pension Related Deferred Inflows	7,570,367.22		7,570,367.22
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>17,575,965.38</u>		<u>17,575,965.38</u>
NET POSITION:			
Net Investment in Capital Assets	2,598,471.25	64,020.89	2,662,492.14
Restricted for:			
Capital Outlay	2,810,307.26		2,810,307.26
Special Education	233,377.56		233,377.56
Pension	2,454.08		2,454.08
Debt Service	1,468,742.56		1,468,742.56
SDRS Pension Purposes	4,896,473.56		4,896,473.56
Unrestricted (Deficit)	3,470,774.94	157,120.68	3,627,895.62
TOTAL NET POSITION	<u>\$ 15,480,601.21</u>	<u>\$ 221,141.57</u>	<u>\$ 15,701,742.78</u>

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

**HARRISBURG SCHOOL DISTRICT NO. 41-2
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Primary Government:						
Governmental Activities:						
Instruction	\$ 17,777,094.35	\$	\$ 2,004,918.80	\$ (15,772,175.55)	\$	\$ (15,772,175.55)
Support Services	10,574,972.24	276,099.26		(10,298,872.98)		(10,298,872.98)
Nonprogrammed Charges	86,634.33			(86,634.33)		(86,634.33)
*Interest on Long-term Debt	3,970,143.60			(3,970,143.60)		(3,970,143.60)
Cocurricular Activities	935,172.07	65,896.20		(869,275.87)		(869,275.87)
Total Governmental Activities	<u>33,344,016.59</u>	<u>341,995.46</u>	<u>2,004,918.80</u>	<u>(30,997,102.33)</u>		<u>(30,997,102.33)</u>
Business-type Activities:						
Food Service	1,847,126.38	1,356,273.61	463,928.11		(26,924.66)	(26,924.66)
Driver's Education	34,563.56	41,200.00			6,636.44	6,636.44
Newspaper & Bookstore	18,026.10	21,475.32			3,449.22	3,449.22
Total Business-type Activities	<u>1,899,716.04</u>	<u>1,418,948.93</u>	<u>463,928.11</u>		<u>(16,839.00)</u>	<u>(16,839.00)</u>
Total Primary Government	<u>\$ 35,243,732.63</u>	<u>\$ 1,760,944.39</u>	<u>\$ 2,468,846.91</u>	<u>(30,997,102.33)</u>	<u>(16,839.00)</u>	<u>(31,013,941.33)</u>
General Revenues:						
Taxes:						
				20,278,437.69		20,278,437.69
				214,620.14		214,620.14
Revenue from State Sources:						
				9,703,397.08		9,703,397.08
				3,517.31		3,517.31
				1,352,017.37		1,352,017.37
				622,524.98		622,524.98
				(11,000.00)	11,000.00	
				<u>32,163,514.57</u>	<u>11,000.00</u>	<u>32,174,514.57</u>
				1,166,412.24	(5,839.00)	1,160,573.24
				<u>10,804,249.42</u>	<u>226,980.57</u>	<u>11,031,229.99</u>
				3,509,939.55		3,509,939.55
				<u>14,314,188.97</u>	<u>226,980.57</u>	<u>14,541,169.54</u>
				<u>\$ 15,480,601.21</u>	<u>\$ 221,141.57</u>	<u>\$ 15,701,742.78</u>

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

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

**HARRISBURG SCHOOL DISTRICT NO. 41-2
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Capital Projects Fund	Total Governmental Funds
ASSETS:							
Cash and Cash Equivalents	\$ 5,853,230.26	\$ 2,876,964.13	\$ 638,523.75	\$	\$ 1,444,664.10	\$ 22,188,398.21	\$ 33,001,780.45
Taxes Receivable-Current	4,598,169.37	2,301,531.01	958,971.25	230,153.11	1,916,773.42		10,005,598.16
Taxes Receivable-Delinquent	66,625.14	21,943.86	9,653.67	2,454.08	24,078.46		124,755.21
Accounts Receivable	10,849.30	17,500.00					28,349.30
Due From Government	264,703.87		2,705.00				267,408.87
Due from Component Unit		1,020,000.00					1,020,000.00
TOTAL ASSETS	\$ 10,793,577.94	\$ 6,237,939.00	\$ 1,609,853.67	\$ 232,607.19	\$ 3,385,515.98	\$ 22,188,398.21	\$ 44,447,891.99
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:							
Liabilities:							
Accounts Payable	\$ 34,553.17	\$ 106,100.73	\$ 19,443.28	\$	\$	\$ 342,800.63	\$ 502,897.81
Contracts Payable	1,994,579.05		321,016.28				2,315,595.33
Construction Contracts Payable						2,308,241.04	2,308,241.04
Payroll Deductions and Withholdings and Employer Matching Payable	474,573.94		77,045.30				551,619.24
Unearned Revenue		1,020,000.00					1,020,000.00
Total Liabilities	2,503,706.16	1,126,100.73	417,504.86			2,651,041.67	6,698,353.42
Deferred Inflows of Resources:							
Taxes Levied for a Future Period	4,598,169.37	2,301,531.01	958,971.25	230,153.11	1,916,773.42		10,005,598.16
Unavailable Revenue-Property Taxes	66,625.14	21,943.86	9,653.67	2,454.08	24,078.46		124,755.21
Total Deferred Inflows of Resources	4,664,794.51	2,323,474.87	968,624.92	232,607.19	1,940,851.88		10,130,353.37
Fund Balances:							
Restricted for:							
Capital Outlay		2,788,363.40					2,788,363.40
Special Education			223,723.89				223,723.89
Debt Service					1,444,664.10		1,444,664.10
Capital Projects						19,537,356.54	19,537,356.54
Unassigned	3,625,077.27						3,625,077.27
Total Fund Balances	3,625,077.27	2,788,363.40	223,723.89		1,444,664.10	19,537,356.54	27,619,185.20
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 10,793,577.94	\$ 6,237,939.00	\$ 1,609,853.67	\$ 232,607.19	\$ 3,385,515.98	\$ 22,188,398.21	\$ 44,447,891.99

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

**HARRISBURG SCHOOL DISTRICT NO. 41-2
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Total Fund Balances - Governmental Funds \$ 27,619,185.20

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

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

Cost of the assets	\$129,401,164.89	
Accumulated Depreciation	<u>(16,597,524.07)</u>	112,803,640.82

When bonds are issued there is usually a premium or a discount involved. The amount of premium on issuance of bonds consists of: (3,286,736.69)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:

Bonds Payable	(115,045,000.00)	
Capital Outlay Certificates	(10,655,000.00)	
Early Retirement Payable	(220,927.47)	
Financing (Capital Acquisition) Leases	<u>(755,789.42)</u>	(126,676,716.89)

Net Pension Asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds. 6,536,498.51

Pension related deferred outflows are components of pension asset and therefore are not reported in the funds. 5,930,342.27

Pension related deferred inflows are components of pension liability and therefore are not reported in the funds. (7,570,367.22)

Assets such as taxes receivable (delinquent) are not available to pay for current period expenditures and therefore are deferred in the funds. 124,755.21

Net Position- Governmental Funds \$ 15,480,601.21

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

HARRISBURG SCHOOL DISTRICT NO. 41-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Pension Fund</u>	<u>Bond Redemption Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenues:							
Revenue from Local Sources:							
Taxes:							
Ad Valorem Taxes	\$ 9,296,366.76	\$ 4,344,736.86	\$ 1,754,327.44	\$ 461,268.11	\$ 4,224,920.81	\$	\$ 20,081,619.98
Prior Years' Ad Valorem Taxes	109,433.94	38,185.92	15,796.20	4,375.01	44,235.02		212,026.09
Utility Taxes	214,620.14						214,620.14
Penalties and Interest on Taxes	17,951.64	4,849.13	2,135.19	551.83	5,430.12		30,917.91
Revenue from Local Governmental Units Other Than LEAs:							
Revenue in Lieu of Taxes	547,240.13						547,240.13
Earnings on Investments and Deposits	2,311.02					1,206.29	3,517.31
Cocurricular Activities:							
Admissions	44,999.68						44,999.68
Rentals	16,670.00						16,670.00
Other Pupil Activity	4,226.52						4,226.52
Other Revenue from Local Sources:							
Rentals	85,858.08						85,858.08
Contributions and Donations	22,427.37	57,243.17					79,670.54
Charges for Services	46,366.26		26,875.16				73,241.42
Other	65,867.89	58,781.02	300.00				124,948.91
Revenue from Intermediate Sources:							
County Sources:							
County Apportionment	99,497.26						99,497.26
Revenue from State Sources:							
Grants-in-Aid:							
Unrestricted Grants-in-Aid	9,403,397.08						9,403,397.08
Restricted Grants-in-Aid	61,500.00	18,794.80	1,123,235.00				1,203,529.80
Other State Revenue			300,000.00				300,000.00
Revenue from Federal Sources:							
Grants-in-Aid:							
Restricted Grants-in-Aid Received from Federal Government Through the State	188,883.00	121,464.00	491,042.00				801,389.00
Other Federal Revenue					318,661.97		318,661.97
Total Revenue	<u>20,227,616.77</u>	<u>4,644,054.90</u>	<u>3,713,710.99</u>	<u>466,194.95</u>	<u>4,593,247.92</u>	<u>1,206.29</u>	<u>33,646,031.82</u>

Expenditures:

Instruction:

Regular Programs:

Elementary	6,358,086.86	352,368.38	288,000.00	6,998,455.24
Middle School	2,703,312.97	392,157.35	115,766.95	3,211,237.27
High School	2,861,468.72	490,462.95		3,351,931.67

Special Programs:

Gifted and Talented	519,881.64			519,881.64
Programs for Special Education		350.00	2,532,332.94	2,532,682.94
Culturally Different	27,068.31			27,068.31
Educationally Deprived	112,079.22			112,079.22
Other Special Programs	140,580.12			140,580.12

Support Services:

Pupils:

Attendance and Social Work Services			23,110.91	23,110.91
Guidance	506,495.07			506,495.07
Health	296,643.57	1,798.00	1,255.38	299,696.95
Psychological			323,088.87	323,088.87
Speech Pathology			458,765.77	458,765.77
Audiology			201,502.57	201,502.57
Student Therapy Services			247,832.04	247,832.04
Orientation and Mobility Services			8,183.33	8,183.33

Support Services - Instructional Staff:

Improvement of Instruction	370,038.95			370,038.95
Educational Media	725,887.40	30,294.82		756,182.22

Support Services - General Administration:

Board of Education	86,102.18			86,102.18
Executive Administration	205,733.98			205,733.98

Support Services - School Administration:

Office of the Principal	1,072,712.53			1,072,712.53
Other School Administration	900.54			900.54

Support Services - Business:

Fiscal Services	494,239.34	149,407.00		643,646.34
Facilities Acquisition & Construction		401,556.56	238,247.73	639,804.29
Operation and Maintenance of Plant	1,882,714.45	1,079,111.32		2,961,825.77
Pupil Transportation	647,383.49	128,872.69		776,256.18
Internal Services	25,492.43			25,492.43

Support Services- Central:

Staff	6,580.00			6,580.00
Other	73,427.99			73,427.99

Support Services - Special Education:

Administrative Costs			73,131.52	73,131.52
Speech/Language Impairments			140,263.18	140,263.18
Autism/Preschool			32,217.50	32,217.50
Transportation Costs			30,606.57	30,606.57

HARRISBURG SCHOOL DISTRICT NO. 41-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Capital Projects Fund	Total Governmental Funds
Nonprogrammed Charges							
Payments for Unemployment	3,419.15						3,419.15
Early Retirement Payments	4,774.78			62,428.00			67,202.78
Debt Services		1,517,254.23			5,797,622.65	10,450.18	7,325,327.06
Cocurricular Activities:							
Male Activities	176,521.92						176,521.92
Female Activities	125,770.01						125,770.01
Combined Activities	551,447.17	28,269.97					579,717.14
Capital Outlay		458,556.32				7,169,862.19	7,628,418.51
Total Expenditures	<u>19,978,762.79</u>	<u>5,030,459.59</u>	<u>4,072,290.58</u>	<u>466,194.95</u>	<u>5,797,622.65</u>	<u>7,418,560.10</u>	<u>42,763,890.66</u>
Excess of Revenue Over (Under)							
Expenditures	<u>248,853.98</u>	<u>(386,404.69)</u>	<u>(358,579.59)</u>		<u>(1,204,374.73)</u>	<u>(7,417,353.81)</u>	<u>(9,117,858.84)</u>
Other Financing Sources:							
Transfers In						24,617,019.31	24,617,019.31
Transfers (Out)	(11,000.00)				(24,617,019.31)		(24,628,019.31)
Capital Lease		598,770.52					598,770.52
Sale of Surplus Property		22,899.06					22,899.06
General Long-Term Debt Issued					25,000,000.00		25,000,000.00
Premium on Bonds Issued					664,670.05		664,670.05
Payment to Refunded Debt Escrow Agent					(7,795,000.00)		(7,795,000.00)
Total Other Financing Sources (Uses)	<u>(11,000.00)</u>	<u>621,669.58</u>			<u>(6,747,349.26)</u>	<u>24,617,019.31</u>	<u>18,480,339.63</u>
Special Items:							
Cost recovery from Fritz Land		229,408.28					229,408.28
Insurance Proceeds		393,116.70					393,116.70
Total Special Items		<u>622,524.98</u>					<u>622,524.98</u>
Net Change in Fund Balances	237,853.98	857,789.87	(358,579.59)		(7,951,723.99)	17,199,665.50	9,985,005.77
Fund Balance - Beginning	<u>3,387,223.29</u>	<u>1,930,573.53</u>	<u>582,303.48</u>		<u>9,396,388.09</u>	<u>2,337,691.04</u>	<u>17,634,179.43</u>
FUND BALANCE - ENDING	<u>\$ 3,625,077.27</u>	<u>\$ 2,788,363.40</u>	<u>\$ 223,723.89</u>	<u>\$ 0.00</u>	<u>\$ 1,444,664.10</u>	<u>\$ 19,537,356.54</u>	<u>\$ 27,619,185.20</u>

HARRISBURG SCHOOL DISTRICT NO. 41-2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Net Change in Fund Balances - Total Governmental Funds \$ 9,985,005.77

Governmental funds report property taxes as revenue when cash is received, but the statement of activities includes the property taxes as revenue when earned. (46,126.29)

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.

Capital Expenditures	\$ 7,628,418.51	
Depreciation Expense	<u>(2,658,150.25)</u>	4,970,268.26

The issuance of long-term debt is an other financing source in the fund statements but an increase in long-term liabilities on the government-wide statements.

Financing (Capital Acquisition) Leases		(598,770.52)
--	--	--------------

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Bonds Payable	9,790,000.00	
Capital Outlay Certificates	485,000.00	
Financing (Capital Acquisition) Leases	<u>736,396.72</u>	11,011,396.72

The issuance of long-term debt is an other financing source in the fund statements but an increase in long-term liabilities on the government wide statements.

GO Bonds	(19,664,670.05)	
GO Bonds	<u>(6,000,000.00)</u>	(25,664,670.05)

When bonds are issued there is usually a premium or a discount involved. This premium or discount is amortized over the life of the bonds issued. 138,786.74

Changes in the pension related deferred outflows/inflows are direct components of pension asset and are not reflected in the governmental funds. 1,386,534.01

In the statement of activities, certain operating expenses - special termination benefits (early retirement) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).

Change in Early Retirement		<u>(16,012.40)</u>
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Change in Net Position of Governmental Activities \$ 1,166,412.24

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

HARRISBURG SCHOOL DISTRICT NO. 41-2
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015

		Enterprise Funds	
	Food Service Fund	Other Enterprise Fund	Total
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 208,196.14	\$ 15,868.90	\$ 224,065.04
Accounts Receivable		52.50	52.50
Inventory of Supplies	8,766.81		8,766.81
Inventory of Stores Purchased for Resale	30,068.30		30,068.30
Inventory of Donated Food	3,235.97		3,235.97
	<u>250,267.22</u>	<u>15,921.40</u>	<u>266,188.62</u>
Total Current Assets			
Capital Assets:			
Machinery and Equipment	424,605.22		424,605.22
Less: Accumulated Depreciation	(360,584.33)		(360,584.33)
	<u>64,020.89</u>	<u></u>	<u>64,020.89</u>
Total Noncurrent Assets			64,020.89
TOTAL ASSETS	<u>314,288.11</u>	<u>15,921.40</u>	<u>330,209.51</u>
LIABILITIES:			
Current Liabilities:			
Accounts Payable	27.20	384.89	412.09
Contracts Payable	30,326.00		30,326.00
Payroll Deductions and Withholdings and Employer Matching Payable	12,012.79		12,012.79
Deposits Payable	66,317.06		66,317.06
	<u>108,683.05</u>	<u>384.89</u>	<u>109,067.94</u>
Total Current Liabilities			109,067.94
NET POSITION:			
Net Investment in Capital Assets	64,020.89		64,020.89
Unrestricted Net Position	141,584.17	15,536.51	157,120.68
	<u>205,605.06</u>	<u>15,536.51</u>	<u>221,141.57</u>
Total Net Position	<u>\$ 205,605.06</u>	<u>\$ 15,536.51</u>	<u>\$ 221,141.57</u>

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

HARRISBURG SCHOOL DISTRICT NO. 41-2
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Food Service Fund</u>	<u>Other Enterprise Funds</u>	
Operating Revenue:			
Tuition and Fees:			
Drivers Education	\$	\$ 41,200.00	\$ 41,200.00
Other Charges for Goods and Services		21,475.32	21,475.32
Sales:			
To Pupils	1,059,653.45		1,059,653.45
To Adults	38,467.30		38,467.30
A la Carte	253,652.53		253,652.53
Other	4,500.33		4,500.33
Total Operating Revenue	<u>1,356,273.61</u>	<u>62,675.32</u>	<u>1,418,948.93</u>
Operating Expenses:			
Other Community Services:			
Salaries		29,003.00	29,003.00
Employee Benefits		2,218.72	2,218.72
Purchased Services		16,632.80	16,632.80
Supplies		4,270.14	4,270.14
Property, Liability & Fidelity Insurance		465.00	465.00
Food Service:			
Salaries	582,152.82		582,152.82
Employee Benefits	152,728.34		152,728.34
Purchased Services	71,644.34		71,644.34
Supplies	80,202.47		80,202.47
Cost of Sales-Purchased Food	895,817.14		895,817.14
Cost of Sales-Donated Food	43,158.27		43,158.27
Miscellaneous	1,500.75		1,500.75
Depreciation-Local Funds	19,922.25		19,922.25
Total Operating Expenses	<u>1,847,126.38</u>	<u>52,589.66</u>	<u>1,899,716.04</u>
Operating Income (Loss)	<u>(490,852.77)</u>	<u>10,085.66</u>	<u>(480,767.11)</u>
Nonoperating Revenue (Expense):			
State Sources:			
Cash Reimbursements	10,227.31		10,227.31
Federal Sources:			
Cash Reimbursements	414,019.89		414,019.89
Donated Food	39,680.91		39,680.91
Total Nonoperating Revenue (Expense)	<u>463,928.11</u>		<u>463,928.11</u>
Income (Loss) Before Transfers	(26,924.66)	10,085.66	(16,839.00)
Transfers In		<u>11,000.00</u>	<u>11,000.00</u>
Change in Net Position	(26,924.66)	21,085.66	(5,839.00)
Net Position - Beginning	<u>232,529.72</u>	<u>(5,549.15)</u>	<u>226,980.57</u>
NET POSITION- ENDING	<u>\$ 205,605.06</u>	<u>\$ 15,536.51</u>	<u>\$ 221,141.57</u>

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

**HARRISBURG SCHOOL DISTRICT NO. 41-2
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	Enterprise Funds		
	Food Service Fund	Other Enterprise	Total
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 1,367,966.46	\$ 62,622.82	\$ 1,430,589.28
Payments to Suppliers	(1,035,404.61)	(26,067.20)	(1,061,471.81)
Payments to Employees	(734,881.16)	(31,221.72)	(766,102.88)
Other Operating Cash Payments	(1,500.75)	(465.00)	(1,965.75)
Net Cash Provided (Used) by Operating Activities	<u>(403,820.06)</u>	<u>4,868.90</u>	<u>(398,951.16)</u>
Cash Flows from Noncapital Financing Activities:			
Operating Subsidies	424,247.20		424,247.20
Transfer In		11,000.00	11,000.00
Net Cash Provided by (Used) by Noncapital Financing Activities	<u>424,247.20</u>	<u>11,000.00</u>	<u>435,247.20</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 20,427.14</u>	<u>\$ 15,868.90</u>	<u>\$ 36,296.04</u>
Cash and Cash Equivalents at Beginning of Year	\$ 187,769.00	\$	\$ 187,769.00
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>208,196.14</u>	<u>15,868.90</u>	<u>224,065.04</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 20,427.14</u>	<u>\$ 15,868.90</u>	<u>\$ 36,296.04</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	\$ (490,852.77)	\$ 10,085.66	\$ (480,767.11)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	19,922.25		19,922.25
Value of Commodities Used	43,158.27		43,158.27
Change in Assets and Liabilities:			
Accounts Receivables		(52.50)	(52.50)
Inventories	11,905.61		11,905.61
Accounts and Other Payables	353.73	(5,164.26)	(4,810.53)
Revenue Received in Advance	11,692.85		11,692.85
Net Cash Provided (Used) by Operating Activities	<u>\$ (403,820.06)</u>	<u>\$ 4,868.90</u>	<u>\$ (398,951.16)</u>
Noncash Investing, Capital and Financing Activities:			
Value of Commodities Received	\$ 39,680.91		

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

HARRISBURG SCHOOL DISTRICT NO. 41-2
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

	Agency Funds	Private-Purpose Trust Funds
ASSETS:		
Cash and Cash Equivalents	\$ 133,186.94	\$ 5,294.24
Investments		11,802.28
TOTAL ASSETS	133,186.94	17,096.52
LIABILITIES:		
Accounts Payable	1,579.28	
Amounts Held for Others	131,607.66	
Total Liabilities	\$ 133,186.94	
NET POSITION		
Held in Trust for Scholarships		\$ 17,096.52

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

HARRISBURG SCHOOL DISTRICT NO. 41-2
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Private-Purpose Trust Funds</u>
ADDITIONS:	
Interest Earned	\$ 16.51
Total Additions	<u>16.51</u>
DEDUCTIONS:	
Scholarships	<u>497.35</u>
Change in Net Position	(480.84)
Net Position - Beginning	<u>17,577.36</u>
NET POSITION - ENDING	<u><u>\$ 17,096.52</u></u>

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

HARRISBURG SCHOOL DISTRICT NO. 41-2
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity

The reporting entity of Harrisburg School District No. 41-2, 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.

Component units are legally separate organizations for which the elected officials of the primary government are financial accountable. The School District is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the School District (primary government). The School District may also be financially accountable for another organization if that organization is fiscally dependent on the School District.

Tiger Nation is a legally separate, tax-exempt component unit of the School District. Tiger Nation acts primarily as a fundraising organization to supplement the resources that are available to the School District in support of its programs. The ten-member board of Tiger Nation is self-perpetuating and consists of community members of the School District. Although the School District does not control the timing or amount of receipts from Tiger Nation, the majority of resources, or income thereon, which Tiger Nation holds and invests are restricted to the activities of the School District by the donors. Because these restricted resources held by Tiger Nation can only be used by, or for the benefit of, the School District, Tiger Nation is considered a component unit of the School District and financial information is not included in these financial statements of the District.

During the year ended June 30, 2015, Tiger Nation distributed \$50,000 to the School District for restricted purposes. Financial information for Tiger Nation can be obtained by writing to Tiger Nation, P.O. Box 479, Harrisburg, SD 57032 or visiting Tiger Nation's website at www.wearetignation.com.

b. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities and discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Discretely presented component units are legally separate organizations that meet certain criteria, as described in note 1.a., above, and may be classified as either governmental or business-type activities. See the discussion of individual component units in Note 1.a., above.

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

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

Fund Financial Statements:

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

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

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

Governmental Funds:

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

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

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

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

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

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

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

Capital Projects Fund - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds). The major projects funded by the Capital Projects Fund are the Tennis Courts, Paving, Tiger Way Road to Minnesota, Alternate School (Central Receiving), High School Addition, and Elementary #6. This is a major fund.

The Capital Projects Fund is the only capital projects fund maintained by the School District. This is a major fund.

Proprietary Funds:

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

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

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

The Other Enterprise Fund - A fund used to record financial transactions related to driver's education and the Newspaper/Bookstore conducted for the benefit of the children. The fund is financed by user charges. This is a major fund.

Fiduciary Funds:

Fiduciary Funds are never considered to be major funds.

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

Agency Funds - agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The District maintains agency funds for the following purposes: class funds, student organizations, and clearing accounts.

c. Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

Government-wide Financial Statements:

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

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Harrisburg School District No. 41-2, the length of that cycle is 60 days. The revenues that were accrued at June 30, 2015 are amounts due from other governments for grants and miscellaneous revenues.

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

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

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

d. Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

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

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

e. Deposits and Investments:

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

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

f. Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

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

The total June 30, 2015 balance of capital assets for governmental activities includes approximately less than 1% percent for which the costs were determined by estimates of the original costs. The total June 30, 2015 balance of capital assets for business-type activities are valued at original cost.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$ 100.00	NA	NA
Improvements	5,000.00	Straight Line	50 yrs
Buildings	5,000.00	Straight Line	33-75yrs
Machinery and Equipment	5,000.00	Straight Line	5-20 yrs
Food Service Machinery and Equipment	1,000.00	Straight Line	12 yrs

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements

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

g. Long-Term Liabilities:

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of general obligation bonds payable, capital outlay certificates, financing (capital acquisition) leases, and early retirement benefits payable.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

h. Program Revenues

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

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.

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

i. Proprietary Funds Revenue and Expense Classifications:

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

j. Cash and Cash Equivalents:

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

k. Equity Classifications

Government-wide Statements:

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

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

Fund Financial Statements:

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

l. Application of Net position:

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

m. Deferred Inflows and Deferred Outflows of Resources:

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

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

n. Fund Balance Classification Policies and Procedures:

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

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

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

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

o. Pensions

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

NOTE 2 – DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

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

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

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

Following are the investment policies of the school district regarding the various risk investments are exposed to:

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 interest rate.

Credit Risk - State law limits eligible investments for the school district, as discussed above. The school district had no investment policy that would further limit its investment choices. As of June 30, 2015, the school district had no investments.

Concentration of Credit Risk - The school district places no limit on the amount that may be invested in any one issuer. The school district does not have any investments with an external investment pool as of June 30, 2015.

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from investments to the general fund except for capital projects fund and the private purpose trust fund. USGAAP on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated the 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. Investment earnings were immaterial to the funds during the current year.

NOTE 3 – RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The School District expects all significant receivables to be collected within one year. No allowance for estimated uncollectible receivables has been established, as the District believes all receivables are collectible.

NOTE 4 – DUE FROM COMPONENT UNIT

Tiger Nation is a component unit of Harrisburg School District and was organized to help build support and provide funds for upgrades to facilities within the school district. The organization agreed to provide \$1,900,000 for upgrades for new facilities constructed in 2008 and 2009. The amount of \$1,020,000 due from component unit represents the amount still owed to the school as of June 30, 2015.

NOTE 5 - INVENTORY

Inventory held for consumption is stated at cost.

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

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

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

NOTE 6 - PROPERTY TAXES

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

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

NOTE 7 - CHANGES IN CAPITAL ASSETS

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

Primary Government	<u>Balance 06/30/14</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 06/30/15</u>
Governmental Activities:				
Capital Asset, not depreciated:				
Land	\$ 5,536,038.33	\$	\$	\$ 5,536,038.33
Construction Work In Progress		7,058,972.24)		7,058,972.24
	<u>5,536,038.33</u>	<u>7,058,972.24</u>		<u>12,595,010.57</u>
Capital Assets, depreciated:				
Buildings	105,764,121.29	86,489.95		105,850,611.24
Improvements	4,945,011.70	45,000.00		4,990,011.70
Library Books	923,102.26	48,104.48		971,206.74
Machinery and Equipment	4,772,698.97	389,851.84	(168,226.17)	4,994,324.64
Totals	<u>116,404,934.22</u>	<u>569,446.27</u>	<u>(168,226.17)</u>	<u>116,806,154.32</u>
Less Accumulated Depreciation:				
Buildings	10,771,468.63	1,976,817.63		12,748,286.26
Improvements	278,672.65	100,466.16		379,138.81
Library Books	484,016.95	76,648.85		560,665.80
Machinery and Equipment	2,573,441.76	504,217.61	(168,226.17)	2,909,433.20
Total Accumulated Depreciation	<u>14,107,599.99</u>	<u>2,658,150.25</u>	<u>(168,226.17)</u>	<u>16,597,524.07</u>
Total Capital Assets, being depreciated, net	<u>102,297,334.23</u>	<u>(2,088,703.98)</u>		<u>100,208,630.25</u>
Governmental activities capital assets, net	<u>\$ 107,833,372.56</u>	<u>\$ 4,970,268.26</u>	<u>\$</u>	<u>\$ 112,803,640.82</u>

**Depreciation expense was charged to functions as follows:

Governmental Activities:	
Instruction	\$ 1,993,612.69
Support Services	611,374.56
Co-Curricular Activities	53,163.00
Total Depreciation expense-governmental activities	<u>\$ 2,658,150.25</u>

Business-Type Activities:	<u>Balance 06/30/14</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 06/30/15</u>
Business-type activity capital assets, net				
Capital Assets, depreciated:				
Machinery and Equipment	\$ 424,605.22	\$	\$	\$ 424,605.22
Less Accumulated Depreciation:				
Machinery and Equipment	340,662.08	19,922.25		360,584.33
Business-type activity capital assets, net	<u>\$ 83,943.14</u>	<u>\$ (19,922.25)</u>	<u>\$</u>	<u>\$ 64,020.89</u>

**Depreciation expense was charged to functions as follows:

Business-type Activity: Food Service	<u>\$ 19,922.25</u>
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Construction Work in Progress at June 30, 2015 is composed of the following:

Project Name	Project Authorization	Expended through	
		06/30/15	Committed
Tennis Courts	\$ 662,000.00	\$ 387,554.78	274,445.22
Paving	579,906.21	405,788.04	174,118.17
Road to Minnesota	20,600.00	20,600.00	
Alternative School/Central Receiving	2,299,000.00	1,926,259.70	372,740.30
High School Addition	6,119,000.00	1,185,611.80	4,933,388.20
Elementary #6	11,690,000.00	3,132,617.92	8,557,382.08
Total	\$ 21,370,506.21	\$ 7,058,432.24	\$ 14,312,073.97

NOTE 8 - LONG -TERM LIABILITIES

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

Primary Government

Governmental Activities:	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 99,835,000.00	\$ 25,000,000.00	\$ 9,790,000.00	\$ 115,045,000.00	\$ 2,270,000.00
Premium on Bonds Payable	2,760,853.38	664,670.05	138,786.74	3,286,736.69	152,080.14
Capital Outlay Certificates	11,140,000.00		485,000.00	10,655,000.00	570,000.00
Financing (Capital) Leases	893,415.62	598,770.52	736,396.72	755,789.42	556,022.51
Total Debt	114,629,269.00	26,263,440.57	11,150,183.46	129,742,526.11	3,548,102.65
Early Retirement Payable- Governmental Funds	204,915.07	83,215.17	67,202.77	220,927.47	74,240.13
Total Governmental Activities	\$ 114,834,184.07	\$ 26,346,655.74	\$ 11,217,386.23	\$ 129,963,453.58	\$ 3,622,342.78

Early Retirement Benefits payable for governmental activities typically have been liquidated from the General Fund.

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

General Obligation Bonds Payable

Series 2012 Refunding General Obligation Bonds maturing January 15, 2032 with annual interest rate of 2.0 to 4.0% depending on time to maturity. Payments are to be made from the Debt Service Fund. \$ 18,360,000.00

Series 2011 Crossover Refunding General Obligation Bonds maturing January 15, 2027 with annual interest rate of 4.0 to 4.625% depending on time to maturity. Payments are to be made from the Debt Service Fund. 9,820,000.00

Series 2010 General Obligation Bonds maturing January 15, 2033 with annual interest rate of 5.25 to 6.1% depending on time to maturity. Principal payments to be made from Debt Service Fund effective from 2024. 6,560,000.00

Series 2010 General Obligation Bonds maturing July 15, 2020 with annual interest rate of 2.0 to 3.5% depending on time to maturity. Principal payments to be made from Debt Service Fund effective from 2011. 4,945,000.00

General Obligation Bonds Payable

Series 2012 General Obligation Bonds maturing January 15, 2027 with annual interest rate of 3.0 to 5.0% depending on time to maturity. Principal payments to be made from Debt Service Fund. There is a premium associated with this bond of \$3,137,333.40, which is amortized at \$125,493.34 per year. 34,805,000.00

Series 2010 General Obligation Bonds maturing January 15, 2035 with annual interest rate of 6.2%. Principal payments to be made from Debt Service Fund effective from 2033. 7,495,000.00

Series 2013 General Obligation Bonds maturing January 15, 2023 with annual interest rate of 1.5%. Principal payments to be made from Debt Service Fund effective from 2016. 8,060,000.00

Series 2014 General Obligation Bonds maturing January 15, 2039 with annual interest rate of 3.75 to 5.0% depending on time to maturity. Principal payments to be made from Debt Service Fund effective from 2030. 19,000,000.00

Series 2014 General Obligation Bonds maturing January 15, 2039 with annual interest rate of 2 to 3.75% depending on time to maturity. Principal payments to be made from Debt Service Fund effective from 2021. 6,000,000.00

Capital Outlay Certificates:

Series 2010 Refunding Certificates, maturing September 15, 2026 with an annual interest rate of 2.0 to 3.35% depending on time to maturity. Payments to be made from Capital Outlay Fund beginning in 2012. 1,455,000.00

Series 2012 Refunding Certificates, maturing July 15, 2028 with an annual interest rate of 2.0 to 3.125% depending on time to maturity. Payments to be made from Capital Outlay Fund. 9,200,000.00

Financing (Capital Acquisition) Leases:

Financing Lease with Apple Financial for the purchase of computers, matures July 5, 2015, with 2.30% interest. Payments to be made from Capital Outlay Fund. 359,728.75

Financing Lease with Apple Financial for the purchase of computers, matures Aug 1, 2016, with 1.87% interest. Payments to be made from Capital Outlay Fund. 396,060.67

Early Retirement Benefits Payable:

Obligations to individuals who fall under the early retirement plan of the Harrisburg School District. Payments are made to retirees in the following five fiscal years in semi-annual payments. Payments are made from the General and Pension Fund. 220,927.47

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

	Computer Lease	Computer Lease
Principal	\$ 598,770.52	1,066,316.94
Interest	11,192.75	9,683.80
Total	<u>\$ 609,963.27</u>	<u>\$ 1,076,000.74</u>

Governmental Activities

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

Year Ending June 30,	G.O Bonds Payable		Capital Outlay Certificates		Financing (Capital Acquisition) Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 2,270,000	\$ 4,504,303	\$ 570,000	\$ 277,130	\$ 556,023	\$ 10,265
2017	2,435,000	4,443,060	595,000	265,480	199,767	3,554
2018	2,615,000	4,396,159	625,000	253,143		
2019	2,810,000	4,341,273	650,000	240,008		
2020	3,025,000	4,279,066	680,000	236,945		
2021-2025	17,050,000	20,956,594	3,925,000	847,459		
2026-2030	25,265,000	16,630,758	3,610,000	224,670		
2031-2035	35,325,000	10,263,763				
2036-2040	24,250,000	1,953,331				
Totals	<u>\$ 115,045,000</u>	<u>\$ 71,768,305</u>	<u>\$ 10,655,000</u>	<u>\$ 2,344,834</u>	<u>\$ 755,789</u>	<u>\$ 13,819</u>

Year Ending June 30,	Early Retirement		Premium on Bonds		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 74,240		\$ 152,080		\$ 3,622,343	\$ 4,791,698
2017	74,240		152,080		3,456,087	4,712,094
2018	35,010		152,080		3,427,091	4,649,301
2019	20,794		152,080		3,632,874	4,581,280
2020	16,643		152,080		3,873,723	4,516,011
2021-2025			760,401		21,735,401	21,804,053
2026-2030			760,401		29,635,401	16,855,428
2031-2035			760,401		36,085,401	10,263,763
2036-2040			245,134		24,495,134	1,953,331
Totals	<u>\$ 220,927</u>	<u>\$</u>	<u>\$ 3,286,737</u>	<u>\$</u>	<u>\$ 129,963,454</u>	<u>\$ 74,126,958</u>

NOTE 9 – RESTRICTED NET POSITION

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

Major Purposes	Restricted By	Amount
Capital Outlay Purposes	Law	\$ 2,810,307.26
Special Education Purposes	Law	233,377.56
Pension Purposes	Law	2,454.08
Debt Service Purposes	Debt Covenants	1,468,742.56
SDRS Pension Purposes	Law	4,896,473.56
Total Restricted Net Position		<u>\$ 9,411,355.02</u>

NOTE 10 – INTERFUND TRANSFERS

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

Transfers From	Transfers To	
	Other Enterprise Fund	Bond Redemption Fund
General Fund	\$ 11,000.00	
Capital Outlay		24,617,019.31
Totals	\$ 11,000.00	\$ 24,617,019.31

The noted transfer from the General Fund to the Other Enterprise Fund was for the purpose of meeting current operating needs.

NOTE 11 – PENSION PLAN

Plan Information:

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

Benefits Provided:

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

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

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of

salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2015, 2014, and 2013 were \$1,110,435.75, \$951,941.31, and \$765,635.74, respectively, equal to the required contributions each year.

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

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

Proportionate share of net position restricted for pension benefits	\$ 96,239,000.53
Less proportionate share of total pension assets	<u>89,702,502.02</u>
Proportionate share of net pension asset	<u>\$ 6,536,498.51</u>

At June 30 2015, the School District reported an asset of \$6,536,498.51 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014 and the total pension asset used to calculate the net pension asset was based on a projection of the School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2014, the School District's proportion was .9072685%, which is an increase of .9072685% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the School District recognized pension revenue of \$276,099.26. At June 30, 2015 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 553,076.16	\$
Changes in assumption	4,266,831.36	
Net difference between projected and actual earnings on pension plan investments		7,570,367.22
District contributions subsequent to the measurement date	<u>1,110,434.75</u>	
TOTAL	<u>\$ 5,930,342.27</u>	<u>\$ 7,570,367.22</u>

\$1,110,434.75 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended June 30:

2015	\$	(519,398.78)
2016		(519,398.78)
2017		(519,398.78)
2018		<u>(1,192,263.36)</u>
TOTAL	\$	<u>(2,750,459.70)</u>

Actuarial Assumptions:

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

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

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	64.0%	4.7%
Fixed Income	26.0%	1.8%
Real Estate	8.0%	5.5%
Cash	<u>2.0%</u>	0.8%
Total	<u>100.0%</u>	

Discount Rate:

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

of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

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

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

	<u>1%</u> <u>Decrease</u>	Current Discount <u>Rate</u>	<u>1%</u> <u>Increase</u>
School District's proportionate share of the net pension liability (asset)	\$ 6,459,289.97	\$ (6,536,498.51)	\$ (17,135,920.44)

Pension Plan Fiduciary Net Position:

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

NOTE 12 - EARLY RETIREMENT PLAN

The district maintains an early retirement plan for certified teachers and administrators. The plan is available to employees who choose early retirement between the ages of 55-61 and meet the requirements of years of service. Under the plan, the school district will pay 80% of their current salary in their final year of service. This amount is payable over five years in semiannual installments. During the fiscal year ending June 30, 2015, seven employees participated in the program and the benefits paid out totaled \$67,202.78.

NOTE 13 - RISK MANAGEMENT

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

Employee Health Insurance

The school district joined the South Dakota School District Benefits Fund administered through the Associated School Boards of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota Local government entities. The school district pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members.

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

Liability Insurance

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

Worker's Compensation

The school district purchases liability insurance for worker's compensation from a commercial carrier.

Unemployment Benefits

The school district has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended June 30, 2015, four claims were filed for unemployment benefits. These claims resulted in the payments of benefits in the amount of \$3,419.15. At June 30, 2015, one claim had been filed and was outstanding. It is estimated, based upon historical trends, that this claim will result in the future payment of approximately \$400. It is not anticipated that any additional material claims for these matters will be filed in the next fiscal year.

NOTE 14 – SIGNIFICANT CONTINGENCIES - LITIGATION

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

NOTE 15 – PRIOR PERIOD ADJUSTMENTS

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

Net Position July 1, 2014, as previously reported	\$ 1,228,037.17
Restatement for pension accounting:	
Net Pension Asset	2,558,001.64
Pension Related Deferred Outflows of Resources	<u>1,110,434.75</u>
Net Position July 1, 2014, as restated	<u>\$ 4,896,473.56</u>

NOTE 16 – CONTINGENCIES

The Associated School Boards Health Benefits Fund has a deficit Net Position. As a past member of Associated School Districts Health Benefits Fund, the School District has a potential liability. As of June 30, 2014, the School District's estimated share of the liability was \$856,654. This information was not available for the year ended June 30, 2015 at the time the financial statements were issued.

NOTE 17 – SPECIAL ITEMS

During the year, the School received \$393,116.70 in insurance proceeds for flood damage to Liberty gymnasium that occurred in June 2014. During the year, the School also received \$229,408.28 for cost recovery benefits from a Joint Development Agreement.

**REQUIRED SUPPLEMENTARY INFORMATION
HARRISBURG SCHOOL DISTRICT NO. 41-2
BUDGETARY COMPARISON SCHEDULE-BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 9,215,000.00	\$ 9,215,000.00	\$ 9,296,366.76	\$ 81,366.76
Prior Years' Ad Valorem Taxes	150,000.00	150,000.00	109,433.94	(40,566.06)
Utility Taxes	217,000.00	217,000.00	214,620.14	(2,379.86)
Penalties and Interest on Taxes	40,000.00	40,000.00	17,951.64	(22,048.36)
Units Other than LEAs:				
Revenue in Lieu of Taxes	495,000.00	495,000.00	547,240.13	52,240.13
Tuition and Fees:				
Earnings on Investments and Deposits	2,000.00	2,000.00	2,311.02	311.02
Cocurricular Activities:				
Admissions	55,000.00	55,000.00	44,999.68	(10,000.32)
Rentals	17,500.00	17,500.00	16,670.00	(830.00)
Other	5,000.00	5,000.00	4,226.52	(773.48)
Other Revenue from Local Sources:				
Rentals	65,000.00	65,000.00	85,858.08	20,858.08
Contributions and Donations	13,000.00	13,000.00	22,427.37	9,427.37
Services Provided Other LEAs	9,500.00	9,500.00	0.00	(9,500.00)
Charges for Services	103,750.00	103,750.00	46,366.26	(57,383.74)
Other	30,000.00	30,000.00	65,867.89	35,867.89
Revenue from Intermediate Sources:				
County Sources:				
County Apportionment	85,000.00	85,000.00	99,497.26	14,497.26
Revenue from State Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	9,400,000.00	9,400,000.00	9,403,397.08	3,397.08
Restricted Grants-in-Aid			61,500.00	61,500.00
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid				
Received from Federal				
Government through the State	131,997.00	131,997.00	188,883.00	56,886.00
Total Revenue	<u>20,034,747.00</u>	<u>20,034,747.00</u>	<u>20,227,616.77</u>	<u>192,869.77</u>
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	6,563,942.00	6,563,942.00	6,358,086.86	205,855.14
Middle/Junior High	2,733,177.00	2,769,001.00	2,703,312.97	65,688.03
High School	2,841,844.00	2,871,843.00	2,861,468.72	10,374.28
Special Programs:				
Gifted and Talented	514,045.00	520,045.00	519,881.64	163.36
Culturally Different	31,783.00	31,783.00	27,068.31	4,714.69
Educationally Deprived	119,449.00	119,449.00	112,079.22	7,369.78
Other Special Programs	148,566.00	148,566.00	140,580.12	7,985.88

**REQUIRED SUPPLEMENTARY INFORMATION
HARRISBURG SCHOOL DISTRICT NO. 41-2
BUDGETARY COMPARISON SCHEDULE-BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Support Services:				
Pupils:				
Guidance	523,426.00	523,426.00	506,495.07	16,930.93
Health	306,556.00	306,556.00	296,643.57	9,912.43
Support Services - Instructional Staff:				
Improvement of Instruction	333,787.00	395,288.00	370,038.95	25,249.05
Educational Media	749,733.00	749,733.00	725,887.40	23,845.60
Support Services - General Administration:				
Board of Education	84,525.00	84,525.00	86,102.18	(1,577.18)
Executive Administration	206,304.00	206,304.00	205,733.98	570.02
Support Services - School Administration:				
Office of the Principal	1,081,601.00	1,081,601.00	1,072,712.53	8,888.47
Other School Administration	5,000.00	5,000.00	900.54	4,099.46
Support Services - Business:				
Fiscal Services	528,090.00	528,090.00	494,239.34	33,850.66
Operation and Maintenance of Plant	1,922,077.00	1,922,077.00	1,882,714.45	39,362.55
Pupil Transportation	597,330.00	648,330.00	647,383.49	946.51
Internal Services	27,500.00	27,500.00	25,492.43	2,007.57
Support Services-Central:				
Staff	10,420.00	10,420.00	6,580.00	3,840.00
Other	77,158.00	77,158.00	73,427.99	3,730.01
Non-Programmed Charges:				
Payments for Unemployment	2,500.00	3,500.00	3,419.15	80.85
Early Retirement Payments	4,776.00	4,776.00	4,774.78	1.22
Cocurricular Activities:				
Male Activities	187,202.00	187,202.00	176,521.92	10,680.08
Female Activities	127,065.00	129,965.00	125,770.01	4,194.99
Combined Activities	579,959.00	601,032.00	551,447.17	49,584.83
Contingencies	50,000.00			
Total Expenditures	<u>20,357,815.00</u>	<u>20,517,112.00</u>	<u>19,978,762.79</u>	<u>538,349.21</u>
Excess of Revenue Over (Under)				
Expenditures	<u>(323,068.00)</u>	<u>(482,365.00)</u>	<u>248,853.98</u>	<u>731,218.98</u>
Other Financing Sources:				
Transfer Out	<u>(11,000.00)</u>	<u>(11,000.00)</u>	<u>(11,000.00)</u>	
Total Other Financing Sources (Uses)	<u>(11,000.00)</u>	<u>(11,000.00)</u>	<u>(11,000.00)</u>	
Net Change in Fund Balances	(334,068.00)	(493,365.00)	237,853.98	731,218.98
Fund Balance - Beginning	<u>3,387,223.29</u>	<u>3,387,223.29</u>	<u>3,387,223.29</u>	
FUND BALANCE - ENDING	<u>\$ 3,053,155.29</u>	<u>\$ 2,893,858.29</u>	<u>\$ 3,625,077.27</u>	<u>\$ 731,218.98</u>

**REQUIRED SUPPLEMENTARY INFORMATION
HARRISBURG SCHOOL DISTRICT NO. 41-2
BUDGETARY COMPARISON SCHEDULE-BUDGETARY BASIS
CAPITAL OUTLAY FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 4,117,500.00	\$ 4,117,500.00	\$ 4,344,736.86	\$ 227,236.86
Prior Years' Ad Valorem Taxes	50,000.00	50,000.00	38,185.92	(11,814.08)
Penalties and Interest on Taxes	12,000.00	12,000.00	4,849.13	(7,150.87)
Other Revenue from Local Sources:				
Contributions and Donations	225,000.00	225,000.00	57,243.17	(167,756.83)
Other	28,000.00	28,000.00	58,781.02	30,781.02
Revenue from State Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid			18,794.80	18,794.80
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government through the State	121,464.00	121,464.00	121,464.00	
Total Revenue	<u>4,553,964.00</u>	<u>4,553,964.00</u>	<u>4,644,054.90</u>	<u>90,090.90</u>
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	580,194.00	580,194.00	359,528.38	220,665.62
Middle/Junior High	465,879.00	465,879.00	392,157.35	73,721.65
High School	470,694.00	470,694.00	490,462.95	(19,768.95)
Special Programs:				
Programs for Special Education	3,000.00	3,000.00	350.00	2,650.00
Support Services - Pupils:				
Health	1,500.00	1,800.00	1,798.00	2.00
Support Services - Instructional Staff:				
Educational Media	158,150.00	158,150.00	85,399.30	72,750.70
Support Services - Business:				
Fiscal Services	145,400.00	149,500.00	149,407.00	93.00
Facilities Acquisition and Construction	517,205.00	537,205.00	422,156.56	115,048.44
Operation and Maintenance of Plant	1,173,075.00	1,193,075.00	1,157,821.16	35,253.84
Pupil Transportation	423,882.00	423,882.00	410,854.69	13,027.31
Internal Services	31,600.00	31,600.00	15,000.00	16,600.00
Debt Services	1,523,703.00	1,523,703.00	1,517,254.23	6,448.77
Cocurricular Activities:				
Combined Activities	32,998.00	32,998.00	28,269.97	4,728.03
Total Expenditures	<u>5,527,280.00</u>	<u>5,571,680.00</u>	<u>5,030,459.59</u>	<u>541,220.41</u>

REQUIRED SUPPLEMENTARY INFORMATION
HARRISBURG SCHOOL DISTRICT NO. 41-2
BUDGETARY COMPARISON SCHEDULE-BUDGETARY BASIS
CAPITAL OUTLAY FUND
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Positive</u> <u>(Negative)</u>
Excess of Revenue Over (Under)				
Expenditures	(973,316.00)	(1,017,716.00)	(386,404.69)	631,311.31
Other Financing Sources:				
Capital Lease	598,651.00	598,651.00	598,770.52	119.52
Sale of Surplus Property			22,899.06	22,899.06
Total Other Financing Sources (Uses)	<u>598,651.00</u>	<u>598,651.00</u>	<u>621,669.58</u>	<u>23,018.58</u>
Special Items:				
Sale of Fritz Land			229,408.28	229,408.28
Insurance Proceeds	<u>382,725.00</u>	<u>382,725.00</u>	<u>393,116.70</u>	<u>10,391.70</u>
Total Special Items	<u>382,725.00</u>	<u>382,725.00</u>	<u>622,524.98</u>	<u>239,799.98</u>
Net Change in Fund Balances	8,060.00	(36,340.00)	857,789.87	894,129.87
Fund Balance - Beginning	<u>1,930,573.53</u>	<u>1,930,573.53</u>	<u>1,930,573.53</u>	
FUND BALANCE - ENDING	<u>\$ 1,938,633.53</u>	<u>\$ 1,894,233.53</u>	<u>\$ 2,788,363.40</u>	<u>\$ 894,129.87</u>

**REQUIRED SUPPLEMENTARY INFORMATION
HARRISBURG SCHOOL DISTRICT NO. 41-2
BUDGETARY COMPARISON SCHEDULE-BUDGETARY BASIS
SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 1,602,000.00	\$ 1,602,000.00	\$ 1,754,327.44	\$ 152,327.44
Prior Years' Ad Valorem Taxes	30,000.00	30,000.00	15,796.20	(14,203.80)
Penalties and Interest on Taxes	7,000.00	7,000.00	2,135.19	(4,864.81)
Other Revenue from Local Sources:				
Charges for Services	45,000.00	45,000.00	26,875.16	(18,124.84)
Other Local Revenue	1,000.00	1,000.00	300.00	(700.00)
Revenue from State Sources:				
Restricted Grants-in-Aid	1,350,000.00	1,350,000.00	1,123,235.00	(226,765.00)
Other State Revenue	300,000.00	300,000.00	300,000.00	
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government through State	465,204.00	465,204.00	491,042.00	25,838.00
Total Revenue	<u>3,800,204.00</u>	<u>3,800,204.00</u>	<u>3,713,710.99</u>	<u>(86,493.01)</u>
Expenditures:				
Special Programs				
Programs for Special Education	2,713,059.00	2,719,058.00	2,532,332.94	186,725.06
Support Services				
Pupils:				
Attendance and Social Work Service	25,252.00	25,252.00	23,110.91	2,141.09
Health	12,000.00	12,000.00	1,255.38	10,744.62
Psychological	334,433.00	334,433.00	323,088.87	11,344.13
Speech Pathology	494,290.00	494,290.00	458,765.77	35,524.23
Audiology	171,084.00	206,084.00	201,502.57	4,581.43
Student Therapy Services	214,220.00	254,220.00	247,832.04	6,387.96
Orientation and Mobility Services	7,000.00	8,300.00	8,183.33	116.67
Support Services - Special Education				
Administrative Costs	215,010.00	215,010.00	213,394.70	1,615.30
Transportation Costs	67,029.00	67,780.00	62,824.07	4,955.93
Total Expenditures	<u>4,253,377.00</u>	<u>4,336,427.00</u>	<u>4,072,290.58</u>	<u>264,136.42</u>
Net Change in Fund Balance	(453,173.00)	(536,223.00)	(358,579.59)	177,643.41
Fund Balance - Beginning	<u>582,303.48</u>	<u>582,303.48</u>	<u>582,303.48</u>	
FUND BALANCE - ENDING	<u>\$ 129,130.48</u>	<u>\$ 46,080.48</u>	<u>\$ 223,723.89</u>	<u>\$ 177,643.41</u>

REQUIRED SUPPLEMENTARY INFORMATION
HARRISBURG SCHOOL DISTRICT NO. 41-2
BUDGETARY COMPARISON SCHEDULE-BUDGETARY BASIS
PENSION FUND
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> <u>(Budgetary</u>	<u>Positive</u>
			<u>Basis)</u>	<u>(Negative)</u>
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$452,000.00	\$452,000.00	\$461,268.11	\$ 9,268.11
Prior Years' Ad Valorem Taxes	5,000.00	5,000.00	4,375.01	(624.99)
Penalties and Interest on Taxes	1,000.00	1,000.00	551.83	(448.17)
Total Revenue	<u>458,000.00</u>	<u>458,000.00</u>	<u>466,194.95</u>	<u>8,194.95</u>
Expenditures:				
Instruction				
Regular Programs:				
Elementary	288,000.00	288,000.00	288,000.00	
Middle/Junior High	107,572.00	115,767.00	115,766.95	0.05
Non-Programmed Charges				
Early Retirement Payments	62,428.00	62,428.00	62,428.00	
Total Expenditures	<u>458,000.00</u>	<u>466,195.00</u>	<u>466,194.95</u>	<u>0.05</u>
Net Change in Fund Balance	0.00	(8,195.00)	0.00	8,195.00
Fund Balance - Beginning	0.00	0.00	0.00	0.00
FUND BALANCE - ENDING	<u>\$ 0.00</u>	<u>\$ (8,195.00)</u>	<u>\$ 0.00</u>	<u>\$ 8,195.00</u>

Schedule of Required Supplementary Information
HARRISBURG SCHOOL DISTRICT NO. 41-2
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY (ASSET)
South Dakota Retirement System

	2015
District's proportion of the net pension liability (asset)	0.9072685%
District's proportionate share of net pension liability (asset)	\$ (6,536,499)
District's covered-employee payroll	\$ 15,837,432
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-41.20%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107.3%

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30 of the previous fiscal year

Schedule of Required Supplementary Information
HARRISBURG SCHOOL DISTRICT NO. 41-2
SCHEDULE OF THE SCHOOL DISTRICT CONTRIBUTIONS
South Dakota Retirement System

	<u>2014</u>	<u>2015</u>
Contractually required contribution	\$ <u>951,941</u>	\$ <u>1,110,435</u>
Contributions in relation to the contractually required contribution	\$ <u>951,941</u>	\$ <u>1,110,435</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>
District's covered-employee payroll	\$ 15,837,432	\$ 18,461,907
Contributions as a percentage of covered-employee payroll	6.00%	6.00%

HARRISBURG SCHOOL DISTRICT NO. 41-2
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
Schedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with a legally required budget

NOTE 1 - BUDGET AND BUDGETARY ACCOUNTING

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

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

NOTE 2- GAAP/BUDGETARY ACCOUNTING BASIS DIFFERENCES

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

**HARRISBURG SCHOOL DISTRICT NO. 41-2
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

<u>Federal Grantor/Pass-Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures Amount 2015</u>
U.S. Department of Agriculture:			
Pass-Through the SD Department of Education:			
Child Nutrition Cluster:			
Non-cash Assistance: (Commodities)	10.555	N/A	\$ 43,158.27
Cash Assistance: (Note 2)			
School Breakfast Program	10.553	N/A	51,366.58
Special Milk Program	10.556	N/A	343.85
National School Lunch Program	10.555	N/A	<u>362,309.46</u>
Total U.S. Department of Agriculture			<u>457,178.16</u>
Pass-Through the SD Department of Education:			
Title I Grants to Local Educational Agencies	84.010A	N/A	88,124.00
Improving Teacher Quality State Grants	84.367	N/A	42,385.00
Special Education Cluster: (Note 3)			
Special Education - Grants to States	84.027	N/A	605,575.00
Special Education - Preschool Grants	84.173	N/A	<u>6,931.00</u>
Total Special Education Cluster			<u>612,506.00</u>
Total U.S. Department of Education			<u>743,015.00</u>
National Science Foundation:			
Pass-Through the SD Department of Education:			
EPSCoR-STEM Enhancement through Business Partnerships (Note 3)	47.081	N/A	<u>58,374.00</u>
Department of Environment & Natural Resources (DENR):			
Pass-Through the SD Department of Environment & Natural Resources:			
Clean Diesel Grant	64.040	N/A	<u>18,794.80</u>
Grand Total			<u>\$ 1,277,361.96</u>

NOTE 1: The accompanying Schedule of Expenditures of Federal awards includes the federal grant activity of Harrisburg School District, and is presented on the modified accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of State, Local Governments, and Non-Profit Organizations." Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

NOTE 3: This represents a major federal financial assistance program.

QUAM & BERGLIN, P.C.

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

School Board
Harrisburg School District
Lincoln County, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the Harrisburg School District No.41-2, Lincoln County, South Dakota, as of June 30, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise which collectively comprise the School's basic financial statements and have issued our report thereon dated March 26, 2016. The report on aggregate discretely presented component units was adverse because of the omission of the financial data of each component unit and the School did not issue separately audited financial statements for the reporting entity. 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.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings and Questioned Costs as items 2015-001 and 2015-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which would 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*.

Harrisburg School District's Response to Finding

The Harrisburg School District's response to the finding identified in our audit is described in the accompanying Corrective Action Plan as listed in the Table of Contents. The School's response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Harrisburg School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by OMB Circular A-133 §___.320 and South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Quam and Berglin, P.C.
Certified Public Accountants

March 26, 2016

QUAM & BERGLIN, P.C.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

School Board
Harrisburg School District
Lincoln County, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the Harrisburg School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Harrisburg School District's major federal programs for the year ended June 30, 2015. The Harrisburg School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Harrisburg School District's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Harrisburg School District, Lincoln County, South Dakota complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Harrisburg School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purposes. As required by South Dakota Codified Law 4-11-11, this report and our report on compliance for each major federal program are matters of public record and their distribution is not limited.

Quam & Berglin, P.C.

Quam and Berglin, P.C.
Certified Public Accountants

March 26, 2016

**HARRISBURG SCHOOL DISTRICT NO. 41-2
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

PRIOR FEDERAL COMPLIANCE AUDIT FINDINGS:

The prior audit report contained no written federal audit findings.

PRIOR OTHER AUDIT FINDINGS:

Internal Control Related Finding – Material Weakness:

Prior Finding Number 2014-01

A material weakness in internal controls was reported for a lack of segregation of duties for revenues. This comment results from the size of the district, which precludes staffing at a level sufficient to provide an ideal environment for internal control.

Corrective Action Plan:

This prior audit comment has not been corrected and is restated as finding number 2015-001.

Prior Finding Number 2014-002:

A material weakness in internal control was reported due to the lack of financial reporting for Tiger Nation, a discretely presented component unit of the School District.

Corrective Action Plan:

This prior audit comment has not been corrected and is restated as finding number 2015-002.

**HARRISBURG SCHOOL DISTRICT NO. 41-2
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

SUMMARY OF INDEPENDENT AUDITOR'S RESULTS:

Financial Statements

- a. An unmodified opinion was issued on the business-type activities, each major fund, and the aggregate remaining fund information for the primary government. An adverse opinion was issued for the discretely presented component unit not included in the financial statements. A qualified opinion was issued on the governmental activities.
- b. A material weakness was disclosed by our audit of the financial statements for a lack of segregation of duties for revenues as discussed in finding number 2015-001.

A material weakness was disclosed because management did not correctly include a component unit of the School District as part of the financial reporting entity's financial statements as discussed in finding number 2015-002.

- c. Our audit did not disclose any noncompliance which was material to the financial statements.

Federal Awards

- d. An unmodified opinion was issued on compliance with the requirements applicable to major programs.
- e. Our audit did not disclose any audit findings that need to be disclosed in accordance with the Office of Management and Budget Circular A-133, Section .510(a)
- f. The federal awards tested as major programs included:

	<u>CFDA #</u>
Special Education Cluster:	
Special Education - Grants to States	84.027
Special Education - Preschool Grants	84.173
EPSCoR	
STEM Inhancement Through Business Partnerships	47.081

- g. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$300,000.00.
- h. Harrisburg School District did not qualify as a low-risk entity.

**HARRISBURG SCHOOL DISTRICT NO. 41-2
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

CURRENT FEDERAL AUDIT FINDINGS:

Internal Control-Related Findings – Material Weakness:

There are no internal control related audit findings and questioned costs.

Federal Compliance – Related Audit Findings and Questioned Costs

There are no compliance related audit findings and questioned costs.

CURRENT OTHER AUDIT FINDINGS:

Internal Control-Related Findings – Material Weakness:

Audit Finding Number 2015-001:

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

Criteria:

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

Condition, Cause and Effect:

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

Recommendations:

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

Corrective Action Plan:

Jennifer Koehler, Business Manager for Harrisburg School District, is the contact person responsible for the corrective action plan for this comment. The School District is aware of this problem and has prepared a response to this finding found in the Corrective Action Plan.

**HARRISBURG SCHOOL DISTRICT NO. 41-2
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

Audit Finding Number 2015-002:

There is a material weakness in internal control due to the lack of financial reporting for Tiger Nation, a discretely presented component unit of the School District.

Criteria:

In order to achieve proper financial statement presentation, it is necessary to include financial data for component units as part of the financial reporting entity. Lack of this financial data causes the financial statements to not present fairly the financial position of the aggregate discretely presented component unit.

Condition, Cause and Effect:

A material weakness in internal control was reported due to the lack of financial reporting for Tiger Nation, a discretely presented component unit of the School District.

Recommendations:

We recommend that the School District include the financial data of the discretely presented component unit in the financial statement presentation.

Corrective Action Plan:

The School District is aware of this problem and has prepared a response to this finding found in the Corrective Action Plan.



HARRISBURG SCHOOL DISTRICT 41-2

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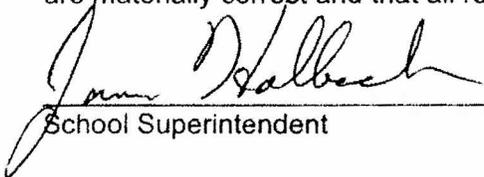
Jim Holbeck, Superintendent • Extension 3002 • jim.holbeck@k12.sd.us
Jennifer Conway, Business/HR Manager • Extension 3003 • jennifer.conway@k12.sd.us

CORRECTIVE PLAN OF ACTION JUNE 30, 2015

Harrisburg School District No. 41-2 has considered the lack of segregation of duties for the revenues. At this time it is not cost efficient for Harrisburg School District No. 41-2 to hire the additional staff needed to achieve segregation of duties. Alternate procedures have been implemented by Harrisburg School District No. 41-2 to decrease the likelihood that financial data is adversely affected.

Harrisburg School District No. 41-2 will continue to monitor the necessity to have segregation of duties for revenues and implement such segregation as budget dollars and board authority allows.

The school will monitor the financial statement preparation in order to ensure that these statements are materially correct and that all required discretely presented component units are included.



School Superintendent



Business Manager