

HERREID SCHOOL DISTRICT NO. 10-1

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

HERREID SCHOOL DISTRICT NO. 10-1
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2015

Board Members:

Justin Goehring
Holly Schumacher
Troy Beck
Kim Rossow

Superintendent:

Jeff Kusters

Business Manager:

Colleen Rueb

HERREID SCHOOL DISTRICT NO. 10-1

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	1 - 2
Schedule of Prior Audit Findings	3
Schedule of Current Audit Findings	4 - 5
Independent Auditors' Report	6 - 7
Basic Financial Statements:	
Government-Wide Financial Statements:	
As of June 30, 2015:	
Statement of Net Position	8
Year Ended June 30, 2015:	
Statement of Activities	9
Fund Financial Statements:	
Governmental Funds:	
As of June 30, 2015:	
Balance Sheet	10
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	11
Year Ended June 30, 2015:	
Statement of Revenues, Expenditures and Changes in Fund Balances	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	13
Proprietary Funds:	
As of June 30, 2015:	
Statement of Net Position	14

HERREID SCHOOL DISTRICT NO. 10-1

TABLE OF CONTENTS (Continued)

	<u>Page</u>
Year Ended June 30, 2015:	
Statement of Revenues, Expenses and Changes in Fund Net Position	15
Statement of Cash Flows	16
Fiduciary Funds:	
As of June 30, 2015:	
Statement of Fiduciary Net Position	17
Year Ended June 30, 2015:	
Statement of Changes in Fiduciary Net Position	18
Notes to the Financial Statements	19 - 38
Required Supplementary Information Other Than MD&A:	
Budgetary Comparison Schedule - General Fund - Budgetary Basis	39
Budgetary Comparison Schedule - Capital Outlay Fund - Budgetary Basis	40
Budgetary Comparison Schedule - Special Education Fund - Budgetary Basis	41
Notes to Required Supplementary Information - Budgetary Comparison Schedules	42
Schedule of Proportionate Share of Net Pension Liability (Asset)	43
Schedule of Pension Contributions	44

KOHLMAN, BIERSCHBACH & ANDERSON, LLP
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

WILLIAM J BACHMEIER, CPA
ROY R FAUTH, CPA

PROFESSIONAL BUILDING
210 EAST GRAND CROSSING • PO Box 460
MOBRIDGE, SOUTH DAKOTA 57601
605-845-3658 • 605-845-3754 (FAX)
Email: kba@westriv.com

WITH OFFICE IN
MILLER, SOUTH DAKOTA

INDEPENDENT AUDITORS' 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
Herreid School District No. 10-1
Herreid, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Herreid School District No. 10-1, South Dakota (School District), as of June 30, 2015, and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 8, 2016.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as items 2015-001 through 2015-003 to be material weaknesses.

Compliance and Other Matters

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

School District's Response to Findings

The School District's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings. The School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Kahlun, Dumbhal & A-L, FCP

January 8, 2016

HERREID SCHOOL DISTRICT NO. 10-1
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2015

PRIOR AUDIT FINDINGS:

2014-01

A material weakness was reported for a lack of segregation of duties for revenues, taxes and other receivables, cash, trust and agency, inventories, payables, capital assets and equity. This condition is restated as current audit finding 2015-001.

2014-02

The School District does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with generally accepted accounting principles (GAAP). As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This comment has not been corrected and is restated as current audit finding 2015-002.

2014-03

The School District does not have an internal control structure to provide for the recording of all necessary material adjustments. This comment has not been corrected and is restated as current audit finding 2015-003.

HERREID SCHOOL DISTRICT NO. 10-1
SCHEDULE OF CURRENT AUDIT FINDINGS
JUNE 30, 2015

CURRENT AUDIT FINDINGS:

Internal Control-Related Findings - Material Weaknesses:

2015-001

Criteria

Internal control can help a School District achieve its performance targets and prevent loss of resources. It can help ensure reliable financial reporting and it can help ensure that the School District complies with laws and regulations.

Condition Found

A material weakness was reported for a lack of segregation of duties for revenues, taxes and other receivables, cash, trust and agency, inventories, payables, capital assets, and equity, which could result in errors not being found in a timely manner.

Effect

This comment is the result of the size of the entity which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The School District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenues, receivables, cash, trust and agency, inventories, payables, capital assets, and equity. It is not known how long this comment has been carried forward.

Recommendation

The School District is aware of this problem and will attempt to provide compensating controls wherever and whenever possible and practical.

Corrective Action Plan

The School District has determined that it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenues, receivables, cash, trust and agency, inventories, payables, capital assets, and equity and accepts the risks involved. The School Board is aware of the problem and will attempt to provide compensating controls wherever and whenever possible and practical. The Superintendent, Jeff Kusters, is responsible for the corrective action plan for this finding.

2015-002

Criteria

An organization's internal control structure should provide for the preparation of financial statements in accordance with generally accepted accounting principles (GAAP).

Condition Found

The School District does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with generally accepted accounting principles. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

HERREID SCHOOL DISTRICT NO. 10-1
SCHEDULE OF CURRENT AUDIT FINDINGS
JUNE 30, 2015
(Continued)

Effect

This condition may affect the School District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan

Both management and the School Board have been informed of this condition and are confident that the information is accurate and are willing to accept this risk. The Business Manager, Colleen Rueb, is responsible for the corrective action plan for this finding.

2015-003

Criteria

An organization's internal control structure should provide for the recording of all necessary material adjustments in order to ensure that accounting records are in accordance with generally accepted accounting principles.

Condition Found

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the School District's existing internal controls, and therefore could have resulted in a material misstatement of the School District's financial statements.

Effect

This condition may affect the School District's ability to record, process, summarize, and report financial statement data consistent with the assertions of management in the financial statements.

Recommendation

This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan

The School District accepts the risks associated with this deficiency. The School Board is aware of the problem and will attempt to provide compensating controls wherever and whenever possible and practical. The contact person for this finding is Colleen Rueb, Business Manager.

Closing Conference

The contents of this report were discussed with Colleen Rueb, Business Manager, and Jeff Kosters, Superintendent, on July 23, 2015.

KOHLMAN, BIERSCHBACH & ANDERSON, LLP
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

WILLIAM J BACHMEIER, CPA
ROY R FAUTH, CPA

PROFESSIONAL BUILDING
210 EAST GRAND CROSSING • PO Box 460
MOBRIDGE, SOUTH DAKOTA 57601
605-845-3658 • 605-845-3754 (FAX)
Email: kba@westriv.com

WITH OFFICE IN
MILLER, SOUTH DAKOTA

INDEPENDENT AUDITORS' REPORT

School Board
Herreid School District No. 10-1
Herreid, 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 Herreid School District No. 10-1, South Dakota (School District), as of June 30, 2015, and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Herreid School District No. 10-1 as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Adoption of New Accounting Standard

As described in Note 17 to the financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. As discussed in Note 16 to the financial statements, the School District has retroactively restated the previously reported Net Position in accordance with this statement. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules and Pension Schedules on pages 39 through 44 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The School District has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 8, 2016, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 District's internal control over financial reporting and compliance.

Kobler, Dina L. L. L., FTA

January 8, 2016

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF NET POSITION
JUNE 30, 2015

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 866,545	\$ 3,870	\$ 870,415
Investments	60,000	-	60,000
Taxes receivable	483,109	-	483,109
Inventories	17,604	2,607	20,211
Other assets	61,775	406	62,181
Restricted Assets:			
Cash and cash equivalents	12,697	-	12,697
Net pension asset	276,114	14,288	290,402
Capital Assets:			
Land, improvements and construction in progress	5,464	-	5,464
Other capital assets, net of depreciation	787,134	1,660	788,794
TOTAL ASSETS	2,570,442	22,831	2,593,273
DEFERRED OUTFLOWS OF RESOURCES:			
Pension related deferred outflows	244,200	12,165	256,365
TOTAL DEFERRED OUTFLOWS OF RESOURCES	244,200	12,165	256,365
LIABILITIES:			
Accounts payable	9,958	-	9,958
Other current liabilities	89,007	2,443	91,450
Noncurrent Liabilities:			
Due within one year	29,660	-	29,660
Due in more than one year	525,000	-	525,000
TOTAL LIABILITIES	653,625	2,443	656,068
DEFERRED INFLOWS OF RESOURCES:			
Taxes levied for future period	529,540	-	529,540
Pension related deferred inflows	319,786	16,548	336,334
TOTAL DEFERRED INFLOWS OF RESOURCES	849,326	16,548	865,874
NET POSITION:			
Net investment in capital assets	242,598	1,660	244,258
Restricted for:			
Capital outlay purposes	742,486	-	742,486
Special education purposes	49,760	-	49,760
SDRS pension purposes	200,528	9,905	210,433
Other purposes	12,697	-	12,697
Unrestricted	63,622	4,440	68,062
TOTAL NET POSITION	\$ 1,311,691	\$ 16,005	\$ 1,327,696

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

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contribution	Governmental Activities	Business-Type Activities	Total
Primary Government:						
Governmental Activities:						
Instruction	\$ 780,742	\$ -	\$ 67,672	\$ (713,070)		\$ (713,070)
Support services	622,598	2,517	3,149	(616,932)		(616,932)
Cocurricular activities	55,449	9,667	228	(45,554)		(45,554)
Total Governmental Activities	<u>1,458,789</u>	<u>12,184</u>	<u>71,049</u>	<u>(1,375,556)</u>		<u>(1,375,556)</u>
Business-Type Activities:						
Food service	<u>70,053</u>	<u>38,673</u>	<u>18,600</u>		\$ (12,780)	<u>(12,780)</u>
Total Primary Government	<u>\$ 1,528,842</u>	<u>\$ 50,857</u>	<u>\$ 89,649</u>	<u>(1,375,556)</u>	<u>(12,780)</u>	<u>(1,388,336)</u>
General Revenues:						
Taxes:						
Property taxes				979,287	-	979,287
Utility taxes				59,011	-	59,011
Revenue from State Sources:						
State aid				286,511	-	286,511
Other				25,278	-	25,278
Unrestricted Investment Earnings				1,019	3	1,022
Other General Revenues				6,446	604	7,050
Transfers				<u>(15,570)</u>	<u>15,570</u>	<u>-</u>
Total General Revenues and Transfers				<u>1,341,982</u>	<u>16,177</u>	<u>1,358,159</u>
Change in Net Position				(33,574)	3,397	(30,177)
Net Position - Beginning				1,186,869	4,936	1,191,805
Prior Period Adjustment (Note 16)				<u>158,396</u>	<u>7,672</u>	<u>166,068</u>
Net Position - Ending				<u>\$ 1,311,691</u>	<u>\$ 16,005</u>	<u>\$ 1,327,696</u>

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

HERREID SCHOOL DISTRICT NO. 10-1
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	General Fund	Capital Outlay Fund	Special Education Fund	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ 186,069	\$ 618,129	\$ 62,347	\$ 866,545
Investments	10,000	50,000	-	60,000
Taxes receivable - current	286,931	97,808	96,385	481,124
Taxes receivable - delinquent	1,633	110	242	1,985
Due from General Fund	-	85,000	-	85,000
Due from federal government	2,764	-	-	2,764
Due from state government	44,044	-	-	44,044
Due from county government	14,967	-	-	14,967
Inventory of supplies	17,604	-	-	17,604
Restricted cash and cash equivalents	12,697	-	-	12,697
TOTAL ASSETS	<u>\$ 576,709</u>	<u>\$ 851,047</u>	<u>\$ 158,974</u>	<u>\$ 1,586,730</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ 7,750	\$ -	\$ 2,208	\$ 9,958
Contracts payable	78,809	-	-	78,809
Due to Capital Outlay Fund	85,000	-	-	85,000
Payroll deductions and withholdings and employer matching payable	10,198	-	-	10,198
TOTAL LIABILITIES	<u>181,757</u>	<u>-</u>	<u>2,208</u>	<u>183,965</u>
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue - property taxes	1,633	110	242	1,985
Taxes levied for future period	314,095	108,512	106,933	529,540
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>315,728</u>	<u>108,622</u>	<u>107,175</u>	<u>531,525</u>
FUND BALANCES:				
Nonspendable:				
Inventory of supplies	17,604	-	-	17,604
Restricted for:				
Capital outlay purposes	-	742,425	-	742,425
Special education purposes	-	-	49,591	49,591
Athletic purposes	8,518	-	-	8,518
Music education purposes	3,038	-	-	3,038
Veteran's memorial	1,141	-	-	1,141
Assigned to:				
Teacher's supplies	3,783	-	-	3,783
Next year's budget	45,140	-	-	45,140
TOTAL FUND BALANCES	<u>79,224</u>	<u>742,425</u>	<u>49,591</u>	<u>871,240</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 576,709</u>	<u>\$ 851,047</u>	<u>\$ 158,974</u>	<u>\$ 1,586,730</u>

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

HERREID SCHOOL DISTRICT NO. 10-1
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015

Total Fund Balances - Governmental Funds		\$ 871,240
Amounts reported for governmental activities in the statement of net position are different because:		
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.		276,114
Capital assets used in governmental activities are not current financial resources and therefore is not reported in the funds.		792,598
Pension related deferred outflows are components of pension liability (asset) and are not reported in the funds.		244,200
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
CO certificates	\$ 550,000	
Accrued leave	<u>\$ 4,660</u>	(554,660)
Assets, such as taxes receivable that are not available to pay for current period expenditures, are deferred in the funds.		
Taxes receivable	<u>\$ 1,985</u>	1,985
Pension related deferred inflows are components of pension liability (asset) and are not reported in the funds.		<u>(319,786)</u>
Net Position - Governmental Activities		<u><u>\$ 1,311,691</u></u>

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

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015

	General Fund	Capital Outlay Fund	Special Education Fund	Total Governmental Funds
REVENUES:				
Revenue from Local Sources:				
Taxes:				
Ad valorem taxes	\$ 620,043	\$ 153,826	\$ 200,681	\$ 974,550
Prior years' ad valorem taxes	1,995	255	556	2,806
Utility taxes	59,011	-	-	59,011
Penalties and interest on taxes	923	170	363	1,456
Earnings on investments and deposits	336	683	-	1,019
Cocurricular activities:				
Admissions	8,575	-	-	8,575
Other pupil activity income	1,092	-	-	1,092
Other revenue from local sources:				
Contributions and donations	623	-	-	623
Charges for services	2,101	-	416	2,517
Other	4,180	1	-	4,181
Revenue from Intermediate Sources:				
County sources:				
County apportionment	8,265	-	-	8,265
Revenue in lieu of taxes	235	20	40	295
Revenue from State Sources:				
Grants-in-aid:				
Unrestricted grants-in-aid	311,730	-	-	311,730
Other state revenue	59	-	-	59
Revenue from Federal Sources:				
Grants-in-aid:				
Restricted grants-in-aid received from federal government through the state	21,418	-	26,999	48,417
Other federal revenue	10,346	-	-	10,346
TOTAL REVENUE	<u>1,050,932</u>	<u>154,955</u>	<u>229,055</u>	<u>1,434,942</u>
EXPENDITURES:				
Instruction:				
Regular programs:				
Elementary	254,940	11,552	-	266,492
Middle/Junior high	165,931	7,436	-	173,367
High school	219,436	7,637	-	227,073
Special programs:				
Programs for special education	-	-	90,579	90,579
Educationally deprived	13,844	-	-	13,844
Support Services:				
Pupils:				
Guidance	2,761	-	-	2,761
Psychological	-	-	4,030	4,030
Speech pathology	-	-	35,900	35,900
Student therapy services	-	-	33,463	33,463

	General Fund	Capital Outlay Fund	Special Education Fund	Total Governmental Funds
Instructional staff:				
Improvement of instruction	7,638	-	-	7,638
Educational media	16,369	-	-	16,369
General administration:				
Board of education	16,765	-	-	16,765
Executive administration	87,557	-	-	87,557
School administration:				
Office of the principal	7,968	-	-	7,968
Other	7,976	-	-	7,976
Business:				
Fiscal services	46,713	-	-	46,713
Facilities acquisition and construction	-	89,893	-	89,893
Operation and maintenance of plant	161,709	-	-	161,709
Pupil transportation	61,223	5,105	-	66,328
Special education:				
Administrative costs	-	-	23,348	23,348
Cocurricular Activities:				
Male activities	14,873	-	-	14,873
Female activities	12,686	-	-	12,686
Combined activities	27,386	-	-	27,386
Capital Outlay	13,357	101,225	-	114,582
TOTAL EXPENDITURES	<u>1,139,132</u>	<u>222,848</u>	<u>187,320</u>	<u>1,549,300</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(88,200)</u>	<u>(67,893)</u>	<u>41,735</u>	<u>(114,358)</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(15,570)	-	-	(15,570)
General long-term debt issued	-	550,000	-	550,000
Sale of surplus property	-	125	-	125
TOTAL OTHER FINANCING SOURCES (USES)	<u>(15,570)</u>	<u>550,125</u>	<u>-</u>	<u>534,555</u>
NET CHANGE IN FUND BALANCES	(103,770)	482,232	41,735	420,197
FUND BALANCE - BEGINNING	161,198	263,995	15,721	440,914
PRIOR PERIOD ADJUSTMENT (NOTE16)	<u>21,796</u>	<u>(3,802)</u>	<u>(7,865)</u>	<u>10,129</u>
FUND BALANCE - ENDING	<u>\$ 79,224</u>	<u>\$ 742,425</u>	<u>\$ 49,591</u>	<u>\$ 871,240</u>

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

HERREID SCHOOL DISTRICT NO. 10-1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

Net Change in Fund Balances - Total Governmental Funds	\$ 420,197
Amounts reported for governmental activities in the statement of activities are different because:	
This amount represents capital asset purchases which are reported as expenditures on the fund financial statements but increase assets on the government-wide statements.	114,582
This amount represents the current year depreciation expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources.	(64,669)
In the statement of activities, losses of \$6,295 on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds of \$125 from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized.	(6,420)
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.	
CO certificates	<u>\$ 550,000</u>
	(550,000)
In both the government-wide and fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the funds' statements differs from the accounting in the government-wide statements in that the fund financial statements require the amounts to be "available". This amount reflects the application of both the application period and "availability criteria".	475
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (e.g., accrued interest revenue, pension revenue)	11,663
Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds.	<u>40,598</u>
Change in Net Position of Governmental Activities	<u>\$ (33,574)</u>

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

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015

	Enterprise Funds Food Service Fund
ASSETS:	
Current Assets:	
Cash and cash equivalents	\$ 3,870
Accounts receivable, net	406
Inventory of supplies	142
Inventory of stores purchased for resale	1,424
Inventory of donated food	1,041
Total Current Assets	6,883
Noncurrent Assets:	
Net pension asset	14,288
Capital Assets:	
Machinery and equipment	14,565
Less: accumulated depreciation	(12,905)
Total Noncurrent Assets	15,948
TOTAL ASSETS	22,831
DEFERRED OUTFLOWS OF RESOURCES	
Pension related deferred outflows	12,165
TOTAL DEFERRED OUTFLOWS OF RESOURCES	12,165
LIABILITIES:	
Current liabilities:	
Contracts payable	2,150
Payroll deductions and withholdings and employer matching payable	293
TOTAL LIABILITIES	2,443
DEFERRED INFLOWS OF RESOURCES	
Pension related deferred inflows	16,548
TOTAL DEFERRED INFLOWS OF RESOURCES	16,548
NET POSITION:	
Net investment in capital assets	1,660
SDRS pension purposes	9,905
Unrestricted net position	4,440
TOTAL NET POSITION	\$ 16,005

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

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2015

	Enterprise Funds
	Food Service Fund
OPERATING REVENUE:	
Food sales:	
Student	\$ 29,256
Adult	4,482
Ala carte	4,935
Pension revenue	604
TOTAL OPERATING REVENUE	39,277
OPERATING EXPENSES:	
Salaries	37,550
Employee benefits	3,677
Purchased services	914
Supplies	596
Cost of sales - purchased	22,707
Cost of sales - donated	4,369
Depreciation	240
TOTAL OPERATING EXPENSES	70,053
OPERATING LOSS	(30,776)
NONOPERATING REVENUE:	
Investment earnings	3
State grants	328
Federal grants	13,903
Donated food	4,369
TOTAL NONOPERATING REVENUE	18,603
LOSS BEFORE TRANSFERS	(12,173)
TRANSFERS IN	15,570
CHANGE IN NET POSITION	3,397
NET POSITION - BEGINNING	4,936
PRIOR PERIOD ADJUSTMENT (NOTE 16)	7,672
NET POSITION - ENDING	\$ 16,005

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

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2015

	Enterprise Funds
	Food Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash receipts from customers	\$ 38,673
Cash payments to employees for services	(43,255)
Cash payments to suppliers of goods and services	(24,217)
Net cash used by operating activities	(28,799)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfers in	15,570
Operating grants	14,231
Net cash provided by noncapital financing activities	29,801
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	-
CASH FLOWS FROM INVESTING ACTIVITIES:	
Cash received for interest	3
Net cash provided by investing activities	3
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,005
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,865
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 3,870
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</u>	
OPERATING LOSS	\$ (30,776)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Depreciation expense	240
Value of donated commodities used	4,369
Change in assets and liabilities:	
Net pension asset	(8,697)
Pension related deferred outflows	(10,084)
Accrued leave payable	(399)
Pension related deferred inflows	16,548
NET CASH USED BY OPERATING ACTIVITIES	\$ (28,799)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
Value of commodities received	\$ 4,369

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

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

	Private-Purpose Trust Funds	Agency Funds
ASSETS:		
Cash and cash equivalents	\$ -	\$ 60,539
Investments	<u>21,696</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 21,696</u>	<u>\$ 60,539</u>
LIABILITIES:		
Amounts held for others	<u>\$ -</u>	<u>\$ 60,539</u>
TOTAL LIABILITIES	<u>-</u>	<u>\$ 60,539</u>
NET POSITION:		
Held in trust for scholarships	<u>\$ 21,696</u>	

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

HERREID SCHOOL DISTRICT NO. 10-1
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

	Private-Purpose Trust Funds
ADDITIONS:	
Earnings on investments and deposits	\$ 87
TOTAL ADDITIONS	87
DEDUCTIONS:	
Trust deductions for scholarships	100
TOTAL DEDUCTIONS	100
CHANGE IN NET POSITION	(13)
NET POSITION - BEGINNING	21,709
NET POSITION - ENDING	\$ 21,696

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

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity:

The reporting entity of the Herreid School District No. 10-1 (School District), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

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

b. Basis of Presentation:

Government-Wide Financial Statements:

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

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

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

Fund Financial Statements:

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

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - (Continued)

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

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

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

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - (Continued)

Fiduciary Funds:

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

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

The Adney Scholarship Trust Fund is the only private-purpose trust fund.

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

c. Measurement Focus and Basis of Accounting:

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

Measurement Focus:

Government-Wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

Government-Wide Financial Statements:

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

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - (Continued)

bills of the current period. The accrual period for the School District is 60 days. The revenues which are accrued at June 30, 2015, are reimbursements for federal program expenditures.

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

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

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

d. 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 entirely (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.

e. Capital Assets:

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

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

Government-Wide Financial Statements

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

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

The total June 30, 2015 balance of capital assets for governmental activities are all valued at original costs. The total June 30, 2015 balance of capital assets for business-type activities are all valued at original costs.

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - (Continued)

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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ -	----N/A----	----N/A----
Improvements	\$ 2,500	Straight-line	10-20 years
Buildings	\$ 2,500	Straight-line	50 years
Machinery and Equipment	\$ 2,500	Straight-line	4-20 years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

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

f. 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 compensated absences and capital outlay certificates payable.

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

g. Program Revenues:

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

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - (Continued)

h. 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.

i. Cash and Cash Equivalents:

For the purpose of preparing the Statement of Cash Flows, the School District considers all highly liquid investments and deposits with a term to maturity of three months or less when purchased to be cash equivalents.

j. Equity Classifications:

Government-Wide Financial Statements:

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

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

Fund Financial Statements:

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

k. Application of Net Position:

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

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - (Continued)

l. 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, Superintendent, or Business Manager.

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

The Nonspendable Fund Balance is comprised of the following:

Amount reported in nonspendable form such as inventory.

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 Government would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

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

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

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

m. 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.

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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 funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

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

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

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

As of June 30, 2015, all of the School District's investments were in certificates of deposit.

Concentration of Credit Risk - The School District places no limit on the amount that may be invested in any one issuer. All of the School District's investments are in certificates of deposit with the Campbell County Bank.

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

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit interest income from the General Fund and Special Education Fund pooled account to the General Fund. All other funds have their own accounts with interest being credited to that fund. Certificates of deposit interest income is credited to the fund making the investment.

NOTE 3 - RESTRICTED CASH AND INVESTMENTS

Assets restricted to use for Athletics, Music, and Veteran's Memorial through segregation of balances in separate accounts totals \$12,697 for the year ended June 30, 2015.

NOTE 4 - RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year. No allowances for estimated uncollectibles have been determined to be necessary.

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5 - INVENTORY

Inventory held for consumption is stated at cost. Inventory for resale is stated at the lower of cost or market. The cost valuation method is first-in, first-out (FIFO). 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, and become due and payable as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the School District's taxes and remits them to the School District.

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

NOTE 7 - RESTRICTED NET POSITION

Restricted net position for the fiscal year ended June 30, 2015, were as follows:

<u>Purpose</u>	<u>Restricted By</u>	<u>Amount</u>
Major Funds:		
Capital Outlay Purposes	Law	\$ 742,486
Special Education Purposes	Law	49,759
Pension Purposes	Law	200,528
Other Purposes:		
Athletics	Outside Sources	8,518
Music	Outside Sources	3,038
Veteran's Memorial	Outside Sources	1,141
Total Restricted Net Position		<u>\$ 1,005,470</u>

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 8 - 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</u> <u>7/1/2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/2015</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 5,464	\$ -	\$ -	\$ 5,464
Capital assets, being depreciated:				
Improvements	109,574	-	-	109,574
Buildings	1,205,320	101,225	18,516	1,288,029
Machinery and equipment	507,899	13,357	-	521,256
Total, being depreciated	<u>1,822,793</u>	<u>114,582</u>	<u>18,516</u>	<u>1,918,859</u>
Less accumulated depreciation for:				
Improvements	83,556	657	-	84,213
Buildings	681,827	29,690	12,096	699,421
Machinery and equipment	313,769	34,322	-	348,091
Total accumulated depreciation	<u>1,079,152</u>	<u>64,669</u>	<u>12,096</u>	<u>1,131,725</u>
Total capital assets, being depreciated, net	<u>743,641</u>	<u>49,913</u>	<u>6,420</u>	<u>787,134</u>
Total governmental activity capital assets, net	<u>\$ 749,105</u>	<u>\$ 49,913</u>	<u>\$ 6,420</u>	<u>\$ 792,598</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:

Instruction	\$ 37,166
Support Services	26,314
Cocurricular Activities	<u>1,189</u>
Total depreciation expense - governmental activities	<u>\$ 64,669</u>

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 8 - (Continued)

	<u>Balance</u> <u>7/1/2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/2015</u>
Business-type activities:				
Capital assets, being depreciated:				
Machinery and equipment	\$ 14,565	\$ -	\$ -	\$ 14,565
Total, being depreciated	<u>14,565</u>	<u>-</u>	<u>-</u>	<u>14,565</u>
Less accumulated depreciation for:				
Machinery and equipment	12,665	240	-	12,905
Total accumulated depreciation	<u>12,665</u>	<u>240</u>	<u>-</u>	<u>12,905</u>
Total business-type activity capital assets, net	<u>\$ 1,900</u>	<u>\$ (240)</u>	<u>\$ -</u>	<u>\$ 1,660</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:

Food Service	<u>\$ 240</u>
--------------	---------------

NOTE 9 - LONG-TERM LIABILITIES

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

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Primary Government:					
Governmental Activities:					
Capital Outlay Certificates	\$ -	\$ 550,000	\$ -	\$ 550,000	\$ 25,000
Total Debt	<u>-</u>	<u>550,000</u>	<u>-</u>	<u>550,000</u>	<u>25,000</u>
Compensated Absences	<u>4,660</u>	<u>4,660</u>	<u>4,660</u>	<u>4,660</u>	<u>4,660</u>
Total Governmental Activities	<u>\$ 4,660</u>	<u>\$ 554,660</u>	<u>\$ 4,660</u>	<u>\$ 554,660</u>	<u>\$ 29,660</u>

Compensated absences for governmental activities typically have been liquidated from the General Fund.

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 9 - (Continued)

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

PRIMARY GOVERNMENT

Governmental Activities:

Capital Outlay Certificates:

Maturity date of June 15, 2025, with an interest rate of 2.95% payable from the Capital Outlay Fund	<u>\$ 550,000</u>
---	-------------------

Compensated Absences:

Payable from the General Fund	<u>\$ 4,660</u>
-------------------------------	-----------------

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

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

Year Ending June 30	Capital Outlay Certificates Payable	
	Principal	Interest
2016	\$ 25,000	\$ 18,524
2017	52,000	15,315
2018	53,000	13,760
2019	55,000	12,159
2020	56,000	10,527
2021-2025	309,000	25,976
Totals	\$ 550,000	\$ 96,261

NOTE 10 - OPERATING LEASES

The School District is leasing two Canon copiers from Marco, Inc. The Capital Outlay Fund is making the lease payments. The lease is for 60 months with monthly payments of \$551 starting September 9, 2013. Payments made in 2015 total \$6,869.

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 10 - (Continued)

The following are the minimum payments required for existing operating leases:

Year	Capital Outlay Fund
2016	\$ 6,612
2017	6,612
2018	6,612
2019	1,023
Total	\$ 20,859

NOTE 11 - INTERFUND TRANSFERS

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

Transfers from:	Transfers to:
Major Funds:	Business-Type Activities
General Fund	Food Service Fund
	\$ 15,570

The purpose of the interfund transfer was to eliminate the negative equity in the Food Service Fund.

NOTE 12 - INDIVIDUAL FUND INTERFUND BALANCES AND TRANSACTIONS

Interfund receivable and payable balances at June 30, 2015, were:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ -	\$ 85,000
Capital Outlay Fund	85,000	-
Total	\$ 85,000	\$ 85,000

NOTE 13 - JOINT VENTURES

The School District participates in the joint venture known as Oahe Special Education Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special education services to the member school districts.

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 13 - (Continued)

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

Bowdle School District No. 22-1	14.29%
Edmunds Central School District No. 22-5	14.29%
Eureka School District No. 44-1	14.29%
Herreid School District No. 10-1	14.29%
Hoven School District No. 53-2	14.28%
Selby Area School District No. 62-5	14.28%
Smee School District No. 15-3	14.28%

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

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

Separate financial statements for this joint venture are available from Oahe Special Education Cooperative.

At June 30, 2015, this joint venture had total assets of \$400,099, total liabilities of \$88,511 and net position of \$311,588.

NOTE 14 - LITIGATION

At June 30, 2015, the School District was not involved in any litigation.

NOTE 15 - RISK MANAGEMENT

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

Employee Health Insurance:

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

Liability Insurance:

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

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 15 - (Continued)

exposure or type of coverage. The School District pays an annual premium to the pool to provide coverage for: package coverage for property, general liability, crime and automobile; umbrella liability; boiler and machinery; and school leaders' errors and omissions.

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

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

Worker's Compensation:

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provides workers' compensation insurance coverage for participating members of the pool. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The School District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The School District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to \$1,000,000 per individual per incident.

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

Unemployment Benefits:

The 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, no claims were filed for unemployment benefits. At June 30, 2015, no claims had been filed or were outstanding. It is not anticipated that any claims for unemployment benefits will be filed in the next fiscal year.

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 16 - PRIOR PERIOD ADJUSTMENT

Pension Adjustment

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.

Tax Revenue Adjustment

The School District is restating beginning net position and fund balance on the statement of activities, statement of revenues, expenditures and changes in fund balances and the budgetary comparison schedules to reflect GASB codification section P70 which states when property taxes are collected in advance of the period for which they are levied, the taxes should be recorded as a deferred inflow of resources and recognized as revenue in the period for which they are levied, subject to the "available" criterion.

Utility Taxes Adjustment

The School District is restating beginning net position and fund balance on the statement of activities, statement of revenues, expenditures and changes in fund balances, and the budgetary comparison schedules to reflect an increase in utility tax for which the revenue recognition criteria had been met in the General Fund.

As a result of the above adjustment, beginning net position has been restated to reflect the previously described changes as of July 1, 2014, as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>
Net Position July 1, 2014, as previously reported	\$ 1,186,869	\$ 4,936	\$ 161,198	\$ 263,995	\$ 15,721
Restatement for pension accounting:					
Net Pension Asset	108,055	5,591	-	-	-
Pension related Deferred Outflows of Resources	40,212	2,081	-	-	-
Tax revenue restatement	(33,869)	-	(22,202)	(3,802)	(7,865)
Utility tax restatement	43,998	-	43,998	-	-
Net Position July 1, 2014, as restated	<u>\$ 1,345,265</u>	<u>\$ 12,608</u>	<u>\$ 182,994</u>	<u>\$ 260,193</u>	<u>\$ 7,856</u>

NOTE 17 - 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.

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 17 - (Continued)

Benefits Provided:

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

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

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% 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 fiscal years ended June 30, 2015, 2014, and 2013, were \$42,227, \$42,292, and \$37,558, respectively, equal to the required contributions each year.

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 17 - (Continued)

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	\$ 4,275,682
Less proportionate share of total pension liability	<u>3,985,280</u>
Proportionate share of net pension liability (asset)	<u>\$ (290,402)</u>

At June 30, 2015, the School District reported a liability (asset) of \$(290,402) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2014, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2014, the School District's proportion was .0403079%, which is a decrease of .0028908% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the School District recognized pension expense (revenue) of \$(12,266). 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	\$ 24,572	\$ -
Changes in assumption	189,566	-
Net difference between projected and actual earnings on pension plan investments	-	336,334
District contributions subsequent to the measurement date	<u>42,227</u>	<u>-</u>
TOTAL	<u>\$ 256,365</u>	<u>\$ 336,334</u>

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 17 - (Continued)

\$42,227 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:

2016	\$ (23,075)
2017	(23,075)
2018	(23,075)
2019	<u>(52,971)</u>
 Total	 <u>\$ (122,196)</u>

Actuarial Assumptions:

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

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

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

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

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

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 17 - (Continued)

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

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 7.25 percent through 2016 and 7.50 percent thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension 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% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net pension liability (asset)	\$286,972	\$(290,402)	\$ (761,310)

Pension Plan Fiduciary Net Position:

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

NOTE 18 - SUBSEQUENT EVENTS

Management has evaluated whether any subsequent events have occurred through January 8, 2016, the date on which the financial statements were available to be issued. Management has determined there are none.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

HERREID SCHOOL DISTRICT NO. 10-1
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - BUDGETARY BASIS
YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Revenue from Local Sources:				
Taxes:				
Ad valorem taxes	\$ 558,872	\$ 558,872	\$ 620,043	\$ 61,171
Prior years' ad valorem taxes	2,500	2,500	1,995	(505)
Utility taxes	56,000	56,000	59,011	3,011
Penalties and interest on taxes	1,500	1,500	923	(577)
Earnings on investments and deposits	400	400	336	(64)
Cocurricular activities:				
Admissions	6,500	6,500	8,575	2,075
Other pupil activity income	2,250	2,250	1,092	(1,158)
Other revenue from local sources:				
Contributions and donations	-	-	623	623
Charges for services	5,500	5,500	2,101	(3,399)
Other	5,000	5,000	4,180	(820)
Revenue from Intermediate Sources:				
County sources:				
County apportionment	5,000	5,000	8,265	3,265
Revenue in lieu of taxes	-	-	235	235
Revenue from State Sources:				
Grants-in-aid:				
Unrestricted grants-in-aid	357,747	357,747	311,730	(46,017)
Other state revenue	-	-	59	59
Revenue from Federal Sources:				
Grants-in-aid:				
Restricted grants-in-aid received from federal government through the state	26,661	28,481	21,418	(7,063)
Other federal revenue	10,500	10,500	10,346	(154)
TOTAL REVENUE	<u>1,038,430</u>	<u>1,040,250</u>	<u>1,050,932</u>	<u>10,682</u>
EXPENDITURES:				
Instruction:				
Regular programs:				
Elementary	279,050	279,050	254,940	24,110
Middle/Junior high	174,680	174,680	165,931	8,749
High school	223,100	223,100	219,436	3,664
Special programs:				
Educationally deprived	13,840	15,660	13,844	1,816
Support Services:				
Pupils:				
Guidance	3,380	3,380	2,761	619
Instructional staff:				
Improvement of instruction	22,367	22,367	20,979	1,388
Educational media	19,357	19,357	16,385	2,972

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
General administration:				
Board of education	21,860	21,860	16,765	5,095
Executive administration	89,840	89,840	87,557	2,283
School administration:				
Office of the principal	8,396	8,396	7,968	428
Other	9,060	9,060	7,976	1,084
Business:				
Fiscal services	46,770	46,770	46,713	57
Operation and maintenance of plant	159,210	159,210	161,709	(2,499)
Pupil transportation	75,295	75,295	61,223	14,072
Cocurricular Activities:				
Male activities	15,355	15,355	14,873	482
Female activities	14,225	14,225	12,686	1,539
Combined activities	27,645	27,645	27,386	259
Contingencies	15,000	15,000		
Amount transferred		-		15,000
TOTAL EXPENDITURES	<u>1,218,430</u>	<u>1,220,250</u>	<u>1,139,132</u>	<u>81,118</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(180,000)</u>	<u>(180,000)</u>	<u>(88,200)</u>	<u>91,800</u>
OTHER FINANCING USES:				
Transfers out	<u>(15,000)</u>	<u>(15,000)</u>	<u>(15,570)</u>	<u>(570)</u>
TOTAL OTHER FINANCING USES	<u>(15,000)</u>	<u>(15,000)</u>	<u>(15,570)</u>	<u>(570)</u>
NET CHANGE IN FUND BALANCES	(195,000)	(195,000)	(103,770)	91,230
FUND BALANCE - BEGINNING	161,198	161,198	161,198	-
PRIOR PERIOD ADJUSTMENT (NOTE 16)	<u>21,796</u>	<u>21,796</u>	<u>21,796</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ (12,006)</u>	<u>\$ (12,006)</u>	<u>\$ 79,224</u>	<u>\$ 91,230</u>

HERREID SCHOOL DISTRICT NO. 10-1
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - CAPITAL OUTLAY FUND - BUDGETARY BASIS
YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Revenue from Local Sources:				
Taxes:				
Ad valorem taxes	\$ 109,683	\$ 109,683	\$ 153,826	\$ 44,143
Prior years' ad valorem taxes	50	50	255	205
Penalties and interest on taxes	100	100	170	70
Earnings on investments and deposits	1,100	1,100	683	(417)
Other revenue from local sources:				
Other	-	-	1	1
Revenue from Intermediate Sources:				
Revenue in lieu of taxes	-	-	20	20
TOTAL REVENUE	<u>110,933</u>	<u>110,933</u>	<u>154,955</u>	<u>44,022</u>
EXPENDITURES:				
Instruction:				
Regular programs:				
Elementary	18,750	18,750	11,552	7,198
Middle/Junior high	8,050	8,050	7,436	614
High school	10,050	10,050	7,637	2,413
Support Services:				
Business:				
Facilities acquisition and construction	97,500	676,500	191,118	485,382
Pupil transportation	34,000	34,000	5,105	28,895
Cocurricular Activities:				
Combined activities	2,500	2,500	-	2,500
TOTAL EXPENDITURES	<u>170,850</u>	<u>749,850</u>	<u>222,848</u>	<u>527,002</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(59,917)</u>	<u>(638,917)</u>	<u>(67,893)</u>	<u>571,024</u>
OTHER FINANCING SOURCES:				
Proceeds of general long-term liabilities	-	550,000	550,000	-
Sale of surplus property	-	-	125	125
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>550,000</u>	<u>550,125</u>	<u>125</u>
NET CHANGE IN FUND BALANCES	(59,917)	(88,917)	482,232	571,149
FUND BALANCE - BEGINNING	263,995	263,995	263,995	-
PRIOR PERIOD ADJUSTMENT (NOTE 16)	<u>(3,802)</u>	<u>(3,802)</u>	<u>(3,802)</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 200,276</u>	<u>\$ 171,276</u>	<u>\$ 742,425</u>	<u>\$ 571,149</u>

HERREID SCHOOL DISTRICT NO. 10-1
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - SPECIAL EDUCATION FUND - BUDGETARY BASIS
YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Revenue from Local Sources:				
Taxes:				
Ad valorem taxes	\$ 170,228	\$ 170,228	\$ 200,681	\$ 30,453
Prior years' ad valorem taxes	50	50	556	506
Penalties and interest on taxes	250	250	363	113
Other revenue from local sources:				
Charges for services	1,000	1,000	416	(584)
Revenue from Intermediate Sources:				
Revenue in lieu of taxes	-	-	40	40
Revenue from Federal Sources:				
Grants-in-aid:				
Restricted grants-in-aid received from federal government through the state	26,965	26,965	26,999	34
TOTAL REVENUE	<u>198,493</u>	<u>198,493</u>	<u>229,055</u>	<u>30,562</u>
EXPENDITURES:				
Instruction:				
Special programs:				
Programs for special education	95,460	95,460	90,579	4,881
Support Services:				
Pupils:				
Psychological	5,000	5,000	4,030	970
Speech pathology	37,000	37,000	35,900	1,100
Student therapy services	50,000	50,000	33,463	16,537
Special education:				
Administrative costs	25,000	25,000	23,348	1,652
TOTAL EXPENDITURES	<u>212,460</u>	<u>212,460</u>	<u>187,320</u>	<u>25,140</u>
NET CHANGE IN FUND BALANCES	(13,967)	(13,967)	41,735	55,702
FUND BALANCE - BEGINNING	15,721	15,721	15,721	-
PRIOR PERIOD ADJUSTMENT (NOTE 16)	<u>(7,865)</u>	<u>(7,865)</u>	<u>(7,865)</u>	-
FUND BALANCE - ENDING	<u>\$ (6,111)</u>	<u>\$ (6,111)</u>	<u>\$ 49,591</u>	<u>\$ 55,702</u>

HERREID SCHOOL DISTRICT NO. 10-1
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A
SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND
AND FOR EACH MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET
JUNE 30, 2015

NOTE 1 - BUDGETS AND BUDGETARY ACCOUNTING

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

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

NOTE 2 - USGAAP/BUDGETARY ACCOUNTING BASIS DIFFERENCES

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

HERREID SCHOOL DISTRICT NO. 10-1
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
YEAR ENDED JUNE 30, 2015

	<u>2015</u>
District's proportion of the net pension liability (asset)	0.040308%
District's proportionate share of net pension liability (asset)	\$ (290,402)
District's covered-employee payroll	\$ 703,790
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	41.26%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107%

HERREID SCHOOL DISTRICT NO. 10-1
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
LAST 10 FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 42.227	\$ 42.292	\$ 37.558	\$ 36.699	\$ 37.779	\$ 41.906	\$ 44.456	\$ 40.540	\$ 40.804	\$ 42.309
Contributions in relation to the contractually required contribution	<u>42.227</u>	<u>42.292</u>	<u>37.558</u>	<u>36.699</u>	<u>37.779</u>	<u>41.906</u>	<u>44.456</u>	<u>40.540</u>	<u>40.804</u>	<u>42.309</u>
Contribution deficiency (excess)	<u>\$ -</u>									
District's covered-employee payroll	\$ 703.790	\$ 704.877	\$ 625.956	\$ 611.653	\$ 629.651	\$ 698.432	\$ 740.935	\$ 675.665	\$ 680.064	\$ 705.140
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%