

**HILL CITY SCHOOL DISTRICT  
NO. 51-2**

INDEPENDENT AUDITOR'S REPORT,  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

JUNE 30, 2016

**CASEY  PETERSON**  
*Leading the Way.*

RAPID CITY, SOUTH DAKOTA  
GILLETTE, WYOMING



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

School Board  
Hill City School District No. 51-2  
Pennington County, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hill City School District No. 51-2, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Hill City School District No. 51-2's basic financial statements and have issued our report thereon dated March 20, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hill City School District No. 51-2 's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hill City School District No. 51-2's internal control. Accordingly, we do not express an opinion on the effectiveness of Hill City School District No. 51-2's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We consider the deficiencies 2016-001, 2016-002, and 2016-003 described in the accompanying schedule of findings and management responses to be material weaknesses.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hill City School District No. 51-2's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and management's responses as items 2016-002 and 2016-003.

### Hill City School District No. 51-2's Response to Findings

Hill City School District No. 51-2's response to the findings identified in our audit is described in the accompanying schedule of findings and management's responses. Hill City School District No. 51-2's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. 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.



Casey Peterson, Ltd.

Rapid City, South Dakota  
March 20, 2017

# Hill City School District No. 51-2

## Schedule of Findings and Management's Responses

### June 30, 2016

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#### Material Weakness

##### Internal Control Over Year-end Closing Process Including Preparation of the Financial Statements

2016-001 *Condition:* The District has a small Business Office staff and duties are not segregated adequately to ensure no one staff person is responsible for the approval, recording and custody of the accounting functions referenced in the criteria above. Currently, the Business Manager is solely responsible for the reconciliation of several cycles/processes. The District also does not have an adequate internal controls structure to draft the financial statements.

*Criteria:* The District should have an internal controls system in place related to the oversight and review of the following cycles/processes: reconciliation of scholarship accounts; reconciliation of long-term debt; receivables and deferred inflows of resources; review and approval of general journal entries; and preparation of the financial statements.

*Cause:* Small staff and a lack of oversight related to reconciliations and procedures performed by senior management within the finance function of the District.

*Effect:* The possibility of fraud or errors occurring and not being detected or corrected is present. In addition, material journal entries were proposed during the audit as a result of this control weakness.

*Auditor's Recommendation:* The District should evaluate all accounting cycles and implement controls accordingly. Key duties and responsibilities should be divided or segregated among different staff members to reduce the risk of error, waste, or fraud, and to relieve the Business Manager of some responsibilities. The Business Manager should oversee the reconciliation process to strengthen the internal controls. In addition, access to resources and records should be limited and accountability for their custody should be assigned. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the District's auditors drafting the financial statements because of cost or other considerations. If the District chooses not to accept this risk, training should be provided to those employees responsible for drafting the financial statements.

*Management's Response:* The Hill City School District's operating budget supports our current structure with minimal opportunity to increase positions. Internal controls established by our central office staff ensure that revenue and expenditure activities are well documented and ready for inspection by the Board of Education, state and federal level review teams, as well as the independent auditing firm hired by the School District.

#### Material Weakness-Internal Control over Compliance

##### Noncompliance with Statutory Requirements

2016-002 *Condition:* The Capital Outlay fund exceeded the budgeted appropriations due to refunding of debt in the current year.

*Criteria:* The District should have internal controls in place related to the oversight and review of budgets. Per SDCL 13-11-2, the District cannot exceed the budgeted appropriations total of each fund, except for trust and agency funds, in the school fiscal year.

*Cause:* There is lack of oversight over the reconciliations and review of the budgets.

**Hill City School District No. 51-2**  
**Schedule of Findings and Management's Responses**  
**June 30, 2016**

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*Effect:* This is a non-compliance issue with South Dakota Codified Law

*Auditor's Recommendations:* The District should evaluate its oversight and review process over budgets. Budget versus actual expenditures should be reviewed on a regular basis.

*Management's Response:* The District was not anticipating refinancing and failed to amend the budget accordingly. The District will monitor budgets on a monthly basis going forward.

**Material Weakness**

**Noncompliance with Statutory Requirements**

2016-003 *Condition:* During audit procedures, we identified agency fund receipts are not always being fully deposited into the appropriate bank accounts and club advisors are not reporting all transactions to the Business Office.

*Criteria:* South Dakota Codified Law Title 13 requires the School Board to prescribe policies and procedures governing the stewardship of agency funds. South Dakota Codified Law also requires club advisors keep accurate records of receipts expenditures and balances.

*Cause:* District management was unaware that funds were not properly deposited.

*Effect:* The District is not in compliance with state statutes and there is a potential for misappropriation of funds.

*Auditor's Recommendation:* The District should maintain all agency fund accounts, be responsible for all related assets, and provide reports to club advisors regularly on the availability of funds. The District should review statutes and policies with club advisors to ensure consistency in procedure.

*Management's Response:* The District has evaluated the non-compliance issues with the agency fund accounts and has spoken with the advisors. We have noted that all funds will be deposited within 24 hours of the activity the funds were received from. Under no circumstances are expenditures to be made out of funds received from the activity until the funds have been deposited and a new expenditure issued through our normally controlled process. It will be the rare exception to carry a negative fund balance with those exceptions being for initial cash tills and procurement of products for resale, i.e. concessions. We have also implemented an expense account credit card for expenditures ensuring that all expenses flow through the requisition process for approval and tracking while allowing more flexibility for the advisor to use the funds when needed.

## Independent Auditor's Report

School Board  
Hill City School District No. 51-2  
Pennington County, South Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hill City School District No. 51-2, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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



## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hill City School District No. 51-2, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of net pension asset, and schedule of pension contributions on pages 7 - 15 and 56 - 70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hill City School District No. 51-2's basic financial statements. The list of School District Officials is presented for purposes of additional analysis and is not a required part of the basic financial statements. The list of School District Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2017 on our consideration of Hill City School District No. 51-2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in consideration of Hill City School District No. 51-2's internal control over financial reporting and compliance. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

*Casey Peterson, LTD.*

Casey Peterson, Ltd.

Rapid City, South Dakota  
March 20, 2017

**Hill City School District No. 51-2**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2016**

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This section of Hill City School District No. 51-2's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the District's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- During the 15-16 fiscal year, the District's revenues generated from taxes and other revenues, net of gains on capital assets, of the governmental and business-type programs were \$428,434 more than the \$6,285,072 of governmental and business-type expenses.
- In FY 15-16, the total costs of the District's programs were 1.93% less than the prior year. Expenditures were up overall for the District.
- The District made principal payments of \$375,000 on outstanding capital outlay certificates. The District also made principal payments of \$65,608 on a capital lease used to finance computers.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

**Hill City School District No. 51-2  
Management's Discussion and Analysis (Unaudited)  
June 30, 2016**

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

**Figure A-1**

Major Features of Hill City School District's Government-Wide and Fund Financial Statements				
	Government-Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as instructional, support and cocurricular activities.	Activities of the District operates similar to private businesses, the food services operation.	Assets held by District on behalf of someone else. Student organizations that have funds on deposit with the District are reported here.
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Balances *Statement of Revenues, Expenses and Changes in Net Position *Statement of Cash Flows	*Statement of Fiduciary Net Position *Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus.	Accrual accounting and economic resources focus.
Type of Asset/Deferred Outflow of Resources/ Liability/ Deferred Inflow or Resources Information	All assets, and liabilities, both financial and capital, and short-term and long-term, and deferred inflows and outflows of resources	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; all deferred outflows and inflows of resources; no capital or long-term liabilities included.	All assets, and liabilities, both financial and capital, and short-term and long-term, and deferred inflows and outflows of resources	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets although they can.
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during the year, regardless of when cash is received or paid.	All revenues and expenses during year, regardless of when cash is received or paid.

**Hill City School District No. 51-2**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2016**

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**Government-wide Statements**

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

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

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

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

- **Governmental Activities** - This category includes the District's basic instructional services, such as elementary and high school educational programs, support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, debate, music, etc.), and capital equipment purchases. Property taxes, state grants, federal grants, and interest earnings finance most of these activities.
- **Business-type Activities** - The school charges a fee to students to help cover the costs of providing hot lunch services to all students. The Food Service Fund is the only business-type activity of the District.

**Fund Financial Statements**

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

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

The District has three kinds of funds:

- **Governmental Funds** – Most of the District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.

**Hill City School District No. 51-2**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2016**

- Proprietary Funds - Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service Enterprise Fund (one type of proprietary fund) is the only proprietary fund maintained by the District.
- Fiduciary Funds - The District is the trustee, or fiduciary, for various external and internal parties. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Position**

The District's combined net position increased as follows:

Table A-1  
Hill City School District No. 51-2  
Statement of Net Position

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2015	2016	2015	2016	2015	2016	2015 - 2016
Current and Other Assets	\$ 9,117,660	\$ 8,589,506	\$ 50,042	\$ 34,130	\$ 9,167,702	\$ 8,623,636	-5.93%
Capital Assets (Net of Depreciation)	10,982,538	10,636,323	4,710	3,768	10,987,248	10,640,091	-3.16%
Total Assets	20,100,198	19,225,829	54,752	37,898	20,154,950	19,263,727	-4.42%
Deferred Outflows of Resources	1,099,621	1,322,873	24,075	32,456	1,123,696	1,355,329	20.61%
Long-Term Liabilities Outstanding	5,417,734	4,977,435	1,262	1,000	5,418,996	4,978,435	-8.13%
Other Liabilities	748,533	500,648	6,251	15,989	754,784	516,637	-31.55%
Total Liabilities	6,166,267	5,478,083	7,513	16,989	6,173,780	5,495,072	-10.99%
Deferred Inflows of Resources	3,934,165	3,531,488	31,634	24,995	3,965,799	3,556,483	-10.32%
Net Position							
Net Investment in Capital Assets	5,630,039	5,727,785	4,710	3,768	5,634,749	5,731,553	1.72%
Restricted	2,266,991	2,393,277	19,754	24,401	2,286,745	2,417,678	5.73%
Unrestricted	3,202,357	3,418,069	15,216	201	3,217,573	3,418,270	6.24%
Total Net Position	\$ 11,099,387	\$ 11,539,131	\$ 39,680	\$ 28,370	\$ 11,139,067	\$ 11,567,501	3.85%

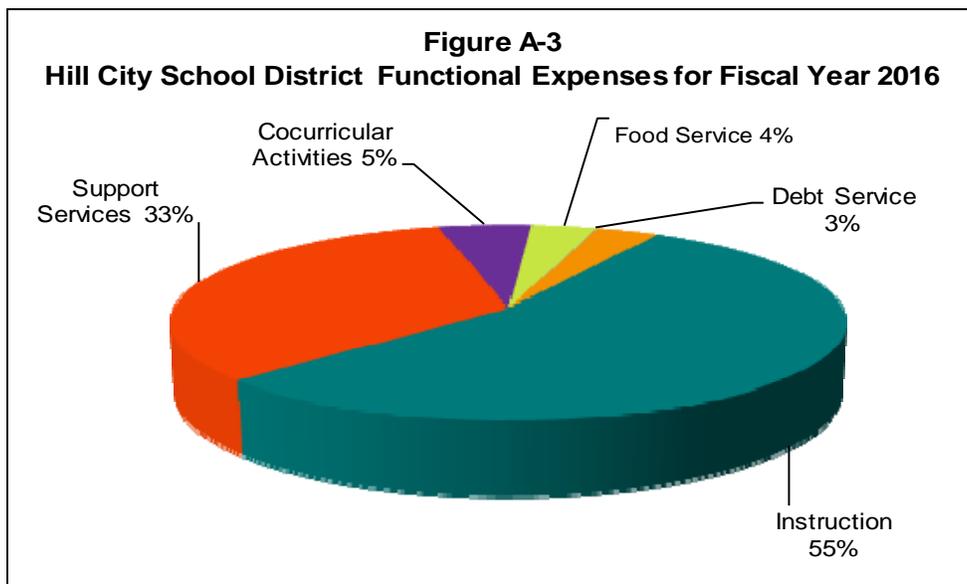
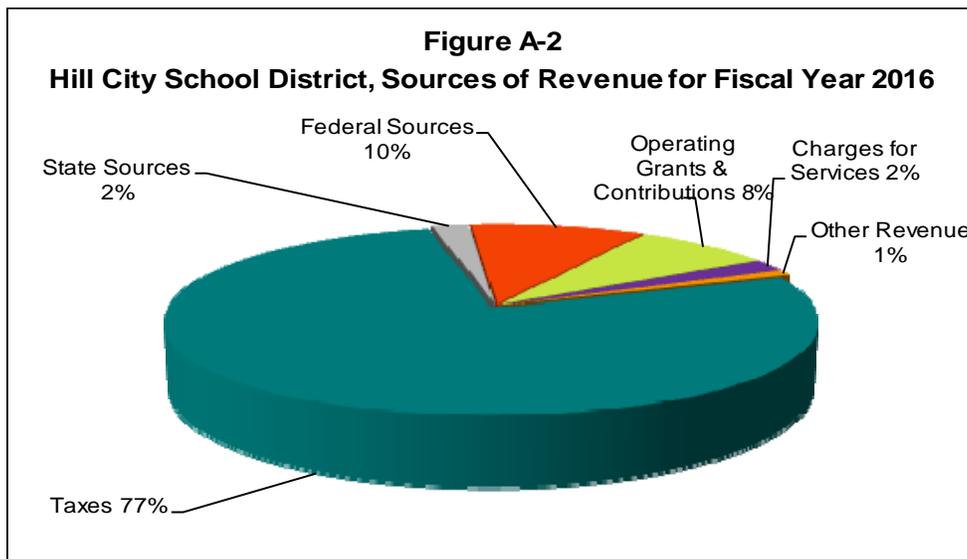
## Hill City School District No. 51-2 Management's Discussion and Analysis (Unaudited) June 30, 2016

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

### Changes in Net Position

The District's revenues totaled \$6,713,506. (See Figure A-2) Approximately 77% of the District's revenue comes from property and other taxes with approximately 2% coming from state aid.

The total cost of all programs and services decreased by approximately 1.93%. The District's expenses cover a range of services encompassing instruction, support services, and food services. (See Figure A-3)



**Hill City School District No. 51-2**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2016**

**GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES**

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

Table A-2  
Hill City School District No. 51-2  
Changes in Net Position

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2015	2016	2015	2016	2015	2016	2015 - 2016
<b>Revenues</b>							
<b>Program Revenues</b>							
Charges for Services	\$ 15,476	\$ 20,789	\$ 95,684	\$ 93,251	\$ 111,160	\$ 114,040	2.59%
Operating Grants and Contributions	598,824	411,856	121,574	120,472	720,398	532,328	-26.11%
<b>General Revenues</b>							
Taxes	5,215,097	5,213,434	-	-	5,215,097	5,213,434	-0.03%
Revenue State Sources	113,880	110,103	-	-	113,880	110,103	-3.32%
Revenue Federal Sources	634,607	639,215	-	-	634,607	639,215	0.73%
Revenue Intermediate Sources	26,719	30,608	-	-	26,719	30,608	14.56%
Unrestricted Investment Earnings	4,042	4,120	1	1	4,043	4,121	1.93%
Other General Revenues	59,879	66,257	-	-	59,879	66,257	10.65%
Gain (Loss) on Sale of Capital Assets	(1,307)	3,400	-	-	(1,307)	3,400	-360.14%
Total Revenues	<u>6,667,217</u>	<u>6,499,782</u>	<u>217,259</u>	<u>213,724</u>	<u>6,884,476</u>	<u>6,713,506</u>	<u>-2.48%</u>
<b>Expenses</b>							
Instruction	3,428,853	3,413,730	-	-	3,428,853	3,413,730	-0.44%
Support Services	2,321,521	2,101,008	-	-	2,321,521	2,101,008	-9.50%
Debt Service	126,597	216,606	-	-	126,597	216,606	71.10%
Cocurricular Activities	295,802	325,056	-	-	295,802	325,056	9.89%
Community Services	3,736	3,638	-	-	3,736	3,638	-2.62%
Food Service	-	-	232,185	225,034	232,185	225,034	-3.08%
Total Expenses	<u>6,176,509</u>	<u>6,060,038</u>	<u>232,185</u>	<u>225,034</u>	<u>6,408,694</u>	<u>6,285,072</u>	<u>-1.93%</u>
<b>Excess (Deficiency) Before Special</b>							
Items and Transfers	490,708	439,744	(14,926)	(11,310)	475,782	428,434	-9.95%
Transfers	(20,000)	-	20,000	-	-	-	0.00%
Increase (Decrease) in Net Position	470,708	439,744	5,074	(11,310)	475,782	428,434	-9.95%
Beginning Net Position	<u>10,628,679</u>	<u>11,099,387</u>	<u>34,606</u>	<u>39,680</u>	<u>10,663,285</u>	<u>11,139,067</u>	<u>4.46%</u>
Ending Net Position	<u>\$11,099,387</u>	<u>\$11,539,131</u>	<u>\$ 39,680</u>	<u>\$ 28,370</u>	<u>\$ 11,139,067</u>	<u>\$ 11,567,501</u>	<u>3.85%</u>

**GOVERNMENTAL ACTIVITIES**

The governmental activities - Overall, there was a decrease in expenditures from 2015 to 2016. Support services increased due to increases in salary and health benefits, supply budgets increased as did fuel costs.

**Hill City School District No. 51-2  
Management's Discussion and Analysis (Unaudited)  
June 30, 2016**

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**BUSINESS-TYPE ACTIVITIES**

Revenues of the District's business-type activities (Food Service Operation) decreased by approximately 1.63% to \$213,724 and expenses decreased by approximately 3.08% to \$225,034. Factors contributing to these results included:

- The Food Service Fund experienced a slight decrease in daily student participation, causing revenue to decrease.
- Expenditures decreased due to the District better controlling expenses in the Food Service Fund.

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The General Fund fund balance increased for the year ended June 30, 2016. This was due to revenues exceeding expenditures during the year because expenditures were less than budgeted. The Special Education fund balance showed a decrease due to a decrease in grant funding. The Pension Fund fund balance remained stable.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

There were no significant budget changes or budget variances for the year.

**CAPITAL ASSET ADMINISTRATION**

By the end of 2016, the District had invested \$10,640,091 (net of depreciation) in a broad range of capital assets including land, buildings, various machinery, and equipment. (See Table A-3) This amount represents a net decrease (including additions and deductions) of \$347,157. The capitalization threshold remains at \$25,000 for all improvements, \$50,000 for all buildings, and \$5,000 for all equipment for governmental activities and \$5,000 for business type activities.

Table A-3  
Hill City School District No. 51-2  
Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2015	2016	2015	2016	2015 - 2016	2015 - 2016
Land	\$ 388,891	\$ 388,891	\$ -	\$ -	\$ -	0.00%
Buildings	9,802,787	9,531,011	-	-	(271,776)	-2.77%
Improvements	234,496	232,644	-	-	(1,852)	-0.79%
Equipment	556,364	483,777	4,710	3,768	(73,529)	-13.11%
Total Capital Assets (Net)	<u>\$ 10,982,538</u>	<u>\$ 10,636,323</u>	<u>\$ 4,710</u>	<u>\$ 3,768</u>	<u>\$ (347,157)</u>	<u>-3.16%</u>

This year's capital asset purchases were for vehicles, football field upgrades, and building improvements.

**Hill City School District No. 51-2  
Management's Discussion and Analysis (Unaudited)  
June 30, 2016**

**LONG-TERM DEBT**

At year-end the District had \$4,978,435 in Capital Outlay Certificates and other long-term obligations. This is a decrease of 8.13% as shown on Table A-4 below.

Table A-4  
Hill City School District No. 51-2  
Outstanding Debt and Obligations

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2015	2016	2015	2016	2015 - 2016	2015 - 2016
Capital Outlay Certificates	\$ 5,315,000	\$ 4,940,000	\$ -	\$ -	\$ (375,000)	-7.06%
Capital Lease	65,608	-	-	-	(65,608)	100.00%
Compensated Absences	37,126	37,435	1,262	1,000	47	0.12%
<b>Total Outstanding Debt and Obligations</b>	<b>\$ 5,417,734</b>	<b>\$ 4,977,435</b>	<b>\$ 1,262</b>	<b>\$ 1,000</b>	<b>\$ (440,561)</b>	<b>-8.13%</b>

The District is liable for the accrued sick leave payable to all staff. The accrual leave liability is reported as compensated absences in the above schedule and with the financial statements.

The District made debt service principal and interest payments on Capital Outlay Certificates in the amount of \$375,000 for principal and \$116,765 for interest. The District made debt service principal and interest payments on the Capital Lease for the computers in the amount of \$65,608 in principal.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The District's current economic position has shown little change. Local revenues have ultimately remained steady due to decreases in federal and state funding and slight increases in property values. No significant increases in revenues in this area are expected.

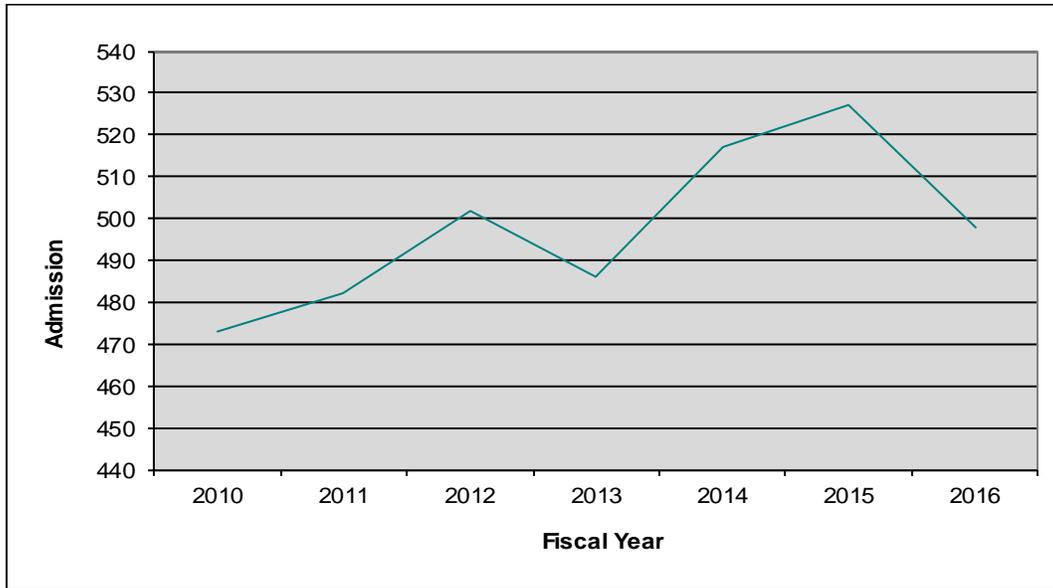
**Hill City School District No. 51-2  
Management's Discussion and Analysis (Unaudited)  
June 30, 2016**

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The District receives minimal state aid so we rely on property taxes and national forest receipts to fund this budget. The District has continued to cut costs wherever possible to help maintain expenditures and increase the fund balance for the general fund.

Below is a graph which shows the trends in the District's average daily attendance for the last seven years.

**Average Daily Attendance by Fiscal Year**



**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Hill City School's Business Office, 488 Main Street, Hill City, SD 57747.

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## BASIC FINANCIAL STATEMENTS

**Hill City School District No. 51-2**  
**Statement of Net Position**  
**June 30, 2016**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 5,040,340	\$ 4,436	\$ 5,044,776
Permanent Incidental Account	2,000	-	2,000
Money Market Account	4,984	-	4,984
Taxes Receivable	2,771,257	-	2,771,257
Due From Other Governments	49,029	5,168	54,197
Inventories	-	7,586	7,586
Unamortized Discount on Debt	31,462	-	31,462
Capital Assets:			
Land	388,891	-	388,891
Buildings	13,533,733	-	13,533,733
Improvements	667,217	-	667,217
Equipment	1,488,042	134,827	1,622,869
Less Accumulated Depreciation	<u>(5,441,560)</u>	<u>(131,059)</u>	<u>(5,572,619)</u>
Total Capital Assets, Net of Depreciation	<u>10,636,323</u>	<u>3,768</u>	<u>10,640,091</u>
Restricted Assets:			
Net Pension Asset	<u>690,434</u>	<u>16,940</u>	<u>707,374</u>
<b>TOTAL ASSETS</b>	<u>19,225,829</u>	<u>37,898</u>	<u>19,263,727</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Related Deferred Outflows of Resources	<u>1,322,873</u>	<u>32,456</u>	<u>1,355,329</u>
<b>LIABILITIES</b>			
Accounts Payable	13,137	-	13,137
Unearned Revenue	-	7,263	7,263
Other Current Liabilities	487,511	8,726	496,237
Long-term Liabilities:			
Due Within One Year	504,500	275	504,775
Due in More than One Year	<u>4,472,935</u>	<u>725</u>	<u>4,473,660</u>
<b>TOTAL LIABILITIES</b>	<u>5,478,083</u>	<u>16,989</u>	<u>5,495,072</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property Taxes Levied for Future Use	2,512,740	-	2,512,740
Pension Related Deferred Inflows of Resources	<u>1,018,748</u>	<u>24,995</u>	<u>1,043,743</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>3,531,488</u>	<u>24,995</u>	<u>3,556,483</u>

The accompanying notes are an integral part of this statement.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	5,727,785	3,768	5,731,553
Restricted for:			
Capital Outlay	1,119,184	-	1,119,184
Special Education	257,846	-	257,846
Retirement	21,688	-	21,688
Net Pension Asset	994,559	24,401	1,018,960
Unrestricted	<u>3,418,069</u>	<u>201</u>	<u>3,418,270</u>
<b>TOTAL NET POSITION</b>	<u>\$ 11,539,131</u>	<u>\$ 28,370</u>	<u>\$ 11,567,501</u>

The accompanying notes are an integral part of this statement.

**Hill City School District No. 51-2  
Statement of Activities  
For the Year Ended June 30, 2016**

Functions/Programs	Expenses	Charges for Services
<b>GOVERNMENTAL ACTIVITIES</b>		
Instruction	\$ 3,413,730	\$ -
Support Services	2,101,008	-
Community Services	3,638	-
Cocurricular Activities	325,056	20,789
Interest on Long-term Debt *	216,606	-
Total Governmental Activities	<u>6,060,038</u>	<u>20,789</u>
<b>BUSINESS-TYPE ACTIVITIES</b>		
Food Service	<u>225,034</u>	<u>93,251</u>
Total Primary Government	<u>\$ 6,285,072</u>	<u>\$ 114,040</u>

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

The accompanying notes are an integral part of this statement.

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Primary Government		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
\$ 380,279	\$ -	\$ (3,033,451)	\$ -	\$ (3,033,451)
27,978	-	(2,073,030)	-	(2,073,030)
-	-	(3,638)	-	(3,638)
3,599	-	(300,668)	-	(300,668)
-	-	(216,606)	-	(216,606)
<u>411,856</u>	<u>-</u>	<u>(5,627,393)</u>	<u>-</u>	<u>(5,627,393)</u>
120,472	-	-	(11,311)	(11,311)
<u>\$ 532,328</u>	<u>\$ -</u>	<u>(5,627,393)</u>	<u>(11,311)</u>	<u>(5,638,704)</u>
<b>GENERAL REVENUES</b>				
Taxes:				
Property Taxes		5,125,664	-	5,125,664
Gross Receipts Taxes		87,770	-	87,770
Revenue From State Sources:				
State Aid		35,156	-	35,156
Other		74,947	-	74,947
Revenue From Federal Sources		639,215	-	639,215
Revenue From Intermediate Sources		30,608	-	30,608
Unrestricted Investment Earnings		4,120	1	4,121
Revenue in Lieu of Taxes		1,584	-	1,584
Other General Revenues		64,673	-	64,673
Gain on Disposal of Capital Assets		<u>3,400</u>	<u>-</u>	<u>3,400</u>
Total General Revenues		<u>6,067,137</u>	<u>1</u>	<u>6,067,138</u>
<b>CHANGE IN NET POSITION</b>		439,744	(11,310)	428,434
<b>NET POSITION - BEGINNING</b>		<u>11,099,387</u>	<u>39,680</u>	<u>11,139,067</u>
<b>NET POSITION - ENDING</b>		<u>\$ 11,539,131</u>	<u>\$ 28,370</u>	<u>\$ 11,567,501</u>

The accompanying notes are an integral part of this statement.

**Hill City School District No. 51-2**  
**Balance Sheet - Governmental Funds**  
**June 30, 2016**

	<u>General Fund</u>	<u>Capital Outlay Fund</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 3,533,399	\$ 1,147,679
Permanent Incidental Account	2,000	-
Money Market Account	869	3,704
Taxes Receivable, Current	1,678,946	537,928
Taxes Receivable, Delinquent	110,069	28,564
Due From Other Governments	49,029	-
	<u>5,374,312</u>	<u>1,717,875</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 5,374,312</u></b>	<b><u>\$ 1,717,875</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>		
Liabilities		
Accounts Payable	\$ 7,916	\$ -
Contracts Payable	340,820	-
Payroll Deductions and Employer Matching Payable	95,810	-
	<u>444,546</u>	<u>-</u>
Total Liabilities	444,546	-
Deferred Inflows of Resources:		
Property Taxes Levied for Future Use	1,585,030	535,915
Delinquent Property Taxes Received Outside the Period of Availability	110,069	28,564
	<u>1,695,099</u>	<u>564,479</u>
Total Deferred Inflows of Resources	1,695,099	564,479
Fund Balances		
Restricted:		
For Capital Outlay	-	1,153,396
For Special Education	-	-
For Pension	-	-
Assigned:		
For Unemployment Claims	4,000	-
For Next Year's Budget	1,003,735	-
Unassigned:	2,226,932	-
	<u>3,234,667</u>	<u>1,153,396</u>
Total Fund Balances	3,234,667	1,153,396
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b><u>\$ 5,374,312</u></b>	<b><u>\$ 1,717,875</u></b>

The accompanying notes are an integral part of this statement.

Special Education Fund	Pension Fund	Total Governmental Funds
\$ 333,427	\$ 25,835	\$ 5,040,340
-	-	2,000
411	-	4,984
324,275	68,994	2,610,143
18,667	3,814	161,114
-	-	49,029
\$ 676,780	\$ 98,643	\$ 7,867,610
\$ 5,221	\$ -	\$ 13,137
40,611	-	381,431
10,270	-	106,080
56,102	-	500,648
323,047	68,748	2,512,740
18,667	3,814	161,114
341,714	72,562	2,673,854
-	-	1,153,396
278,964	-	278,964
-	26,081	26,081
-	-	4,000
-	-	1,003,735
-	-	2,226,932
278,964	26,081	4,693,108
\$ 676,780	\$ 98,643	\$ 7,867,610

The accompanying notes are an integral part of this statement.

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**Hill City School District No. 51-2  
Reconciliation of the Governmental Funds Balance  
Sheet to the Statement of Net Position  
June 30, 2016**

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Total Fund Balances - Governmental Funds	\$ 4,693,108
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	10,636,323
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
General Obligation Debt	(4,940,000)
Compensated Absences	(37,435)
Assets, including property taxes receivable and other receivables that are not available to pay for current period expenditures, are deferred in the governmental funds. Assets at year end consist of:	
Delinquent Property Taxes Receivable	161,114
Pension related balances reported in the governmental activities are not available financial resources and therefore are not reported in the funds.	
Net Pension Asset	690,434
Pension Related Deferred Outflows	1,322,873
Pension Related Deferred Inflows	(1,018,748)
Unamortized discounts are immediately recognized as expenditures and other financing sources in the governmental funds	31,462
Net Position - Governmental Activities	\$ 11,539,131

The accompanying notes are an integral part of this statement.

**Hill City School District No. 51-2**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balances - Governmental Funds**  
**For the Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Capital Outlay Fund</u>
<b>REVENUES</b>		
Revenue From Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 3,206,535	\$ 1,077,489
Gross Receipts Taxes	87,770	-
Penalties and Interest on Taxes	25,277	7,530
Cocurricular Activities	20,789	-
Earnings on Deposits	4,120	-
Other Local Revenue	63,115	-
Total Revenue From Local Sources	<u>3,407,606</u>	<u>1,085,019</u>
Revenue From Intermediate Sources:		
County Sources	30,608	-
Revenue in Lieu of Taxes	1,086	285
Total Revenue From Intermediate Sources	<u>31,694</u>	<u>285</u>
Revenue From State Sources:		
Unrestricted Grants-in-aid	110,103	-
Total Revenue From State Sources	<u>110,103</u>	<u>-</u>
Revenue From Federal Sources:		
Unrestricted Grants-in-aid	639,215	-
Restricted Grants-in-aid	211,337	-
Total Revenue From Federal Sources	<u>850,552</u>	<u>-</u>
<b>TOTAL REVENUES</b>	<u>4,399,955</u>	<u>1,085,304</u>

The accompanying notes are an integral part of this statement.

<u>Special Education Fund</u>	<u>Pension Fund</u>	<u>Total Governmental Funds</u>
\$ 666,421	\$ 138,613	\$ 5,089,058
-	-	87,770
4,682	975	38,464
-	-	20,789
-	-	4,120
<u>1,558</u>	<u>-</u>	<u>64,673</u>
<u>672,661</u>	<u>139,588</u>	<u>5,304,874</u>
-	-	30,608
<u>176</u>	<u>37</u>	<u>1,584</u>
<u>176</u>	<u>37</u>	<u>32,192</u>
-	-	110,103
-	-	<u>110,103</u>
-	-	639,215
<u>108,260</u>	<u>-</u>	<u>319,597</u>
<u>108,260</u>	<u>-</u>	<u>958,812</u>
<u>781,097</u>	<u>139,625</u>	<u>6,405,981</u>

The accompanying notes are an integral part of this statement.

**Hill City School District No. 51-2**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balances - Governmental Funds (Continued)**  
**For the Year Ended June 30, 2016**

	General Fund	Capital Outlay Fund
<b>EXPENDITURES</b>		
Instructional Services:		
Regular Programs	2,027,120	38,068
Special Programs	<u>267,448</u>	<u>6,643</u>
Total Instructional Services	<u>2,294,568</u>	<u>44,711</u>
Support Services:		
Pupils	124,595	-
Instructional Staff	95,862	64,153
General Administration	166,743	-
School Administration	298,487	-
Business	942,117	142,117
Central	420	-
Special Education	-	-
Total Support Services	<u>1,628,224</u>	<u>206,270</u>
Cocurricular Activities:		
Male Activities	86,651	3,094
Female Activities	63,390	1,730
Transportation	43,586	-
Combined Activities	<u>61,374</u>	<u>-</u>
Total Cocurricular Activities	<u>255,001</u>	<u>4,824</u>
Debt Services	-	<u>4,344,106</u>
Capital Outlay	<u>3,987</u>	<u>115,535</u>
<b>TOTAL EXPENDITURES</b>	<u>4,181,780</u>	<u>4,715,446</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>218,175</u>	<u>(3,630,142)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Discount on Debt Issue	-	(31,462)
General Long-term Debt Issued	-	3,715,000
Sale of Surplus Property	-	<u>3,455</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>3,686,993</u>
<b>NET CHANGE IN FUND BALANCES</b>	218,175	56,851
<b>FUND BALANCE - BEGINNING</b>	<u>3,016,492</u>	<u>1,096,545</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 3,234,667</u>	<u>\$ 1,153,396</u>

The accompanying notes are an integral part of this statement.

Special Education Fund	Pension Fund	Total Governmental Funds
-	91,792	2,156,980
<u>620,259</u>	-	<u>894,350</u>
<u>620,259</u>	<u>91,792</u>	<u>3,051,330</u>
172,790	5,815	303,200
-	840	160,855
-	6,355	173,098
-	13,944	312,431
-	19,000	1,103,234
-	-	420
5,152	-	5,152
<u>177,942</u>	<u>45,954</u>	<u>2,058,390</u>
-	3,177	92,922
-	2,408	67,528
-	-	43,586
<u>-</u>	<u>2,310</u>	<u>63,684</u>
<u>-</u>	<u>7,895</u>	<u>267,720</u>
<u>-</u>	<u>-</u>	<u>4,344,106</u>
<u>-</u>	<u>-</u>	<u>119,522</u>
<u>798,201</u>	<u>145,641</u>	<u>9,841,068</u>
<u>(17,104)</u>	<u>(6,016)</u>	<u>(3,435,087)</u>
-	-	(31,462)
-	-	3,715,000
<u>-</u>	<u>-</u>	<u>3,455</u>
<u>-</u>	<u>-</u>	<u>3,686,993</u>
(17,104)	(6,016)	251,906
<u>296,068</u>	<u>32,097</u>	<u>4,441,202</u>
<u>\$ 278,964</u>	<u>\$ 26,081</u>	<u>\$ 4,693,108</u>

The accompanying notes are an integral part of this statement.

**Hill City School District No. 51-2**  
**Reconciliation of the Governmental Funds Statement of Revenues,**  
**Expenditures and Changes in Fund Balances to the Statement of Activities**  
**For the Year Ended June 30, 2016**

Net Change in Fund Balances - Total Governmental Funds	\$	251,906
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital asset purchases in the current period.		(346,217)
The recognition of revenues in the governmental funds differ from the recognition in the governmental activities in the fact that revenue accruals in the fund financial statements require the amounts to be "available".		(1,857)
Governmental funds do not reflect the change in compensated absences but the Statement of Activities reflects the change in these accruals through expenses.		(309)
Repayment of general obligation debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		4,155,609
Issuance of general obligation debt is a revenue in the governmental funds, but increases long-term liabilities in the Statement of Net Position.		(3,715,000)
Unamortized discounts associated with general obligation debt are recorded as expenditures or other financing sources in the governmental funds. However, these items are amortized over the life of the debt in the governmental activities. This is the amount by which the deferrals exceed amortization of unamortized discounts for the current period.		3,353
Net pension revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		<u>92,259</u>
Change in Net Position of Governmental Activities	\$	<u><u>439,744</u></u>

The accompanying notes are an integral part of this statement.

**Hill City School District No. 51-2**  
**Statement of Net Position - Proprietary Funds**  
**June 30, 2016**

	Food Service Fund
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 4,436
Due From Other Governments	5,168
Inventory	7,586
Total Current Assets	17,190
Noncurrent Assets:	
Machinery and Equipment - Local Funds	134,827
Less: Accumulated Depreciation	(131,059)
Restricted Net Pension Asset	16,940
Total Noncurrent Assets	20,708
<b>TOTAL ASSETS</b>	<b>37,898</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension-related Deferred Outflows	32,456
<b>LIABILITIES</b>	
Current Liabilities:	
Contracts Payable	5,397
Unearned Revenue	7,263
Payroll Deductions and Withholdings and Employer Matching Payable	3,329
Current Portion of Noncurrent Liabilities	275
Total Current Liabilities	16,264
Noncurrent Liabilities:	
Accrued Leave Payable, Net of Current Portion	725
<b>TOTAL LIABILITIES</b>	<b>16,989</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension-related Deferred Inflows	24,995
<b>NET POSITION</b>	
Net Investment in Capital Assets	3,768
Restricted for Net Pension Asset	24,401
Unrestricted	201
<b>TOTAL NET POSITION</b>	<b>\$ 28,370</b>

The accompanying notes are an integral part of this statement.

**Hill City School District No. 51-2**  
**Statement of Revenues, Expenses and Changes in Fund**  
**Net Position - Proprietary Funds**  
**For the Year Ended June 30, 2016**

	Food Service Fund
<b>OPERATING REVENUE</b>	
Sales to Pupils	\$ 83,916
Sales to Adults	673
Other Sales	4,015
Proportionate Share of Pension Revenue	4,647
Total Operating Revenue	93,251
<b>OPERATING EXPENSES</b>	
Salaries	85,040
Employees Benefits	36,989
Purchased Services	9,332
Supplies	5,650
Cost of Sales - Purchased Food	70,986
Cost of Sales - Donated Food	13,515
Miscellaneous	2,580
Depreciation	942
Total Operating Expenses	225,034
<b>OPERATING LOSS</b>	<b>(131,783)</b>
<b>NONOPERATING REVENUE</b>	
Local Sources:	
Interest Earned	1
State Sources:	
Cash Reimbursements	1,339
Federal Sources:	
Cash Reimbursements	105,903
Donated Food	13,230
Total Nonoperating Revenue	120,473
<b>CHANGE IN NET POSITION</b>	<b>(11,310)</b>
<b>NET POSITION - BEGINNING (AS RESTATED)</b>	<b>39,680</b>
<b>NET POSITION - ENDING</b>	<b>\$ 28,370</b>

The accompanying notes are an integral part of this statement.

**Hill City School District No. 51-2**  
**Statement of Cash Flows - Proprietary Funds**  
**For the Year Ended June 30, 2016**

	Food Service Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$ 89,749
Payments to Suppliers	(90,177)
Payments to Employees	<u>(113,385)</u>
Net Cash Used by Operating Activities	<u>(113,813)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Operating Subsidies	<u>109,949</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest Earnings	<u>1</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(3,863)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>8,299</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 4,436</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (131,783)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	942
Cost of Sales - Donated Food	13,515
Net Pension Revenue	(4,692)
Change in Assets and Liabilities:	
Inventory	(1,496)
Unearned Revenue	1,145
Accounts Payable	(133)
Contracts Payable	5,397
Benefits Payable	3,329
Accrued Leave Payable	<u>(37)</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u>\$ (113,813)</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>	
Value of Commodities Received	<u>\$ 13,230</u>

The accompanying notes are an integral part of this statement.

**Hill City School District No. 51-2**  
**Statement of Fiduciary Net Position - Fiduciary Funds**  
**June 30, 2016**

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	<u>Private- Purpose Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 6,085	\$ 51,975
Savings Certificates	<u>13,196</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>19,281</u>	<u>\$ 51,975</u>
<b>LIABILITIES</b>		
Amounts Held for Others	<u>-</u>	<u>\$ 51,975</u>
<b>NET POSITION</b>		
Restricted for Scholarships:		
Non-expendable	5,000	
Expendable	<u>14,281</u>	
<b>TOTAL NET POSITION</b>	<u>\$ 19,281</u>	

The accompanying notes are an integral part of this statement.

**Hill City School District No. 51-2**  
**Statement of Changes in Fiduciary Net Position - Fiduciary Funds**  
**For the Year Ended June 30, 2016**

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	<u>Private- Purpose Trust Funds</u>
<b>ADDITIONS</b>	
Private Donations	\$ 4,121
Interest	<u>36</u>
	4,157
 <b>DEDUCTIONS</b>	
Scholarships Awarded	<u>2,500</u>
 <b>CHANGE IN NET POSITION</b>	 1,657
 <b>NET POSITION - BEGINNING</b>	 <u>17,624</u>
 <b>NET POSITION - ENDING</b>	 <u>\$ 19,281</u>

The accompanying notes are an integral part of this statement.

# Hill City School District No. 51-2

## Notes to the Financial Statements

### June 30, 2016

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

##### **A. REPORTING ENTITY**

The reporting entity of Hill City School District No. 51-2 (the District), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The District is a public education agency operating under the applicable laws and regulations of the State of South Dakota. It is governed by a seven member Board of Trustees (the Board) elected by registered voters of the District. The Board has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has accountability for fiscal matters. There are no component units included within the reporting entity.

The District participates in a cooperative service unit with several other school districts. See Note 9 - Joint Venture 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 the notes because of the nature of their relationship with the District.

##### **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the overall government, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities.

These statements distinguish between the governmental and business-type activities of the District. Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange transactions. 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 and deferred outflows of resources minus liabilities and deferred inflows of resources equal net position). Net position is displayed in three components, as applicable: net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

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

Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Hill City School District No. 51-2**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Fund Financial Statements*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. Major individual governmental and proprietary funds are reported in separate columns.

**C. FUND TYPES AND MAJOR FUNDS**

An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is a primary operating fund of the District or if it meets the following criteria:

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

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

**Governmental Funds:**

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

*Special Revenue Fund Types* - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The District's special revenue funds are as follows:

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

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

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

**Hill City School District No. 51-2**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Proprietary Funds:

*Enterprise Fund Types* - Enterprise funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises, where the focus of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis whether financed or recovered through user charges or grants; or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District's only enterprise fund is as follows:

*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.

Fiduciary Funds:

Fiduciary funds are never considered to be major funds.

*Private-Purpose Trust Fund Types* - Private-purpose trust funds are used to account for all trust arrangements under which principal and income benefits individuals, private organizations, or other governments. The District maintains several Scholarship Funds. The purpose of these funds is to provide scholarships to qualifying students.

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

**D. 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.

**Hill City School District No. 51-2**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Basis of Accounting

*Government-wide Financial Statements:*

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

*Fund Financial Statements:*

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or will be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The District considers significant revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end.

Receivables, such as taxes receivable, may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred inflows of resources are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

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

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

**E. INTERFUND ELIMINATIONS AND RECLASSIFICATIONS**

In the process of aggregating data for the government-wide financial statements the District has charged certain "centralized expenses", including an administrative overhead component, as direct expenses to programs in order to show all expenses that are associated with a service, program or department. This process minimizes the doubling-up effect on internal service fund activity.

**F. CASH AND CASH EQUIVALENTS**

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

**G. INVENTORY**

Inventory is valued at the lower of cost or market. The cost valuation method is first-in, first-out for enterprise fund inventories and average cost for governmental fund inventories.

Donated commodities are valued at estimated market value based on the USDA price list at the date of receipt.

**Hill City School District No. 51-2**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Inventory in the governmental funds and governmental activities consist of expendable supplies held for consumption. In the government-wide financial statements and governmental funds, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed. Inventories reported in the fund financial statements 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. Nonspendable fund balances related to inventory are reported net of the related liability (accounts payable).

**H. CAPITAL ASSETS**

Capital assets include land, buildings, improvements, 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 of 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. Interest costs incurred during construction of capital assets are not capitalized.

Capitalization thresholds (the dollar value above which individual asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the government-wide financial statements and proprietary funds are as follows:

	Capitalization Threshold	Estimated Useful Life
Land	\$ All	-----
Buildings	50,000	50 yrs
Improvements	25,000	10-20 yrs
Machinery and Equipment	5,000	5-30 yrs

Depreciation expense is calculated using the straight-line and composite methods. Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities. 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 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 financial statements.

**I. 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.

**Hill City School District No. 51-2**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Government-wide Financial Statements:*

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide financial statements. Long-term liabilities consist of compensated absences, early retirement payable, capital outlay certificates payable, and capital leases.

*Compensated Absences Payable* - Compensated absences payable is the annual leave earned by employees. Vacation leave is earned by 12 month employees at varying rates depending on years of service. Sick leave is earned by the employees at the rate of one day for each month worked. Upon termination, employees are entitled to receive compensation for their accrued annual leave; employees are not entitled to compensation for sick leave balances. Accrued leave payable balances are reported in Note 5 as compensated absences. For employees normally paid out of the governmental funds, these amounts are charged as an expenditure at the time of termination or when the benefit becomes payable to the employee.

*Fund Financial Statements:*

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 as in the government-wide financial statements.

**J. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

The District reports decreases in net position that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary funds statements of net position. The only deferred outflow of resources reported is a deferred amount arising from the District's pension plan for qualified retirees as discussed in Note 9.

The District's governmental funds report a separate section for deferred inflows of resources. This section reflects a decrease in net position that applies to a future period or periods. Under the modified accrual basis of accounting, governmental fund revenues are not recognized until available (collected no later than 60 days after the end of the District's fiscal year). The District reports the following as deferred inflows of resources in the governmental funds: property taxes levied but not collected within the available period; property taxes collected within the available period that are intended to finance the next fiscal year; and capital credits that are owed to the District, but will be received at some point in the future. In the government-wide financial statements, the District reports deferred inflows of resources for property taxes levied for a future period and pension-related items. In the business-type activities, the District reports deferred inflows for pension-related items.

**K. UNEARNED REVENUE**

The food service fund reports meal tickets that have been purchased but not yet redeemed as unearned revenue.

The governmental funds report various grants received in advance of the eligibility criteria for revenue recognition as unearned revenue

**Hill City School District No. 51-2**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L. NET POSITION AND FUND BALANCE**

*Government-wide Financial Statements:*

It is the District's policy to first use restricted net position, prior to the use of unrestricted position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Net Position on the Statement of Net Position includes the following three components:

*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 capital outlay certificates or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted* - Consists of net position with constraints placed on its 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.

*Unrestricted* - Represents all other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Governmental fund equity is classed as fund balance, which is distinguished between the following classifications:

*Nonspendable* - Includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

*Restricted* - Constraints are placed on the use of resources by either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

*Assigned* - Amounts that are constrained by the District's intent to be used for specific purposes but are not considered restricted. Amounts can be assigned by committees of the School Board or management of the District.

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

The District uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents or contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use assigned and then unassigned amounts of unrestricted fund balance when expenditures are made. The District does not have a minimum fund balance policy.

Proprietary net position is classified the same as in the government-wide financial statements. Fiduciary net position (except for Agency Funds, which do not have net position) is reported as net position held in trust for other purposes.

**M. PROPRIETARY FUND REVENUE AND EXPENSE CLASSIFICATIONS**

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

**Hill City School District No. 51-2**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**N. PROGRAM REVENUES**

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

*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.

*Program Revenues - 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.

*Program Revenues - Capital Grants and Contributions* - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

The District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Statutes impose various restrictions on deposits and investments. These restrictions are summarized below:

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

The District's policy is to report deposits at cost plus interest and credit all income from investments to the fund making the investment with the exception of the general checking account whose interest income is credited to the General Fund.

*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. The investments held by the District at June 30, 2016 were:

<u>Investment</u>	<u>Fair Value</u>
SD FIT Money Market	\$ <u>4,984</u>

**Hill City School District No. 51-2**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

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

**Custodial Credit Risk - Deposits** - The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2016, the District's deposits in financial institutions were not exposed to credit risk as all deposits were fully collateralized by pledged securities.

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

**Concentration of Credit Risk** - The District places no limit on the amount that may be deposited with any one financial institution or invested with any one issuer.

**Interest Rate Risk** - The 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.

**NOTE 3 - DUE FROM OTHER GOVERNMENTS**

As of June 30, 2016, amounts due from other governments included in the financial statements consisted of the following:

S.D. Department of Education	\$ <u>54,197</u>
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**Hill City School District No. 51-2**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 4 - CHANGES IN CAPITAL ASSETS**

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

	<u>Balance</u> <u>June 30, 2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2016</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 388,891	\$ -	\$ -	\$ 388,891
Capital Assets Being Depreciated:				
Buildings	13,533,733	-	-	13,533,733
Improvements	633,205	34,012	-	667,217
Equipment	<u>1,420,649</u>	<u>85,510</u>	<u>18,117</u>	<u>1,488,042</u>
Total Capital Assets Being Depreciated:	<u>15,587,587</u>	<u>119,522</u>	<u>18,117</u>	<u>15,688,992</u>
Less Accumulated Depreciation for:				
Equipment	864,285	158,042	18,062	1,004,265
Buildings	3,730,946	271,776	-	4,002,722
Improvements	<u>398,709</u>	<u>35,864</u>	<u>-</u>	<u>434,573</u>
Subtotal	<u>4,993,940</u>	<u>465,682</u>	<u>18,062</u>	<u>5,441,560</u>
Net Capital Assets	<u>\$ 10,982,538</u>	<u>\$ (346,160)</u>	<u>\$ 55</u>	<u>\$ 10,636,323</u>
Business-type Activities:				
Equipment	\$ 134,827	\$ -	\$ -	\$ 134,827
Less Accumulated Depreciation	<u>130,117</u>	<u>942</u>	<u>-</u>	<u>131,059</u>
Net Capital Assets	<u>\$ 4,710</u>	<u>\$ (942)</u>	<u>\$ -</u>	<u>\$ 3,768</u>
Depreciation expense was charged to governmental functions as follows:				
Instruction				\$ 362,092
Support Services				42,616
Community Services				3,638
Cocurricular Activities				<u>57,336</u>
Total Depreciation Expense				<u>\$ 465,682</u>

**Hill City School District No. 51-2**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 5 - LONG-TERM LIABILITIES**

The following is a summary of changes in long-term liabilities:

	Balance June 30, 2015	Increase	Decrease	Balance June 30, 2016	Amounts Due Within 1 Year
Governmental Activities:					
General Obligation Debt					
Capital Outlay					
Certificates	\$ 5,315,000	\$ 3,715,000	\$ 4,090,000	\$ 4,940,000	\$ 495,000
Capital Leases	65,608	-	65,608	-	-
Subtotal	5,380,608	3,715,000	4,155,608	4,940,000	495,000
Other Liabilities:					
Compensated Absences	37,126	37,435	37,126	37,435	9,500
Total Long-term Liabilities	<u>\$ 5,417,734</u>	<u>\$ 3,752,435</u>	<u>\$ 4,192,734</u>	<u>\$ 4,977,435</u>	<u>\$ 504,500</u>
Business-type Activities:					
Compensated Absences	<u>\$ 1,262</u>	<u>\$ 1,000</u>	<u>\$ 1,262</u>	<u>\$ 1,000</u>	<u>\$ 275</u>

Capital outlay certificates and other general obligations at June 30, 2016 were comprised of the following:

2011 Capital Outlay Certificates, Bearing Interest at Fixed Rates Ranging from at 0.90% to 3.15%, Due 7/15/2024	\$ 225,000
2012 Capital Outlay Certificates, Bearing Interest at Fixed Rates Ranging from at .55% to 1.85%, Due 1/15/2020	1,000,000
2016 Capital Outlay Certificates, Bearing Interest at a Fixed Rates Ranging from .80% to 1.55%, Due 06/30/2024	<u>3,715,000</u>
	<u>\$ 4,940,000</u>

The annual debt service requirements to maturity for all long-term debt outstanding as of June 30, 2016, excluding compensated absences, are as follows:

Year Ending June 30,	General Obligation Debt		Totals
	Principal	Interest	
2017	\$ 495,000	\$ 46,227	\$ 541,227
2018	665,000	54,675	719,675
2019	685,000	47,695	732,695
2020	580,000	39,260	619,260
2021	545,000	30,863	575,863
2022-2024	<u>1,970,000</u>	<u>39,571</u>	<u>2,009,571</u>
Total Payments	<u>\$ 4,940,000</u>	<u>\$ 258,291</u>	<u>\$ 5,198,291</u>

**Hill City School District No. 51-2**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)**

Payments of all capital outlay certificates are made from the Capital Outlay fund. Compensated absence payments are made from the fund that the related payroll expenditures are charged.

**NOTE 6 - RESTRICTED NET POSITION**

The following table shows the components of restricted net position as presented on the Statement of Net Position:

Major Purposes	Restricted By	
Capital Outlay Purposes	State Law	\$ 1,119,184
Special Education Purposes	State Law	257,846
Retirement Purposes	State Law	21,688
Proportionate Share of Net Pension Asset	State Law	1,018,960
Total		\$ 2,417,678

Although unrestricted, the Business-type Activities' net position in the amount of \$201 is limited by Federal Regulations as the District's food services are primarily funded with federal grants.

**NOTE 7 - PROPERTY TAX**

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 District's taxes and remits them to the District.

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

The District is permitted by state statute to levy the following amounts of taxes per \$1,000 of taxable valuation of the property in the school district:

General Fund:	
Agricultural Property	1.569
Owner Occupied	4.078
Commercial	8.733
Capital Outlay Fund	2.339
Special Education Fund	1.410
Pension Fund	0.300

State statute allows the General Fund tax rates to be increased by special election of the voters.

# Hill City School District No. 51-2

## Notes to the Financial Statements

### June 30, 2016

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#### **NOTE 8 - PENSION PLAN**

##### Plan Information

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

##### Benefits Provided

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

The annual increase in the amount of the SDRS benefits payable on each July 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
  - 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
  - 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.

**Hill City School District No. 51-2**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 8 - PENSION PLAN (CONTINUED)**

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 District's share of contributions to the SDRS for the fiscal years ended June 30, 2016, 2015, and 2014 were \$184,593, 183,638, and \$184,556, respectively, and were equal to the required contributions each year.

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

At June 30, 2015, SDRS is 104.1% 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 District as of the measurement period ending June 30, 2015 and reported by the District as of June 30, 2016 are as follows:

Proportionate Share of Net Position Restricted for Pension Benefits	\$ 17,973,415
Less: Proportionate Share of Total Pension Liability	<u>17,266,041</u>
Proportionate Share of Net Pension Liability (Asset)	<u>\$ (707,374)</u>

At June 30, 2016, the District reported an asset of \$707,374 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015 and the total pension asset used to calculate the net pension asset was based on a projection of the District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the District's proportion was 0.1668% which is a decrease of 0.0102% from its proportion measured at June 30, 2014.

**Hill City School District No. 51-2**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 8 - PENSION PLAN (CONTINUED)**

For the year ended June 30, 2016, the District recognized net pension expense of \$87,686. At June 30, 2016, the 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	\$ 144,838	\$ -
Changes in Assumption	560,903	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	432,123	1,043,744
Changes in Proportion and Difference Between School District Contributions and Proportionate Share of Contributions	32,873	-
District Contributions Subsequent to the Measurement Date	<u>184,593</u>	<u>-</u>
Total	<u>\$ 1,355,330</u>	<u>\$ 1,043,744</u>

\$184,593 reported as deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension revenue as follows:

Year Ended June 30,	
2017	\$ 23,962
2018	23,962
2019	(99,730)
2020	113,053
2021	-
Thereafter	<u>-</u>
Total	<u>\$ 61,247</u>

Actuarial Assumptions

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

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

**Hill City School District No. 51-2**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 8 - PENSION PLAN (CONTINUED)**

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global Equity	61.0%	4.5%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.2%
Cash	<u>2.0%</u>	0.8%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension asset was 7.25% through 2017 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

**Hill City School District No. 51-2**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 8 - PENSION PLAN (CONTINUED)**

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

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

	1% Decrease	Current Discount Rate	1% Increase
School District's Proportionate Share of the Net Pension (Asset)/Liability	\$ 1,780,452	\$ (707,374)	\$ (2,735,982)

Pension Plan Fiduciary Net Position

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

**NOTE 9 - JOINT VENTURE**

The District participates in the Black Hills Special Services Cooperative (the Co-op), a cooperative service unit formed for the purpose of providing special education and other services to the member school districts. During the year ended June 30, 2016, the District paid \$11,201 for services provided by the Co-op.

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

Belle Fourche School District	8.33%
Custer School District	8.33%
Douglas School District	8.33%
Edgemont School District	8.33%
Haakon School District	8.33%
Hill City School District	8.33%
Hot Springs School District	8.33%
Lead/Deadwood School District	8.33%
Meade School District	8.33%
Oelrichs School District	8.33%
Rapid City School District	8.33%
Spearfish School District	8.33%

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

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

Separate financial statements may be obtained by writing to BHSSC, PO Box 218, Sturgis SD 57785.

At June 30, 2016, this joint venture had assets of \$9,674,989, deferred outflows of resources of \$5,609,538, liabilities of \$2,840,138, deferred inflows of resources of \$4,433,108, and net position of \$8,011,281.

**Hill City School District No. 51-2**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 10 - RISK MANAGEMENT**

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

Employee Health Insurance:

The District purchases health insurance for its employees from a commercial insurance carrier. The plan provides either a deductible of \$1,500 per person or \$4,500 per family, or a deductible of \$2,500 per person up to \$5,000 per family with the use of a health savings account. The District pays varying premiums based on the deductible selected. The coverage also includes a \$2,000,000 lifetime maximum payment per person.

Liability Insurance:

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

Workmen's Compensation:

The District purchases liability insurance for workmen's compensation from a commercial carrier. The 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 District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

The District has assigned funds in the General Fund in the amount of \$4,000 for the payment of future unemployment benefits.

During the year ended June 30, 2016, no claims were filed for unemployment benefits. At June 30, 2016, no claims were outstanding. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

**NOTE 11 - CONCENTRATIONS**

The District is dependent upon grant revenues, property taxes and operating revenues from the State of South Dakota for its primary existence.

**NOTE 12 - SUBSEQUENT EVENTS**

The District has considered subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

**Hill City School District No. 51-2**  
**Budgetary Comparison Schedule - General Fund - Budgetary Basis**  
**For the Year Ended June 30, 2016**

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	Budgeted Original	Budgeted Final
<b>REVENUES</b>		
Revenue From Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 3,186,747	\$ 3,186,747
Gross Receipts Taxes	87,000	87,000
Penalties and Interest on Taxes	-	-
Cocurricular Activities	17,600	17,600
Earnings on Deposits	3,100	3,100
Other Local Revenue	28,500	28,500
Total Revenue From Local Sources	3,322,947	3,322,947
Revenue From Intermediate Sources:		
County Sources	20,000	20,000
Revenue in Lieu of Taxes	500	500
Total Revenue From Intermediate Sources	20,500	20,500
Revenue From State Sources:		
Unrestricted Grants-in-aid	96,000	96,000
Total Revenue From State Sources	96,000	96,000
Revenue From Federal Sources:		
Unrestricted Grants-in-aid	100,000	100,000
Restricted Grants-in-aid	226,567	226,567
Total Revenue From Federal Sources	326,567	326,567
<b>TOTAL REVENUES</b>	<b>3,766,014</b>	<b>3,766,014</b>

See independent auditor's report and notes to required supplementary information.

<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
\$ 3,206,535	\$ 19,788
87,770	770
25,277	25,277
20,789	3,189
4,120	1,020
<u>63,115</u>	<u>34,615</u>
<u>3,407,606</u>	<u>84,659</u>
30,608	10,608
<u>1,086</u>	<u>586</u>
<u>31,694</u>	<u>11,194</u>
<u>110,103</u>	<u>14,103</u>
<u>110,103</u>	<u>14,103</u>
639,215	539,215
<u>211,337</u>	<u>(15,230)</u>
<u>850,552</u>	<u>523,985</u>
<u>4,399,955</u>	<u>633,941</u>

See independent auditor's report and notes to required supplementary information.

**Hill City School District No. 51-2**  
**Budgetary Comparison Schedule -General Fund -Budgetary Basis**  
**(Continued)**  
**For the Year Ended June 30, 2016**

	<u>Budgeted Original</u>	<u>Budgeted Final</u>
<b>EXPENDITURES</b>		
Instructional Services:		
Regular Programs	2,079,566	2,079,566
Special Programs	<u>255,170</u>	<u>255,170</u>
Total Instructional Services	<u>2,334,736</u>	<u>2,334,736</u>
Support Services:		
Pupils	119,395	124,690
Instructional Staff	114,939	115,897
General Administration	186,728	188,557
School Administration	298,745	298,986
Business	1,061,568	1,064,462
Central	<u>1,000</u>	<u>1,000</u>
Total Support Services	<u>1,782,375</u>	<u>1,793,592</u>
Cocurricular Activities:		
Male Activities	97,439	97,439
Female Activities	78,475	78,475
Transportation	51,006	51,006
Combined Activities	<u>73,320</u>	<u>73,320</u>
Total Cocurricular Activities	<u>300,240</u>	<u>300,240</u>
Contingencies	<u>75,000</u>	<u>61,770</u>
<b>TOTAL EXPENDITURES</b>	<u>4,492,351</u>	<u>4,490,338</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(726,337)	(724,324)
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers In	761,461	761,461
Transfers Out	<u>(624,067)</u>	<u>(624,067)</u>
Total Other Financing Sources (Uses)	<u>137,394</u>	<u>137,394</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(588,943)</u>	<u>(586,930)</u>
<b>FUND BALANCE - BEGINNING</b>	<u>3,016,492</u>	<u>3,016,492</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 2,427,549</u>	<u>\$ 2,429,562</u>

See independent auditor's report and notes to required supplementary information.

Actual (Budgetary Basis)	Variance Positive (Negative)
2,027,120	52,446
<u>267,448</u>	<u>(12,278)</u>
<u>2,294,568</u>	<u>40,168</u>
124,595	95
99,849	16,048
166,743	21,814
298,487	499
942,117	122,345
420	580
<u>1,632,211</u>	<u>161,381</u>
86,651	10,788
63,390	15,085
43,586	7,420
<u>61,374</u>	<u>11,946</u>
<u>255,001</u>	<u>45,239</u>
<u>-</u>	<u>61,770</u>
<u>4,181,780</u>	<u>308,558</u>
218,175	942,499
-	(761,461)
<u>-</u>	<u>624,067</u>
<u>-</u>	<u>(137,394)</u>
<u>218,175</u>	<u>805,105</u>
<u>3,016,492</u>	<u>-</u>
<u>\$ 3,234,667</u>	<u>\$ 805,105</u>

See independent auditor's report and notes to required supplementary information.

**Hill City School District No. 51-2**  
**Budgetary Comparison Schedule - Capital Outlay Fund -**  
**Budgetary Basis**  
**For the Year Ended June 30, 2016**

	<u>Budgeted Original</u>	<u>Budgeted Final</u>
<b>REVENUES</b>		
Revenue From Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 1,071,536	\$ 1,071,536
Penalties and Interest on Taxes	-	-
Total Revenue From Local Sources	<u>1,071,536</u>	<u>1,071,536</u>
Revenue From Intermediate Sources:		
Revenue in Lieu of Taxes	-	-
Total Revenue From Intermediate Sources	<u>-</u>	<u>-</u>
<b>TOTAL REVENUES</b>	<u>1,071,536</u>	<u>1,071,536</u>
<b>EXPENDITURES</b>		
Instructional Services:		
Regular Programs	62,500	62,500
Special Programs	10,000	10,000
Total Instructional Services	<u>72,500</u>	<u>72,500</u>
Support Services:		
Instructional Staff	70,137	70,137
Business	277,480	277,480
Total Support Services	<u>347,617</u>	<u>347,617</u>
Cocurricular Activities:		
Male Activities	7,500	7,500
Female Activities	7,500	7,500
Total Cocurricular Activities	<u>15,000</u>	<u>15,000</u>
Debt Services	<u>664,504</u>	<u>664,504</u>
<b>TOTAL EXPENDITURES</b>	<u>1,099,621</u>	<u>1,099,621</u>

See independent auditor's report and notes to required supplementary information.

<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
\$ 1,077,489	\$ 5,953
<u>7,530</u>	<u>7,530</u>
<u>1,085,019</u>	<u>13,483</u>
<u>285</u>	<u>285</u>
<u>285</u>	<u>285</u>
<u>1,085,304</u>	<u>13,768</u>
60,347	2,153
<u>6,643</u>	<u>3,357</u>
<u>66,990</u>	<u>5,510</u>
66,810	3,327
<u>232,716</u>	<u>44,764</u>
<u>299,526</u>	<u>48,091</u>
3,094	4,406
<u>1,730</u>	<u>5,770</u>
<u>4,824</u>	<u>10,176</u>
<u>4,344,106</u>	<u>(3,679,602)</u>
<u>4,715,446</u>	<u>(3,615,825)</u>

See independent auditor's report and notes to required supplementary information.

**Hill City School District No. 51-2  
 Budgetary Comparison Schedule - Capital Outlay Fund -  
 Budgetary Basis (Continued)  
 For the Year Ended June 30, 2016**

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	<u>Budgeted Original</u>	<u>Budgeted Final</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(28,085)	(28,085)
<b>OTHER FINANCING SOURCES (USES)</b>		
Discount on Debt Issue	-	-
General Long-term Debt Issued	-	-
Sale of Surplus Property	-	-
Total Other Financing Sources (Uses)	-	-
<b>NET CHANGE IN FUND BALANCES</b>	(28,085)	(28,085)
<b>FUND BALANCE - BEGINNING</b>	1,096,545	1,096,545
<b>FUND BALANCE - ENDING</b>	\$ 1,068,460	\$ 1,068,460

See independent auditor's report and notes to required supplementary information.

<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
(3,630,142)	(3,602,057)
(31,462)	(31,462)
3,715,000	3,715,000
<u>3,455</u>	<u>3,455</u>
<u>3,686,993</u>	<u>3,686,993</u>
<u>56,851</u>	<u>84,936</u>
<u>1,096,545</u>	<u>-</u>
<u>\$ 1,153,396</u>	<u>\$ 84,936</u>

See independent auditor's report and notes to required supplementary information.

**Hill City School District No. 51-2**  
**Budgetary Comparison Schedule - Special Education Fund -**  
**Budgetary Basis**  
**For the Year Ended June 30, 2016**

	<u>Budgeted Original</u>	<u>Budgeted Final</u>
<b>REVENUES</b>		
Revenue From Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 666,703	\$ 666,703
Penalties and Interest on Taxes	-	-
Other Local Revenue	<u>2,000</u>	<u>2,000</u>
Total Revenue From Local Sources	<u>668,703</u>	<u>668,703</u>
Revenue From Intermediate Sources:		
Revenue in Lieu of Taxes	<u>-</u>	<u>-</u>
Total Revenue From Intermediate Sources	<u>-</u>	<u>-</u>
Revenue From Federal Sources:		
Restricted Grants-in-aid	<u>113,203</u>	<u>113,203</u>
Total Revenue From Federal Sources	<u>113,203</u>	<u>113,203</u>
<b>TOTAL REVENUES</b>	<u>781,906</u>	<u>781,906</u>
<b>EXPENDITURES</b>		
Instructional Services:		
Special Programs	<u>684,870</u>	<u>684,870</u>
Total Instructional Services	<u>684,870</u>	<u>684,870</u>
Support Services:		
Pupils	227,884	227,884
General Administration	500	500
Special Education	<u>6,000</u>	<u>6,000</u>
Total Support Services	<u>234,384</u>	<u>234,384</u>
<b>TOTAL EXPENDITURES</b>	<u>919,254</u>	<u>919,254</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(137,348)	(137,348)
<b>FUND BALANCE - BEGINNING</b>	<u>296,068</u>	<u>296,068</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 158,720</u>	<u>\$ 158,720</u>

See independent auditor's report and notes to required supplementary information.

Actual (Budgetary Basis)	Variance Positive (Negative)
\$ 666,421	\$ (282)
4,682	4,682
<u>1,558</u>	<u>(442)</u>
<u>672,661</u>	<u>3,958</u>
<u>176</u>	<u>176</u>
<u>176</u>	<u>176</u>
<u>108,260</u>	<u>(4,943)</u>
<u>108,260</u>	<u>(4,943)</u>
<u>781,097</u>	<u>(809)</u>
<u>620,259</u>	<u>64,611</u>
<u>620,259</u>	<u>64,611</u>
172,790	55,094
-	500
<u>5,152</u>	<u>848</u>
<u>177,942</u>	<u>56,442</u>
<u>798,201</u>	<u>121,053</u>
(17,104)	120,244
<u>296,068</u>	<u>-</u>
<u>\$ 278,964</u>	<u>\$ 120,244</u>

See independent auditor's report and notes to required supplementary information.

**Hill City School District No. 51-2**  
**Budgetary Comparison Schedule - Pension Fund - Budgetary Basis**  
**For the Year Ended June 30, 2016**

	<u>Budgeted Original</u>	<u>Budgeted Final</u>
<b>REVENUES</b>		
Revenue From Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 137,523	\$ 137,523
Penalties and Interest on Taxes	-	-
Total Revenue From Local Sources	<u>137,523</u>	<u>137,523</u>
Revenue From Intermediate Sources:		
Revenue in Lieu of Taxes	-	-
Total Revenue From Intermediate Sources	<u>-</u>	<u>-</u>
<b>TOTAL REVENUES</b>	<u>137,523</u>	<u>137,523</u>
<b>EXPENDITURES</b>		
Instructional Services:		
Regular Programs	93,504	93,504
Special Programs	2,840	2,840
Total Instructional Services	<u>96,344</u>	<u>96,344</u>
Support Services:		
Pupils	5,815	5,815
Instructional Staff	840	840
General Administration	6,356	6,356
School Administration	13,944	13,944
Business	19,110	19,110
Total Support Services	<u>46,065</u>	<u>46,065</u>
Cocurricular Activities:		
Male Activities	3,720	3,720
Female Activities	3,000	3,000
Combined Activities	2,580	2,580
Total Cocurricular Activities	<u>9,300</u>	<u>9,300</u>
<b>TOTAL EXPENDITURES</b>	<u>151,709</u>	<u>151,709</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(14,186)	(14,186)
<b>FUND BALANCE - BEGINNING</b>	<u>32,097</u>	<u>32,097</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 17,911</u>	<u>\$ 17,911</u>

See independent auditor's report and notes to required supplementary information.

<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
\$ 138,613	\$ 1,090
975	975
139,588	2,065
37	37
37	37
139,625	2,102
91,792	1,712
-	2,840
91,792	4,552
5,815	-
840	-
6,355	1
13,944	-
19,000	110
45,954	111
3,177	543
2,408	592
2,310	270
7,895	1,405
145,641	6,068
(6,016)	8,170
32,097	-
\$ 26,081	\$ 8,170

See independent auditor's report and notes to required supplementary information.

**Hill City School District No. 51-2**  
**Notes to Required Supplementary Information**  
**June 30, 2016**

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**NOTE 1 - BASIS OF PRESENTATION**

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

**NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING**

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

1. Prior to the first regular Board meeting in May of each year, the School Board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the School Board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 of each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, except Trust and Agency Funds.
6. After adoption by the School Board, the operating budget is legally binding 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 District budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets when monies 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. Generally accepted accounting principles prescribe that budgetary information be presented for the General Fund and major special revenue funds of the District.

See independent auditor's report.

**Hill City School District No. 51-2**  
**Schedule of Net Pension Asset**  
**For the Years Ended June 30, 2016 and 2015**

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	2016*	2015*
District's Proportion of the Net Pension Asset	0.16678290%	0.17695040%
District's Proportionate Share of Net Pension Asset	\$ 707,374	\$ 1,274,855
District's Covered-employee Payroll	3,076,550	3,060,634
District's Proportionate Share of the Net Position Asset as a Percentage of its Covered-employee Payroll	22.99%	41.65%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset	104%	107%

\*The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension asset which is June 30 of the previous fiscal year.

See independent auditor's report.

**Hill City School District No. 51-2  
Schedule of Pension Contributions  
For the Years Ended June 30, 2016 and 2015**

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	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 184,593	\$ 183,638
Contributions in Relation to the Contractually-required Contribution	<u>184,593</u>	<u>183,638</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
District's Covered-employee Payroll	<u>\$ 3,076,550</u>	<u>\$ 3,060,634</u>
Contributions as a Percentage of Covered-employee Payroll	6.0%	6.0%

See independent auditor's report.

SUPPLEMENTARY INFORMATION

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**Hill City School District No. 51-2  
School District Officials  
June 30, 2016**

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**BOARD MEMBERS**

Chairman - Owen Wiederhold

Vice Chairman - Mike Welu

Bill Bennett

Dennis Krull

Angela Ross

**SUPERINTENDENT**

Mike Hanson

**BUSINESS MANAGER**

Jane Edlund

See independent auditor's report.