

**HOT SPRINGS SCHOOL
DISTRICT NO. 23-2**

INDEPENDENT AUDITOR'S REPORTS,
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2017

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*

To the School Board
Hot Springs School District No. 23-2
Fall River 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 Hot Springs School District No. 23-2 as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Hot Springs School District No. 23-2's basic financial statements and have issued our report thereon dated May 2, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hot Springs School District No. 23-2'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 Hot Springs School District No. 23-2's internal control. Accordingly, we do not express an opinion on the effectiveness of Hot Springs School District No. 23-2'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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001 through 2017-003 to be material weaknesses.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hot Springs School District No. 23-2'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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2017-004.

Hot Springs School District No. 23-2's Response to Findings

Hot Springs School District No. 23-2's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Hot Springs School District No. 23-2's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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

May 2, 2018

Independent Auditor's Report on Compliance for
Each Major Program and on Internal Control Over
Compliance Required by the Uniform Guidance

To the School Board
Hot Springs School District No. 23-2
Fall River County, South Dakota

Report on Compliance for Each Major Program

We have audited Hot Springs School District No. 23-2's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of Hot Springs School District No. 23-2's major federal programs for the year ended June 30, 2017. Hot Springs School District No. 23-2's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hot Springs School District No. 23-2's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hot Springs School District No. 23-2's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination of Hot Springs School District No. 23-2's compliance.

Opinion on Each Major Federal Program

In our opinion, Hot Springs School District No. 23-2 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2017.



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2017-004. Our opinion on each major federal program is not modified with respect to this matter.

Hot Springs School District No. 23-2's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Hot Springs School District No. 23-2's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Hot Springs School District No. 23-2 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hot Springs School District No. 23-2's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hot Springs School District No. 23-2's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2017-004 and 2017-005 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2017-006 to be a significant deficiency.

Hot Springs School District No. 23-2's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Hot Springs School District No. 23-2's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Casey Peterson, LTD.

Casey Peterson, Ltd.

Rapid City, South Dakota

May 2, 2018

Hot Springs School District No. 23-2
Schedule of Findings and Questioned Costs
June 30, 2017

SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS

- a. The Independent Auditor's Report expressed unmodified opinions on the financial statements of Hot Springs School District No. 23-2.
- b. The Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* disclosed material weaknesses in internal control over financial reporting.
- c. An instance of noncompliance material to the financial statements of the District which is required to be reported in accordance with *Government Auditing Standards* was noted during the audit and is disclosed in this schedule.
- d. The Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance for the District expressed an unmodified opinion on all major programs.
- e. Material weaknesses and a significant deficiency in internal control related to the major federal programs were reported in the Independent Auditor's Report on Compliance with Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
- f. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this schedule.
- g. The federal award tested as major programs were:
 - Child Nutrition Cluster:
 - School Breakfast Program CFDA #10.553
 - National School Lunch Program CFDA #10.555
 - Summer Food Service Program for Children CFDA #10.559
 - Impact Aid CFDA #84.041
- h. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$750,000.
- i. Hot Springs School District No. 23-2 did not qualify as a low risk auditee.

FINDINGS - FINANCIAL STATEMENTS AUDIT

Material Weakness

Internal Control Over Financial Reporting

2017-001 *Condition:* The small size of the District limits the ability of the Business Office to prepare financial statements and Schedule of Expenditures of Federal Awards being audited as required under a properly designed system of internal controls. This finding was reported in 2016 and prior years.

Criteria: The District should have an internal control system designed to provide for drafting the financial statements and Schedule of Expenditures of Federal Awards being audited. In addition, the Uniform Guidance requires the auditee to prepare appropriate financial statements in accordance with Section 200.510.

Cause: This condition exists due to the small staff size within the finance function of the District. These issues are common in a district of this size.

Hot Springs School District No. 23-2
Schedule of Findings and Questioned Costs (Continued)
June 30, 2017

Effect: The District engages their auditor to draft the financial statements, Schedule of Expenditures of Federal Awards, and notes to the financial statements. The possibility of fraud or errors occurring and not being detected or corrected is present. Material adjustments were made to the Schedule of Expenditures of Federal Awards.

Auditor's Recommendation: 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, Schedule of Expenditures of Federal Awards, and related notes, because of cost or other considerations.

Management's Response: Management understands and accepts this finding, the Corrective Action Plan details management's course of action to address this control matter.

Material Weakness

Internal Control Over Financial Reporting

2017-002 *Condition:* There is a lack of segregation of duties and monitoring related to various accounting functions including journal entries and reconciliations. Material adjustments resulting from audit procedures were necessary in the areas of cash, inventory, property and equipment, accrued expenses, long-term debt, taxes receivable and related deferred inflows, revenues and expenses. This finding was reported in 2016.

Criteria: Duties should be properly segregated between staff to ensure custody of assets and accounting for assets are not performed by the same person. Reconciliations should be performed timely and they should be documented. In addition, due to the numerous errors identified in the accounting records, qualified personnel should review all reconciliations and journal entries and related supporting documents.

Cause: This condition exists due to small staff size within the finance function of the District. These issues are common in a district of this size.

Effect: The Business Manager performs closing entries and reconciliations with limited oversight. Numerous corrections to the accounting records were required. The possibility of fraud or errors occurring and not being detected or corrected is present.

Auditor's Recommendation: Management should assign responsibilities to staff to ensure accounting and custody of assets are segregated. We recommend that periodically during the year, the Business Manager review all account balances to ensure that all adjustments are properly posted and that balances agree to the necessary support. In addition, management should improve the process for oversight of reconciliations and journal entries to ensure those items are reviewed and approved by qualified personnel.

Management's Response: Management understands and accepts this finding, the Corrective Action Plan details management's course of action to address this control matter.

Material Weakness

Internal Control Over Financial Reporting

2017-003 *Condition:* There is a lack of oversight and monitoring of the District's finances. The Special Education Fund of the District is reporting a negative fund balance as of June 30, 2017. In addition, significant cost reductions need to be made in the General Fund for the District to remain financially viable. The District's legally adopted budget for the Special Education Fund did not have a means of finance for all expected expenditures. This finding was reported in 2016.

Hot Springs School District No. 23-2
Schedule of Findings and Questioned Costs (Continued)
June 30, 2017

Criteria: The District should be monitoring the budget and adjusting spending where appropriate if revenues are not being received as anticipated. In addition, the District should consider reducing expenditures in order to recover the deficit in some funds. South Dakota codified law 13-11-2 requires that budgets include a proper means of finance for all expected expenditures.

Cause: There is a lack of oversight and monitoring of the District's finances.

Effect: The Special Education Fund is reporting a negative fund balance as of June 30, 2017. In addition, the General Fund will report a negative fund balance in the future if changes in budgeting and spending are not made immediately.

Auditor's Recommendation: The District's administration should review FY 2018 and FY 2019 budgets and adjust expenditures accordingly in order to minimize negative fund balances. Management and the Board should also monitor budgets and cash positions throughout the year such that if revenues are not meeting anticipated levels, spending is reduced.

Management's Response: Management understands and accepts this finding, the Corrective Action Plan details management's course of action to address this control matter.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

U.S. DEPARTMENT OF EDUCATION & U.S. DEPARTMENT OF AGRICULTURE

ALL MAJOR PROGRAMS

Material Weakness and Noncompliance
Internal Control Over Compliance

2017-004 See Finding 2017-001 for a description of the condition, criteria, cause, effect, auditor's recommendation and management's response. This finding is considered to be a material weakness in internal control over compliance and noncompliance. This finding was reported in 2016 and years prior.

Material Weakness
Internal Control Over Compliance

2017-005 See Finding 2017-002 for a description of the condition, criteria, cause, effect, auditor's recommendation and management's response. This finding is considered to be a material weakness in internal control over compliance.

U.S. DEPARTMENT OF EDUCATION
IMPACT AID CFDA# 84.041

Significant Deficiency
Internal Control Over Compliance

2017-006 *Condition:* The District was not consistent in the reporting of eligible federally-impacted students for grant funding purposes.

Criteria: The District is required to determine all federally-impacted students for purposes of completing the annual Impact Aid grant application.

Cause: Documentation obtained from students did not agree with items reported on the grant application.

Hot Springs School District No. 23-2
Schedule of Findings and Questioned Costs (Continued)
June 30, 2017

Effect: The errors in the grant application were not significant and would not have resulted in a material impact on the amount of funding received.

Auditor's Recommendation: Management should obtain training in the preparation of this application. In addition, a review process should be implemented to verify that supporting documentation agrees with the application.

Management's Response: Management understands and accepts this finding, the Corrective Action Plan details management's course of action to address this control matter.

HOT SPRINGS SCHOOL DISTRICT 23-2

Kevin Coles, Superintendent
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1609 University Avenue, Hot Springs, SD 57747-2126

PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

FINDINGS - FINANCIAL STATEMENTS AUDIT

Material Weakness

Internal Controls Over Financial Reporting

2016-001 *Criteria:* The District should have an internal control system designed to provide for drafting the financial statements being audited. In addition, the Uniform Guidance requires the auditee to prepare appropriate financial statements in accordance with Section 200.510.

Condition: The small size of the District limits the ability of the business office to prepare financial statements being audited as required under a properly designed system of internal controls. This finding was reported in 2015 and years prior.

Auditor's Recommendation: 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 and related notes, because of cost or other considerations.

Current Status: This finding is reported as 2017-001 in the current year.

Material Weakness

Internal Controls Over Financial Reporting

2016-002 *Criteria:* Duties should be properly segregated between staff to ensure custody of assets and accounting for assets are not performed by the same person. In addition, due to the numerous errors identified in the accounting records, qualified personnel should review all reconciliations and journal entries. This finding was reported in 2016 and years prior.

Condition: There is a lack of segregation of duties and monitoring related to various accounting functions including journal entries and reconciliations. Material adjustments resulting from audit procedures were necessary.

Auditor's Recommendation: Management should assign responsibilities of staff to ensure accounting and custody of assets are segregated. In addition, management should improve the process for oversight of reconciliations and journal entries to ensure those items are reviewed by qualified personnel.

Current Status: This finding is reported as 2017-002 in the current year.

Material Weakness

Internal Controls Over Financial Reporting

2016-003 *Criteria:* The District's administration should be monitoring the budget and adjusting spending where appropriate if revenues are not being received as anticipated. In addition, the District should consider reducing expenditures in order to recover the deficit in some funds.

Condition: There is a lack of oversight and monitoring of the District's finances. Several funds of the District are reporting negative fund balances as of June 30, 2016.

WORK, LEARN, CELEBRATE, ACHIEVE

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PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

Auditor's Recommendation: Management should assign responsibilities of staff to ensure accounting and custody of assets are segregated. In addition, management should improve the process for oversight of reconciliations and journal entries to ensure those items are reviewed by qualified personnel.

Current Status: This finding is reported as 2017-003 in the current year.

Significant Deficiency

Internal Controls Over Financial Reporting

2016-004 *Criteria:* The District should pay all non-exempt personnel based on hours worked for the pay period immediately preceding the pay date.

Condition: The District pays all personnel (exempt and non-exempt) as if they were salaried throughout the year. Annually, management reviews actual hours worked for non-exempt personnel and pays out overtime earned or reduces the final paycheck to correspond with the hours worked throughout the year. During our audit procedures, it was noted that an employee was over paid by \$100.

Auditor's Recommendation: The District should pay all non-exempt personnel based on hours worked in the pay period immediately preceding the pay date. Overtime should be paid in real time to staff as it is earned.

Current Status: This finding was corrected during the year ended June 30, 2017.

FINDINGS - MAJOR FEDERAL AWARD PROGRAMS

US DEPARTMENT OF EDUCATION - ALL MAJOR PROGRAMS

Material Weakness and Noncompliance

Internal Controls Over Compliance

2016-005 See finding 2016-001 for a description of the condition, criteria, and auditor's recommendation. This finding is reported as finding 2017-004 in the current year.

Material Weakness and Noncompliance

Internal Controls Over Compliance

2016-006 See finding 2016-002 for a description of the condition, criteria, and auditor's recommendation. This finding is reported as finding 2017-005 in the current year.

US DEPARTMENT OF EDUCATION - ALL MAJOR PROGRAMS

Material Weakness and Noncompliance

Internal Controls Over Compliance

2015-003 This finding is reported as 2017-004 in the current year.

WORK, LEARN, CELEBRATE, ACHIEVE

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PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

Material Weakness and Noncompliance
Internal Controls Over Compliance

2015-004 This finding is reported as 2017-005 in the current year.

Material Weakness and Noncompliance
Internal Controls Over Compliance

2014-005 This finding was reported as 2017-004 in the current year.

2012-1 This finding was identical to that of Finding 2017-004 reported in the current year.

2011-1 This finding was identical to that of Finding 2017-004 reported in the current year.

2010-1 This finding was identical to that of Finding 2017-004 reported in the current year.

WORK, LEARN, CELEBRATE, ACHIEVE

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CORRECTIVE ACTION PLAN (UNAUDITED)

Hot Springs School District No. 23-2 respectfully submits the following Corrective Action Plan for the year ended June 30, 2017.

Name and address of independent public accounting firm:

Casey Peterson, Ltd.
909 St. Joseph St., Ste 101
Rapid City, SD 57701

The findings from the 2017 Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FINANCIAL STATEMENTS AUDIT

2017-001 *Condition:* The small size of the District limits the ability of the Business Office to prepare financial statements being audited as required under a properly designed system of internal controls. This finding was reported in 2016 and prior years.

Criteria: The District should have an internal control system designed to provide for drafting the financial statements being audited. In addition, the Uniform Guidance requires the auditee to prepare appropriate financial statements in accordance with Section 200.510.

Auditor's Recommendation: Management should obtain training in the preparation of this application. In addition, a review process should be implemented to verify that supporting documentation agrees with the application.

Management's Response: We concur with the recommendation and have implemented various suggestions to improve internal controls whenever cost effective. The District does accept the risk associated with the District's auditors drafting the financial statements.

Material Weakness

Internal Control Over Financial Reporting

2017-002 *Condition:* There is a lack of segregation of duties and monitoring related to various accounting functions including journal entries and reconciliations. Material adjustments resulting from audit procedures were necessary in the areas of cash, inventory, property and equipment, accrued expenses, long-term debt, taxes receivable and related deferred inflows, revenues and expenses. This finding was reported in 2016.

Criteria: Duties should be properly segregated between staff to ensure custody of assets and accounting for assets are not performed by the same person. Reconciliations should be performed timely and they should be documented. In addition, due to the numerous errors identified in the accounting records, qualified personnel should review all reconciliations and journal entries and related supporting documents.

WORK, LEARN, CELEBRATE, ACHIEVE

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CORRECTIVE ACTION PLAN (UNAUDITED) (CONTINUED)

Auditor's Recommendation: Management should assign responsibilities to staff to ensure accounting and custody of assets are segregated. We recommend that periodically during the year, the Business Manager review all account balances to ensure that all adjustments are properly posted and that balances agree to the necessary support. In addition, management should improve the process for oversight of reconciliations and journal entries to ensure those items are reviewed and approved by qualified personnel.

Management's Response: Personnel preparing the year-end accrual entries have been adequately trained and will seek outside accounting guidance if needed in reporting the year end accrual entries.

Material Weakness

Internal Control Over Financial Reporting

2017-003 *Condition:* There is a lack of oversight and monitoring of the District's finances. The Special Education Fund of the District is reporting a negative fund balance as of June 30, 2017. In addition, significant cost reductions need to be made in the General Fund for the District to remain financially viable. The District's legally adopted budget for the Special Education Fund did not have a means of finance for all expected expenditures. This finding was reported in 2016.

Criteria: The District should be monitoring the budget and adjusting spending where appropriate if revenues are not being received as anticipated. In addition, the District should consider reducing expenditures in order to recover the deficit in some funds. South Dakota codified law 13-11-2 requires that budgets include a proper means of finance for all expected expenditures.

Auditor's Recommendation: The District's administration should review FY 2018 and FY 2019 budgets and adjust expenditures accordingly in order to minimize negative fund balances. Management and the Board should also monitor budgets and cash positions throughout the year such that if revenues are not meeting anticipated levels, spending is reduced.

Management's Response: The District will re-evaluate the 2017 budgets immediately and monitor budgets for each fund on a monthly basis.

WORK, LEARN, CELEBRATE, ACHIEVE

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CORRECTIVE ACTION PLAN (UNAUDITED) (CONTINUED)

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

U.S. DEPARTMENT OF EDUCATION & U.S. DEPARTMENT OF AGRICULTURE

ALL MAJOR PROGRAMS

Material Weakness and Noncompliance
Internal Control Over Compliance

2017-004 See Finding 2017-001 for a description of the condition, criteria, auditor's recommendation and management's response. This finding is considered to be a material weakness in internal control over compliance and noncompliance. This finding was reported in 2016 and years prior.

Material Weakness
Internal Control Over Compliance

2017-005 See Finding 2017-002 for a description of the condition, criteria, auditor's recommendation and management's response. This finding is considered to be a material weakness in internal control over compliance.

U.S. DEPARTMENT OF EDUCATION

IMPACT AID CFDA# 84.041

Significant Deficiency
Internal Control Over Compliance

2017-006 *Condition:* The District was not consistent in the reporting of eligible federally-impacted students for grant funding purposes.

Criteria: The District is required to determine all federally-impacted students for purposes of completing the annual Impact Aid grant application.

Auditor's Recommendation: Management should obtain training in the preparation of this application. In addition, a review process should be implemented to verify that supporting documentation agrees with the application.

Management's Response: New personnel has been hired and is being trained. Training will continue throughout the upcoming year.

If there are questions regarding this plan, please call the Business Manager at 605-745-4145.

Deb Ollerich, Business Manager
Hot Springs School District No. 23-2
Fall River County, South Dakota

WORK, LEARN, CELEBRATE, ACHIEVE

Independent Auditor's Report

To the School Board
Hot Springs School District No. 23-2
Fall River 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 Hot Springs School District No. 23-2 (the District) as of and for the year ended June 30, 2017, 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 organization'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 organization'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 Hot Springs School District No. 23-2, as of June 30, 2017, 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 Liability (Asset), and Schedule of Pension Contributions on pages 21 - 29, 74 - 78, 80 and 81, respectively, 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 Hot Springs School District No. 23-2's basic financial statements. The list of District officials and Corrective Action Plan, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Corrective Action Plan and list of District officials have 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2018 on our consideration of the Hot Springs School District No. 23-2'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 and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hot Springs School District No. 23-2'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

May 2, 2018

Hot Springs School District No. 23-2 Management's Discussion and Analysis (Unaudited) For the Year Ended June 30, 2017

This section of Hot Springs School District No. 23-2's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2017. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

During the fiscal year ended June 30, 2017, the District's net position decreased by \$478,682. Key financial highlights are as follows:

- During the year, the District's revenues generated from taxes and other revenues of the governmental and business-type programs were \$478,682 less than the \$9,011,696 of governmental and business-type expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - Management's Discussion and Analysis (this section), the basic financial statements (government-wide and fund 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, 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.

**Hot Springs School District No. 23-2
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017**

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

Figure A-1

Major Features of Hot Springs 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	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
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Net Position *Statement of Revenues, Expenses and Changes in Net Position *Statement of Cash Flows	*Statement of 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	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, both financial and capital, and short-term and long-term, and deferred outflows and inflows 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, both financial and capital, and short-term and long-term, and deferred outflows and inflows 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.

Hot Springs School District No. 23-2 Management's Discussion and Analysis (Unaudited) For the Year Ended June 30, 2017

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 it has changed. Net position - the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Increases or decreases in the District's net position are indicators of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial 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, middle school, and high school educational programs, support services (guidance counselor, executive administration, board of education, fiscal services, pupil transportation, etc.), debt service payments, special education, extracurricular activities (sports, drama, music, etc.), and capital equipment purchases. Property taxes, state aid, state grants, federal grants, and interest earnings finance most of these activities.
- **Business-type Activities** - The District charges a fee to students and receives federal and state reimbursements to help cover the costs of providing hot lunch services and after school activities to all students.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's individual 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 be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.

Hot Springs School District No. 23-2 Management's Discussion and Analysis (Unaudited) For the Year Ended June 30, 2017

- 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 Fund is 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 and decreased as follows:

Table A-1
HOT SPRINGS SCHOOL DISTRICT 23-2
Statement of Net Position

	Governmental Activities		Business-Type Activities		Total		Total
	2017	2016	2017	2016	2017	2016	Percentage Change
Current and Other Assets	\$ 3,790,991	\$ 4,145,640	\$ 12,880	\$ 5,405	\$ 3,803,871	\$ 4,151,045	-8.36%
Capital Assets (Net of Depreciation)	7,199,446	7,357,159	22,792	21,567	7,222,238	7,378,726	-2.12%
Restricted Assets	1,052,939	1,930,587	-	5,028	1,052,939	1,935,615	-45.60%
Total Assets	12,043,376	13,433,386	35,672	32,000	12,079,048	13,465,386	-10.30%
Deferred Outflows of Resources	1,724,415	1,654,769	10,459	9,458	1,734,874	1,664,227	4.25%
Long-term Liabilities Outstanding	4,463,212	3,629,614	4,307	-	4,467,519	3,629,614	23.09%
Other Liabilities	651,829	958,588	9,498	17,180	661,327	975,768	-32.22%
Total Liabilities	5,115,041	4,588,202	13,805	17,180	5,128,846	4,605,382	11.37%
Deferred Inflows of Resources	1,875,349	3,252,762	124	7,497	1,875,473	3,260,259	99.35%
Net Investment in Capital Assets	4,167,755	4,097,468	22,792	21,567	4,190,547	4,119,035	1.74%
Restricted	2,046,812	2,273,703	6,028	6,989	2,052,840	2,280,692	-9.99%
Unrestricted	562,834	876,020	3,382	(11,775)	566,216	864,245	-34.48%
Total Net Position	6,777,401	7,247,191	32,202	16,781	6,809,603	7,263,972	-6.26%
Beginning Net Position, Restated	7,271,504	7,593,082	16,781	17,781	7,288,285	7,610,863	
Increase (Decrease) in							
Net Position	\$ (494,103)	\$ (345,891)	\$ 15,421	\$ (1,000)	\$ (478,682)	\$ (346,891)	
Percentage Change							
in Net Position	-6.80%	-4.56%	91.90%	-5.62%	-6.57%	-4.56%	

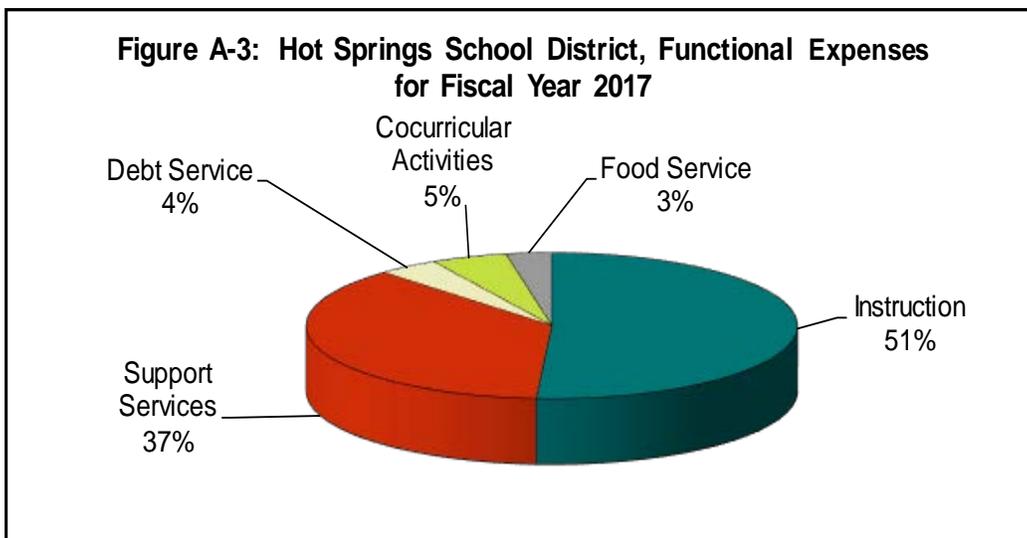
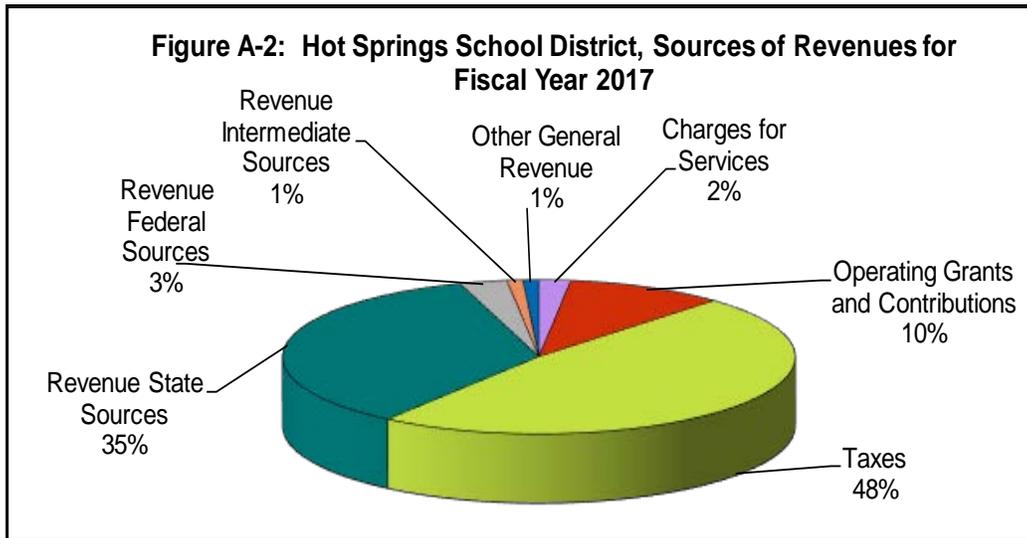
Hot Springs School District No. 23-2 Management's Discussion and Analysis (Unaudited) For the Year Ended June 30, 2017

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, and compensated absences payable have been reported in this manner on the Statement of Net Position. The difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources is its net position.

Changes in Net Position

In 2017, the District's revenues totaled \$8,533,014 (See Table A-2.) Almost 50% of the District's revenue came from property and other taxes, 35% came from state sources, consisting primarily of state aid, and approximately 13% came from federal grants (See Figure A-2).

The total cost of all programs and services increased by approximately 8.94%. The District's expenses cover a range of services encompassing instruction, support services, and food services. (See Figure A-3).



**Hot Springs School District No. 23-2
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017**

GOVERNMENTAL AND BUSINESS TYPE ACTIVITIES

Table A-2 and the narrative that follows consider the operations of the governmental and business type activities in fiscal years 2017 and 2016.

Table A-2
HOT SPRINGS SCHOOL DISTRICT 23-2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2017	2016	2017	2016	2017	2016	
Revenues							
Program Revenues							
Charges for Services	\$ 43,222	\$ 23,789	\$ 114,027	\$ 128,811	\$ 157,249	\$ 152,600	3.05%
Operating Grants and Contributions	684,105	804,541	189,019	209,010	873,124	1,013,551	-13.85%
General Revenues							
Taxes	4,070,653	3,999,776	-	-	4,070,653	3,999,776	1.77%
Revenue State Sources	2,985,148	2,466,771	-	-	2,985,148	2,466,771	21.01%
Revenue Federal Sources	262,820	139,986	-	-	262,820	139,986	87.75%
Revenue Intermediate Sources	105,373	90,437	-	-	105,373	90,437	16.52%
Unrestricted Investment Earnings	2,020	760	14	10	2,034	770	164.16%
Loss on Sale of Capital Assets	(7,843)	-	-	-	(7,843)	-	100.00%
Other General Revenue	84,456	85,979	-	-	84,456	85,979	-1.77%
Total Revenues	8,229,954	7,612,039	303,060	337,831	8,533,014	7,949,870	7.34%
Expenses							
Instruction	4,561,827	4,339,696	-	-	4,561,827	4,339,696	5.12%
Support Services	3,378,506	3,140,341	-	-	3,378,506	3,140,341	7.58%
Debt Service	317,330	7,946	-	-	317,330	7,946	3893.58%
Cocurricular Activities	459,515	428,804	-	-	459,515	428,804	7.16%
Community Services	1,380	1,830	-	-	1,380	1,830	-24.59%
Food Service	-	-	293,138	353,831	293,138	353,831	-17.15%
Total Expenses	8,718,558	7,918,617	293,138	353,831	9,011,696	8,272,448	8.94%
Excess Before Transfers	(488,604)	(306,578)	9,922	(16,000)	(478,682)	(322,578)	-48.39%
Transfers	(5,499)	(15,000)	5,499	15,000	-	-	0.00%
Increase (Decrease) in Net Position	(494,103)	(321,578)	15,421	(1,000)	(478,682)	(322,578)	-48.39%
Beginning Net Position	7,271,504	7,593,082	16,781	17,781	7,288,285	7,610,863	-4.24%
Ending Net Position	\$ 6,777,401	\$ 7,271,504	\$ 32,202	\$ 16,781	\$ 6,809,603	\$ 7,288,285	-6.57%

GOVERNMENTAL ACTIVITIES

Revenues for the governmental activities increased by about 8% over 2016 revenues. Expenditures for the governmental activities increased by over 10% primarily due to changes in staffing and program needs.

**Hot Springs School District No. 23-2
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017**

BUSINESS-TYPE ACTIVITIES

Revenues and expenses of the District's business-type activities decreased by 10% and 17%, respectively.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The General Fund had a decrease in fund balance of \$113,270 due to revenues not meeting budget expectations. The Capital Outlay Fund had an increase in fund balance. The Special Education Fund had a decrease in fund balance due to changes in staff and program needs. The Special Education Fund had a negative fund balance at June 30, 2017. The District also closed the Pension Fund in 2017 due to the tax levy no longer being available.

BUDGETARY HIGHLIGHTS

There were significant budget changes or budget variances for the year, other than certain supplemental appropriations approved for unanticipated, yet necessary, expenses to provide for items necessary for the education program of this district.

CAPITAL ASSET ADMINISTRATION

By the end of 2016, the District had invested \$7,222,238 (net of depreciation) in a broad range of capital assets, including, land, buildings, improvements other than buildings, and various machinery and equipment. (See Table A-3.) This amount represents a net decrease (including additions, deductions, and accumulated depreciation) of \$156,488 over last year. The capitalization threshold remains at \$5,000 for governmental activities and \$1,000 for business type activities.

Table A-3
HOT SPRINGS SCHOOL DISTRICT 23-2
Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total Dollar Change	Total Percentage Change
	2017	2016	2017	2016	2016-2017	2016-2017
Land	\$ 341,027	\$ 341,027	\$ -	\$ -	\$ -	0.00%
Buildings	6,290,403	6,454,174	-	-	(163,771)	-2.60%
Improvements Other Than Buildings	54,888	61,491	-	-	(6,603)	-12.03%
Machinery and Equipment	513,128	500,467	22,792	21,567	13,886	2.71%
Total Capital Assets (Net)	\$ 7,199,446	\$ 7,357,159	\$ 22,792	\$ 21,567	\$ (156,488)	-11.93%

**Hot Springs School District No. 23-2
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017**

LONG-TERM DEBT

At year-end, the District had \$3,753,176 in Capital Outlay Certificates and other long-term obligations. This is an increase of 4.36% as shown on Table A-4 below.

**Table A-4
HOT SPRINGS SCHOOL DISTRICT 23-2
Outstanding Debt and Obligations**

	Governmental Activities		Business-Type Activities		Total Dollar Change 2016-2017	Total Percentage Change 2016-2017
	2017	2016	2017	2016		
Capital Outlay Certificates	\$ 310,291	\$ 535,937	\$ -	\$ -	\$ (225,646)	-42.10%
Qualified Zone Academy Bonds	26,140	48,754	-	-	(22,614)	-46.38%
Qualified School Construction Bonds	2,750,000	2,750,000	-	-	-	0.00%
Lighting Project Bonds	635,499	233,845	-	-	401,654	171.76%
Compensated Absences	31,246	27,769	-	-	3,477	12.52%
Total Outstanding Debt and Obligations	<u>\$ 3,753,176</u>	<u>\$ 3,596,305</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 156,871</u>	4.36%

The District is liable for the accrued vacation leave payable to the superintendent, business manager, facilities and transportation director, maintenance and custodial staff. The accrual leave liability is reported as compensated absences in the above schedule and with the financial statements.

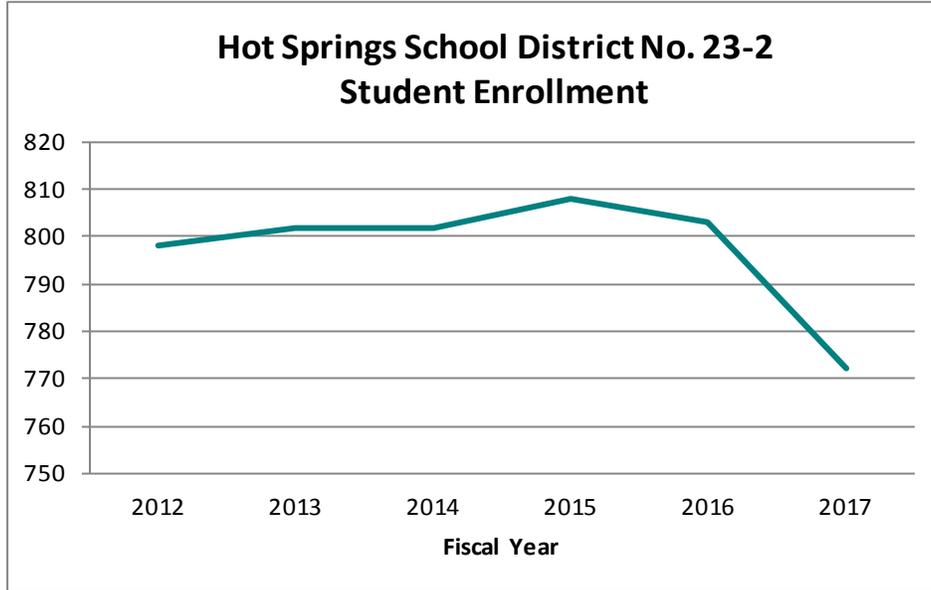
The District made debt service principal and interest payments on Capital Outlay Certificates in the amount of \$228,000 for principal and \$7,361 for interest. The QZAB loan was reduced by \$25,000 with a \$1,094 interest payment. The District made interest payments on the QSCB loan in the amount of \$144,375. The District also spent a portion of the proceeds of a non-interest-bearing loan from the state of South Dakota for lighting upgrades.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

One of the primary sources of revenue to the District is based on an allocation received from the State of South Dakota. The state aid formula from the State has been modified for FY 2017. The impact of the new formula on the stability of the District's revenues is not fully known. The average daily membership has remained stable. The Capital Outlay levy has also been modified to limit future growth in collections which may impair the District's ability to fund future projects.

**Hot Springs School District No. 23-2
Management’s Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017**

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



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 Hot Springs School District No. 23-2’s Business Office, 1609 University Avenue, Hot Springs, SD 57747.

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BASIC FINANCIAL STATEMENTS

Hot Springs School District No. 23-2
Statement of Net Position
June 30, 2017

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 1,593,314	\$ 4,689	\$ 1,598,003
Taxes Receivable	1,725,828	-	1,725,828
Accounts Receivable	-	398	398
Internal Balances	10,000	(10,000)	-
Due From Other Governments	456,239	4,971	461,210
Inventories	-	12,822	12,822
Prepaid Expenses	5,610	-	5,610
Restricted Assets:			
Investments Restricted for Debt Service	<u>1,052,939</u>	<u>-</u>	<u>1,052,939</u>
	<u>4,843,930</u>	<u>12,880</u>	<u>4,856,810</u>
Capital Assets:			
Land	341,027	-	341,027
Buildings	8,920,487	-	8,920,487
Improvements	288,887	-	288,887
Equipment	1,854,129	143,524	1,997,653
Less Accumulated Depreciation	<u>(4,205,084)</u>	<u>(120,732)</u>	<u>(4,325,816)</u>
Total Capital Assets, Net of Depreciation	<u>7,199,446</u>	<u>22,792</u>	<u>7,222,238</u>
TOTAL ASSETS	<u>12,043,376</u>	<u>35,672</u>	<u>12,079,048</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferred Outflows	<u>1,724,415</u>	<u>10,459</u>	<u>1,734,874</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,724,415</u>	<u>10,459</u>	<u>1,734,874</u>

The accompanying notes are an integral part of this statement.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
LIABILITIES			
Accrued Expenses	642,029	1,272	643,301
Unearned Revenue	9,800	8,226	18,026
Long-term Liabilities:			
Due Within One Year	255,481	-	255,481
Due in More than One Year	3,497,695	-	3,497,695
Net Pension Liability	<u>710,036</u>	<u>4,307</u>	<u>714,343</u>
TOTAL LIABILITIES	<u>5,115,041</u>	<u>13,805</u>	<u>5,128,846</u>
DEFERRED INFLOWS OF RESOURCES			
Property Taxes Levied for Future Periods	1,854,843	-	1,854,843
Pension Related Deferred Inflows	<u>20,506</u>	<u>124</u>	<u>20,630</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,875,349</u>	<u>124</u>	<u>1,875,473</u>
NET POSITION			
Net Investment in Capital Assets	4,167,755	22,792	4,190,547
Restricted for:			
Share of Net Pension Liability	993,873	6,028	999,901
Debt Service	1,052,939	-	1,052,939
Unrestricted	<u>562,834</u>	<u>3,382</u>	<u>566,216</u>
TOTAL NET POSITION	<u>\$ 6,777,401</u>	<u>\$ 32,202</u>	<u>\$ 6,809,603</u>

The accompanying notes are an integral part of this statement.

Hot Springs School District No. 23-2
Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Charges for Services
GOVERNMENTAL ACTIVITIES		
Instruction	\$ 4,561,827	\$ -
Support Services	3,378,506	20,228
Community Services	1,380	-
Cocurricular Activities	459,515	22,994
Interest on Long-term Debt *	317,330	-
Total Governmental Activities	<u>8,718,558</u>	<u>43,222</u>
BUSINESS-TYPE ACTIVITIES		
Food Service	<u>293,138</u>	<u>114,027</u>
Total Primary Government	<u>\$ 9,011,696</u>	<u>\$ 157,249</u>

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

The accompanying notes are an integral part of this statement.

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
		Governmental Activities	Business-type Activities	Total
\$ 569,231	\$ -	\$ (3,992,596)	\$ -	\$ (3,992,596)
114,874	-	(3,243,404)	-	(3,243,404)
-	-	(1,380)	-	(1,380)
-	-	(436,521)	-	(436,521)
-	-	(317,330)	-	(317,330)
<u>684,105</u>	<u>-</u>	<u>(7,991,231)</u>	<u>-</u>	<u>(7,991,231)</u>
<u>189,019</u>	<u>-</u>	<u>-</u>	<u>9,908</u>	<u>9,908</u>
<u>\$ 873,124</u>	<u>\$ -</u>	<u>-</u>	<u>9,908</u>	<u>(7,981,323)</u>
GENERAL REVENUES				
Taxes:				
Property Taxes		3,803,689	-	3,803,689
Gross Receipts Taxes		266,964	-	266,964
Revenue From State Sources:				
State Aid		2,974,959	-	2,974,959
Other		10,189	-	10,189
Revenue From Federal Sources		137,044	-	137,044
Revenue From Intermediate Sources		105,373	-	105,373
Unrestricted Investment Earnings		2,020	14	2,034
Revenue in Lieu of Taxes		31,512	-	31,512
Interest Rebate		125,776	-	125,776
Other General Revenues		52,944	-	52,944
Loss on Disposal of Capital Assets		(7,843)	-	(7,843)
Transfers		(5,499)	5,499	-
Total General Revenues and Transfers		<u>7,497,128</u>	<u>5,513</u>	<u>7,502,641</u>
CHANGE IN NET POSITION				
		(494,103)	15,421	(478,682)
NET POSITION - BEGINNING				
AS RESTATED				
		<u>7,271,504</u>	<u>16,781</u>	<u>7,288,285</u>
NET POSITION - ENDING				
		<u>\$ 6,777,401</u>	<u>\$ 32,202</u>	<u>\$ 6,809,603</u>

Hot Springs School District No. 23-2
Balance Sheet - Governmental Funds
June 30, 2017

	<u>General Fund</u>	<u>Capital Outlay Fund</u>
ASSETS		
Cash and Cash Equivalents	\$ 1,131,188	\$ 518,355
Taxes Receivable, Current	864,494	532,784
Taxes Receivable, Delinquent	35,923	15,780
Due From Other Funds	10,000	-
Due From Other Governments	403,227	3,672
Other Assets	5,610	-
Restricted Assets:		
Investments Restricted for Retirement of Debt	-	-
TOTAL ASSETS	<u><u>\$ 2,450,442</u></u>	<u><u>\$ 1,070,591</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
Liabilities:		
Cash Overdraft	\$ -	\$ -
Accounts Payable	9,054	-
Contracts Payable	450,836	-
Unearned Revenue	9,800	-
Payroll Deductions and Employer Matching Payable	97,091	-
Total Liabilities	<u>566,781</u>	<u>-</u>
Deferred Inflows of Resources:		
Property Taxes Levied for Future Periods	959,493	594,628
Delinquent Taxes Not Available	34,689	15,167
Unavailable Grant Revenue	28,298	-
Total Deferred Inflows of Resources	<u>1,022,480</u>	<u>609,795</u>
Fund Balances:		
Nonspendable		
Prepaid Expenses	5,610	-
Restricted:		
For Capital Outlay	-	460,796
For Debt Service	-	-
Assigned:		
For Next Year's Budget	107,710	-
Unassigned	747,861	-
Total Fund Balances	<u>861,181</u>	<u>460,796</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u><u>\$ 2,450,442</u></u>	<u><u>\$ 1,070,591</u></u>

The accompanying notes are an integral part of this statement.

Special Education Fund	Debt Service Fund 2	Total Governmental Funds
\$ -	\$ -	\$ 1,649,543
269,056	-	1,666,334
7,791	-	59,494
-	-	10,000
49,340	-	456,239
-	-	5,610
-	1,052,939	1,052,939
\$ 326,187	\$ 1,052,939	\$ 4,900,159
\$ 56,229	\$ -	\$ 56,229
5,607	-	14,661
68,719	-	519,555
-	-	9,800
10,722	-	107,813
141,277	-	708,058
300,722	-	1,854,843
7,495	-	57,351
4,361	-	32,659
312,578	-	1,944,853
-	-	5,610
-	-	460,796
-	1,052,939	1,052,939
-	-	107,710
(127,668)	-	620,193
(127,668)	1,052,939	2,247,248
\$ 326,187	\$ 1,052,939	\$ 4,900,159

The accompanying notes are an integral part of this statement.

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**Hot Springs School District No. 23-2
Reconciliation of the Governmental Funds Balance
Sheet to the Statement of Net Position
June 30, 2017**

Total Fund Balances - Governmental Funds	\$	2,247,248
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.		7,199,446
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		(3,750,499)
Compensated Absences		(31,246)
Assets, including property taxes receivable, grants receivable, and other receivables that are not available to pay for current period expenditures are deferred in the governmental funds.		90,010
Unamortized discounts on debt are immediately recognized as expenditures in the governmental funds		28,569
Pension related balances reported in the governmental activities are not available financial resources and therefore are not reported in the funds.		
Net Pension Liability		(710,036)
Pension Related Deferred Outflows		1,724,415
Pension Related Deferred Inflows		<u>(20,506)</u>
Net Position - Governmental Activities	\$	<u>6,777,401</u>

The accompanying notes are an integral part of this statement.

Hot Springs School District No. 23-2
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds
For the Year Ended June 30, 2017

	<u>General Fund</u>	<u>Capital Outlay Fund</u>
REVENUES		
Revenue From Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 1,998,970	\$ 1,164,470
Gross Receipts Taxes	266,964	-
Penalties and Interest on Taxes	8,429	4,132
Tax Deed	245	-
Cocurricular Activities	22,994	-
Earnings on Deposits	184	-
Other Local Revenue	30,898	42,477
Total Revenue From Local Sources	<u>2,328,684</u>	<u>1,211,079</u>
Revenue From Intermediate Sources:		
County Sources	105,373	-
Revenue in Lieu of Taxes	31,512	-
Total Revenue From Intermediate Sources	<u>136,885</u>	<u>-</u>
Revenue From State Sources:		
Grants-in-aid:		
Restricted Grants-in-aid	-	-
Unrestricted Grants-in-aid	2,565,006	-
Other State Revenue	10,189	-
Total Revenue From State Sources	<u>2,575,195</u>	<u>-</u>
Revenue From Federal Sources:		
Grants-in-aid:		
Unrestricted Grants-in-aid	137,044	-
Restricted Grants-in-aid	427,985	-
Other Federal Revenue	42,162	-
Total Revenue From Federal Sources	<u>607,191</u>	<u>-</u>
TOTAL REVENUE	<u>5,647,955</u>	<u>1,211,079</u>

The accompanying notes are an integral part of this statement.

Special Education Fund	Debt Service Fund 2	Total Non-major Funds	Total Governmental Funds
\$ 571,075	\$ -	\$ 49,767	\$ 3,784,282
-	-	-	266,964
1,992	-	344	14,897
-	-	56	301
-	-	-	22,994
-	1,114	722	2,020
2,306	-	-	75,681
<u>575,373</u>	<u>1,114</u>	<u>50,889</u>	<u>4,167,139</u>
-	-	-	105,373
-	-	-	31,512
-	-	-	<u>136,885</u>
409,953	-	-	409,953
-	-	-	2,565,006
-	-	-	10,189
<u>409,953</u>	<u>-</u>	<u>-</u>	<u>2,985,148</u>
-	-	-	137,044
178,799	-	-	606,784
-	-	-	42,162
<u>178,799</u>	<u>-</u>	<u>-</u>	<u>785,990</u>
<u>1,164,125</u>	<u>1,114</u>	<u>50,889</u>	<u>8,075,162</u>

The accompanying notes are an integral part of this statement.

Hot Springs School District No. 23-2
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds (Continued)
For the Year Ended June 30, 2017

	<u>General Fund</u>	<u>Capital Outlay Fund</u>
EXPENDITURES		
Instructional Services:		
Regular Programs	2,923,475	46,639
Special Programs	358,618	6,387
Post-Secondary Occupational Programs	2,000	-
Total Instructional Services	<u>3,284,093</u>	<u>53,026</u>
Support Services:		
Pupils	161,751	-
Instructional Staff	363,501	193,449
General Administration	215,316	690
School Administration	466,629	811
Business	923,276	648,268
Central	24,012	-
Special Education	-	-
Total Support Services	<u>2,154,485</u>	<u>843,218</u>
Community Services:		
Nonpublic School	<u>1,330</u>	<u>-</u>
Cocurricular Activities:		
Male Activities	109,211	8,290
Female Activities	89,738	7,164
Transportation	29,683	-
Combined Activities	131,218	9,176
Total Cocurricular Activities	<u>359,850</u>	<u>24,630</u>
Debt Service	<u>-</u>	<u>324,590</u>
Capital Outlay	<u>-</u>	<u>116,542</u>
TOTAL EXPENDITURES	<u>5,799,758</u>	<u>1,362,006</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(151,803)</u>	<u>(150,927)</u>

The accompanying notes are an integral part of this statement.

Special Education Fund	Debt Service Fund 2	Total Non-major Funds	Total Governmental Funds
-	-	-	2,970,114
906,974	-	-	1,271,979
-	-	-	2,000
<u>906,974</u>	<u>-</u>	<u>-</u>	<u>4,244,093</u>
133,197	-	-	294,948
6,025	-	-	562,975
-	-	-	216,006
-	-	-	467,440
-	-	-	1,571,544
-	-	-	24,012
142,485	-	-	142,485
<u>281,707</u>	<u>-</u>	<u>-</u>	<u>3,279,410</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,330</u>
-	-	-	117,501
-	-	-	96,902
-	-	-	29,683
-	-	-	140,394
<u>-</u>	<u>-</u>	<u>-</u>	<u>384,480</u>
<u>-</u>	<u>-</u>	<u>241,000</u>	<u>565,590</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>116,542</u>
<u>1,188,681</u>	<u>-</u>	<u>241,000</u>	<u>8,591,445</u>
<u>(24,556)</u>	<u>1,114</u>	<u>(190,111)</u>	<u>(516,283)</u>

The accompanying notes are an integral part of this statement.

Hot Springs School District No. 23-2
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds (Continued)
For the Year Ended June 30, 2017

	<u>General Fund</u>	<u>Capital Outlay Fund</u>
OTHER FINANCING SOURCES		
Debt Proceeds	-	401,654
Interest Rebate	-	125,776
Proceeds from Sale of Assets	-	1,286
Net Transfers In (Out)	<u>38,533</u>	<u>(241,093)</u>
TOTAL OTHER FINANCING SOURCES	<u>38,533</u>	<u>287,623</u>
NET CHANGE IN FUND BALANCES	(113,270)	136,696
FUND BALANCE - BEGINNING, AS RESTATED	<u>974,451</u>	<u>324,100</u>
FUND BALANCE - ENDING	<u>\$ 861,181</u>	<u>\$ 460,796</u>

The accompanying notes are an integral part of this statement.

<u>Special Education Fund</u>	<u>Debt Service Fund 2</u>	<u>Total Non-major Funds</u>	<u>Total Governmental Funds</u>
-	-	-	401,654
-	-	-	125,776
-	-	-	1,286
<u>-</u>	<u>161,765</u>	<u>40,795</u>	<u>-</u>
<u>-</u>	<u>161,765</u>	<u>40,795</u>	<u>528,716</u>
(24,556)	162,879	(149,316)	12,433
<u>(103,112)</u>	<u>890,060</u>	<u>149,316</u>	<u>2,234,815</u>
<u>\$ (127,668)</u>	<u>\$ 1,052,939</u>	<u>\$ -</u>	<u>\$ 2,247,248</u>

The accompanying notes are an integral part of this statement.

Hot Springs School District No. 23-2
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, 2017

Net Change in Fund Balances - Total Governmental Funds	\$	12,433
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 expense exceeded capital outlays in the current period.		(148,574)
Governmental funds only report proceeds from the sale of capital assets. However, the Statement of Activities reports gains and losses on capital assets. This is the amount in which retired capital assets book value exceeded accumulated depreciation.		(9,139)
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."		36,868
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.		253,000
Issuance of general obligation debt is a revenue in the governmental funds, but the issuance increases long-term liabilities in the Statement of Net Position.		(401,654)
Unamortized premiums and 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 amortization of unamortized premiums and unamortized discounts exceeded deferrals for the current period.		(4,740)
Pension expenses in the statement of activities do not require the use of current financial resources and are not reported as expenses in the		(228,820)
Governmental funds do not reflect the change in compensated absences, but the Statement of Activities reflects the change in these accruals through expenses.		<u>(3,477)</u>
Change in Net Position of Governmental Activities	\$	<u>(494,103)</u>

The accompanying notes are an integral part of this statement.

Hot Springs School District No. 23-2
Statement of Net Position - Proprietary Funds
June 30, 2017

	Food Service Fund
ASSETS	
Current Assets:	
Cash	\$ 4,689
Accounts Receivable, Net	398
Due From Other Governments	4,971
Inventory	12,822
Total Current Assets	22,880
Noncurrent Assets:	
Machinery and Equipment - Local Funds	143,524
Less Accumulated Depreciation	(120,732)
Total Noncurrent Assets	22,792
TOTAL ASSETS	45,672
DEFERRED OUTFLOWS OF RESOURCES	
Pension Related Deferred Outflows of Resources	10,459
LIABILITIES	
Current Liabilities:	
Due to General Fund	10,000
Contracts Payable	1,206
Payroll Deductions and Employer Matching Payable	66
Unearned Revenue	8,226
Total Current Liabilities	19,498
Noncurrent Liabilities:	
Net Pension Liability	4,307
TOTAL LIABILITIES	23,805
DEFERRED INFLOWS OF RESOURCES	
Pension Related Deferred Inflows of Resources	124
NET POSITION	
Net Investment in Capital Assets	22,792
Restricted for Net Pension Liability	6,028
Unrestricted	3,382
TOTAL NET POSITION	\$ 32,202

The accompanying notes are an integral part of this statement.

Hot Springs School District No. 23-2
Statement of Revenues, Expenses and Changes in Fund
Net Position - Proprietary Funds
For the Year Ended June 30, 2017

	Food Service Fund
OPERATING REVENUE	
Sales to Pupils	\$ 106,827
Sales to Adults	2,726
Other Sales	4,474
Total Operating Revenue	114,027
OPERATING EXPENSES	
Salaries	28,661
Employee Benefits	3,732
Purchased Services	240,904
Supplies	1,125
Cost of Sales - Donated Food	14,442
Depreciation	4,274
Total Operating Expenses	293,138
OPERATING LOSS	(179,111)
NONOPERATING REVENUE	
Local Sources:	
Earnings on Investments and Deposits	14
State Sources:	
Cash Reimbursements	1,264
Federal Sources:	
Cash Reimbursements	173,313
Donated Food	14,442
Total Nonoperating Revenue	189,033
TRANSFERS AND CAPITAL CONTRIBUTIONS	
Capital Contribution	5,499
CHANGE IN NET POSITION	15,421
NET POSITION - BEGINNING	16,781
NET POSITION - ENDING	\$ 32,202

The accompanying notes are an integral part of this statement.

Hot Springs School District No. 23-2
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2017

	Food Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts From Customers	\$ 114,634
Payments to Suppliers	(245,949)
Payments to Employees	(35,526)
	(166,841)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating Subsidies	176,629
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Equipment	(5,499)
Interest Earnings	14
	(5,485)
Net Cash Used by Operating Activities	(166,841)
NET INCREASE IN CASH AND CASH EQUIVALENTS	
	4,303
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	
	386
CASH AND CASH EQUIVALENTS AT END OF YEAR	
	\$ 4,689
RECONCILIATION OF OPERATING LOSS TO NET	
CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (179,111)
Adjustments to Reconcile Operating Loss to	
Net Cash Used by Operating Activities:	
Depreciation Expense	4,274
Cost of Sales - Donated Food	14,442
Change in Assets and Liabilities:	
Accounts Receivable	(14)
Inventory	289
Deferred Revenue	621
Accounts Payable	(4,209)
Contracts Payable	(3,602)
Benefits Payable	(492)
	(166,841)
NET CASH USED BY OPERATING ACTIVITIES	
	\$ (166,841)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Value of Commodities Received	\$ 14,442

The accompanying notes are an integral part of this statement.

Hot Springs School District No. 23-2
Statement of Fiduciary Net Position - Fiduciary Funds
June 30, 2017

	<u>Private- Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 3,652	<u>\$ 142,257</u>
Savings Certificates	<u>45,900</u>	
TOTAL ASSETS	<u>\$ 49,552</u>	
LIABILITIES		
Amounts Held for Others	<u>\$ -</u>	<u>\$ 142,257</u>
NET POSITION		
Restricted for Scholarships:		
Non-expendable	45,900	
Expendable	<u>3,652</u>	
TOTAL NET POSITION	<u>\$ 49,552</u>	

The accompanying notes are an integral part of this statement.

Hot Springs School District No. 23-2
Statement of Changes in Fiduciary Net Position - Fiduciary Funds
June 30, 2017

	<u>Private- Purpose Trust Funds</u>
ADDITIONS	
Interest Earnings	\$ 42
Private Donations	<u>629</u>
Total Additions	<u>671</u>
DEDUCTIONS	
Scholarships Awarded	<u>600</u>
CHANGE IN NET POSITION	71
NET POSITION - BEGINNING	<u>49,481</u>
NET POSITION - ENDING	<u><u>\$ 49,552</u></u>

The accompanying notes are an integral part of this statement.

Hot Springs School District No. 23-2
Notes to the Financial Statements
June 30, 2017

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 Hot Springs School District No. 23-2 (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 10 - Joint Venture for the specific disclosure. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit but are discussed in these notes because of the nature of their relationship with the District.

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.

Hot Springs School District No. 23-2
Notes to the Financial Statements
June 30, 2017

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, liabilities, 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 not a major fund. This fund was dissolved in the current year in accordance with state statute.

Debt Service Funds - Debt service funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs. The District has a debt service fund used to account for the accumulation of resources to meet debt sinking fund requirements related to the 2010B Capital Outlay Certificates. This fund was closed in the current year. This is not a major fund.

Hot Springs School District No. 23-2
Notes to the Financial Statements
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District has a second debt service fund used to account for the accumulation of resources to meet debt sinking fund requirements related to the 2012 Capital Outlay Certificates. This is a major fund.

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 other 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, etc.

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 types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary fund types.

Hot Springs School District No. 23-2
Notes to the Financial Statements
June 30, 2017

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 fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes and capital credits, 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. 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 fund and fiduciary fund types are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

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. The General, Capital Outlay, Special Education, Pension and Food Service Funds participate in the internal cash pool. All reported enterprise fund deposit balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

G. INVENTORY AND PREPAID EXPENSES

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.

Hot Springs School District No. 23-2
Notes to the Financial Statements
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory and prepaid expenses in the governmental funds and governmental activities consist of expendable supplies held for consumption. In the government-wide financial statements and governmental funds, inventory and prepaid expenses 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 a 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 and prepaid expenses 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	\$ 5,000	-----
Buildings	5,000	50 yrs
Improvements	5,000	20 yrs
Equipment (government-wide)	5,000	3-15 yrs
Equipment (proprietary funds)	1,000	3-15 yrs

Depreciation expense is calculated using the straight-line and composite methods. Depreciation of 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.

Hot Springs School District No. 23-2
Notes to the Financial Statements
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. LONG-TERM LIABILITIES

The accounting treatment of long-term liabilities depends on whether the related 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 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, capital outlay certificates payable, and bonds.

Compensated Absences Payable - Compensated absences payable is the annual leave earned by employees. Vacation leave is earned by twelve-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 7 as compensated absences. For employees normally paid out of the governmental funds, these amounts are charged as an expenditure at the time of termination.

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; capital credits that are owed to the District, but will be received at some point in the future; and grant revenues earned but not collected within the 60-day available period. In the government-wide financial statements, the District reports deferred inflows of resources for property taxes intended to finance the next fiscal year and pension-related amounts. The District reports deferred inflows of in the business-type activities financial statements and proprietary fund statements for pension-related amounts.

Hot Springs School District No. 23-2
Notes to the Financial Statements
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. 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 net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Net position reported 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 their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments or (b) law through constitutional provisions or enabling legislation.

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

Fund Financial Statements:

The District classifies government fund balances as follows:

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) external 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 neither restricted nor committed. The Board and management have the authority to assign fund balances.

Unassigned - Represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned.

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 committed, then assigned, and lastly 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.

L. PROPRIETARY FUND REVENUE AND EXPENSE CLASSIFICATIONS

In the Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds, 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.

Hot Springs School District No. 23-2
Notes to the Financial Statements
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. 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 as follows:

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 the District's funds to be invested in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires 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. As of June 30, 2017, the District had the following investments:

Investment	Maturities	Fair Value
SD FIT Money Market	Varies	\$ 1,052,939

Hot Springs School District No. 23-2
Notes to the Financial Statements
June 30, 2017

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, 2017, the District's deposits in financial institutions were not exposed to custodial credit risk.

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 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

Due from other governments consists of the following as of June 30, 2017:

SD Department of Education	\$	428,152
State of South Dakota		27,391
U.S. Government		5,667
		\$ 461,210

NOTE 4 - INDIVIDUAL FUND INTERFUND BALANCES AND TRANSACTIONS

Interfund transfers for the year ended June 30, 2017 were as follows:

Transfers From:	Transfers To:				Total
	Debt Service Fund 1	Debt Service Fund 2	General Fund	Food Service Fund	
Capital Outlay Fund	\$ 79,328	\$ 161,765	\$ -	\$ 5,499	\$ 246,592
Pension Fund	-	-	38,533	-	38,533
	\$ 79,328	\$ 161,765	\$ 38,533	\$ 5,499	\$ 285,125

During the year ended June 30, 2017, transfers were made from the Capital Outlay Fund to the Debt Service Funds to make the escrow payments related to the 2010A and 2010B Capital Outlay Certificates. The transfer from the Capital Outlay Fund to the Food Service Fund was for the purchase of equipment. The transfer from the Pension Fund to the General Fund was to close the fund per state statute.

Interfund borrowings were for cash flow needs of the recipient funds.

Hot Springs School District No. 23-2
Notes to the Financial Statements
June 30, 2017

NOTE 5 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2017 is as follows:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2017</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 341,027	\$ -	\$ -	\$ 341,027
Capital Assets Being Depreciated:				
Buildings	8,920,487	-	-	8,920,487
Improvements	283,603	5,284	-	288,887
Equipment	1,810,630	111,258	(67,759)	1,854,129
Total Capital Assets Being Depreciated	<u>11,014,720</u>	<u>116,542</u>	<u>(67,759)</u>	<u>11,063,503</u>
Less Accumulated Depreciation for:				
Buildings	2,466,313	163,771	-	2,630,084
Improvements	222,112	11,887	-	233,999
Equipment	1,310,163	89,458	(58,620)	1,341,001
Total Accumulated Depreciation	<u>3,998,588</u>	<u>265,116</u>	<u>(58,620)</u>	<u>4,205,084</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 7,016,132</u>	<u>\$ (148,574)</u>	<u>\$ (9,139)</u>	<u>\$ 6,858,419</u>
Business-type Activities:				
Equipment	\$ 138,025	\$ 5,499	\$ -	\$ 143,524
Less Accumulated Depreciation	<u>116,458</u>	<u>4,274</u>	<u>-</u>	<u>120,732</u>
Business-type Capital Assets, Net	<u>\$ 21,567</u>	<u>\$ 1,225</u>	<u>\$ -</u>	<u>\$ 22,792</u>
Depreciation expense was charged to governmental functions as follows:				
Instruction				\$ 157,564
Support Services				40,371
Cocurricular Activities				<u>67,181</u>
Total Depreciation Expense				<u>\$ 265,116</u>

Hot Springs School District No. 23-2
Notes to the Financial Statements
June 30, 2017

NOTE 6 - RESTRICTED NET POSITION

The following table shows a summary of restricted net position as shown on the Statement of Net Position:

<u>Major Purposes</u>	<u>Restricted By</u>	
Share of Net Pension Liability	State Law	\$ 999,901
Debt Service Purposes	Debt Covenants	<u>1,052,939</u>
Total Restricted Net Position		<u>\$ 2,052,840</u>

NOTE 7 - LONG-TERM LIABILITIES

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

	<u>Balance</u> <u>June 30, 2016</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Amounts Due</u> <u>Within 1 Year</u>
Governmental Activities:					
General Obligation Debt					
Capital Outlay					
Certificates	\$ 543,000	\$ -	\$ (228,000)	\$ 315,000	\$ 155,000
Capital Outlay Certificates					
Discount	(7,063)	-	2,354	(4,709)	-
Qualified Zone Academy					
Bonds	75,000	-	(25,000)	50,000	25,000
Qualified Zone Academy					
Bonds Discount	(26,246)	-	2,386	(23,860)	-
Qualified School					
Construction Bonds	2,750,000	-	-	2,750,000	-
Lighting Project					
Bonds	<u>233,845</u>	<u>401,654</u>	<u>-</u>	<u>635,499</u>	<u>63,569</u>
Subtotal	3,568,536	401,654	(248,260)	3,721,930	243,569
Other Liabilities:					
Compensated Absences	<u>27,769</u>	<u>15,389</u>	<u>(11,912)</u>	<u>31,246</u>	<u>11,912</u>
Total Long-term Liabilities	<u>\$ 3,596,305</u>	<u>\$ 417,043</u>	<u>\$ (260,172)</u>	<u>\$ 3,753,176</u>	<u>\$ 255,481</u>

Hot Springs School District No. 23-2
Notes to the Financial Statements
June 30, 2017

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

Capital outlay certificates and other general obligations at June 30, 2017 were comprised of the following:

2012 Capital Outlay Certificates, Bearing Interest at Fixed Rates Ranging from 0.35% to 1.50%, Due 07/01/2019	\$ 315,000
Qualified Zone Academy Bonds, Bearing Interest Fixed at 1.75%, Due 08/14/2018	50,000
Qualified School Construction Bonds, Bearing Interest Fixed at 5.25%, Due in lump sum at 09/01/2027	2,750,000
Non-interest bearing note payable to the State of South Dakota for lighting upgrades payable in 10 annual installments	635,499
2010 Qualified Zone Academy Bonds Discount	(23,860)
2012 Capital Outlay Certificates Discount	<u>(4,709)</u>
	<u>\$ 3,721,930</u>

The annual debt service requirements to maturity for all long-term debt outstanding as of June 30, 2017, excluding compensated absences, are as follows:

Year Ending June 30,	<u>General Obligation Debt</u>		Totals
	<u>Principal</u>	<u>Interest</u>	
2018	\$ 243,569	\$ 149,369	\$ 392,938
2019	248,569	146,994	395,563
2020	63,569	144,375	207,944
2021	63,569	144,375	207,944
2022	63,569	144,375	207,944
2023-2027	<u>3,067,654</u>	<u>649,687</u>	<u>3,717,341</u>
	<u>\$ 3,750,499</u>	<u>\$ 1,379,175</u>	<u>\$ 5,129,674</u>

Payments of all capital outlay certificates and capital lease obligations are made from the Capital Outlay Fund with the exception of the Qualified School Construction Bonds and 2010B Capital Outlay Certificates, which are paid from the respective debt service funds. Compensated absence payments are made from the fund that the related payroll expenditures are charged.

Sinking fund provisions on the Qualified School Construction Bonds require semi-annual deposits of \$80,882 on or before March 1 and September 1 of each year through 2027, during which the fund will continue to earn interest until maturity of the debt on September 1, 2027. The current balance of the sinking fund is presented as restricted assets of the major debt service fund in the governmental funds balance sheet.

Hot Springs School District No. 23-2
Notes to the Financial Statements
June 30, 2017

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

Sinking fund provisions on the 2010B Capital Outlay Certificates required semi-annual deposits varying from \$37,000 to \$42,000 on or before May 1 and November 1 of each year through 2017. The sinking fund was used to repay the outstanding debt obligation in the current year.

NOTE 8 - 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 revenue in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period."

The District is permitted by state statute to levy taxes per \$1,000 of taxable valuation of the property in the District. State statute allows the General Fund tax rates to be increased by special election of the voters.

NOTE 9 - 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 survivor 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 South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.gov/publications.aspx> or by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

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

Hot Springs School District No. 23-2
Notes to the Financial Statements
June 30, 2017

NOTE 9 - PENSION PLAN (CONTINUED)

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.

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, 2017, 2016, and 2015 were \$263,748, \$241,272, and \$228,474, respectively, and 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, 2016, SDRS is 96.89% funded and accordingly has a net pension liability. The proportionate shares of the components of the net pension liability of South Dakota Retirement System, for the District as of the measurement period ending June 30, 2016 and reported by the District as of June 30, 2017 are as follows:

Proportionate Share of Pension Liability	\$ 22,947,708
Less: Proportionate Share of Net Pension Restricted for Pension Benefits	<u>22,233,365</u>
Proportionate Share of Net Pension Liability	<u>\$ 714,343</u>

At June 30, 2017, the District reported a liability of \$714,343 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability 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, 2016, the District's proportion was 0.2115% which is an increase of 0.0029% from its proportion measured as of June 30, 2015.

Hot Springs School District No. 23-2
Notes to the Financial Statements
June 30, 2017

NOTE 9 - PENSION PLAN (CONTINUED)

For the year ended June 30, 2017, the District recognized pension revenue of \$493,529. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 248,678	\$ -
Changes in Assumption	427,857	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	794,590	-
Changes in Proportion and Difference Between District Contributions and Proportionate Share of Contributions	-	20,630
District Contributions Subsequent to the Measurement Date	263,748	-
Total	\$ 1,734,873	\$ 20,630

An amount of \$263,748 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, 2018. 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,		
2018	\$	389,730
2019		232,892
2020		498,170
2021		329,703
2022		-
Thereafter		-
Total	\$	1,450,495

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2016 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

Hot Springs School District No. 23-2
Notes to the Financial Statements
June 30, 2017

NOTE 9 - 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, 2016 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	58.0%	4.5%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	<u>2.0%</u>	0.7%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability 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 liability.

Hot Springs School District No. 23-2
Notes to the Financial Statements
June 30, 2017

NOTE 9 - PENSION PLAN (CONTINUED)

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

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

	1% Decrease	Current Discount Rate	1% Increase
School District's Proportionate Share of the Net Pension Liability (Asset)	\$ 3,997,451	\$ 714,343	\$ (1,963,385)

Pension Plan Fiduciary Net Position

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

NOTE 10 - 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, 2017, the District paid \$30,330 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, 2017, this joint venture had assets of \$7,487,065, deferred outflows of \$5,617,630, liabilities of \$6,523,984, and net position of \$6,580,711.

Hot Springs School District No. 23-2
Notes to the Financial Statements
June 30, 2017

NOTE 11 - 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, 2017, 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 a deductible of \$1,500 per person up to \$4,000 per family with the use of a flex spending account or a deductible of \$4,000 per person up to \$8,000 per family with the use of a health savings plan. The District pays varying premiums based on the deductible selected and \$100 monthly to the employees' flex spending or health savings account. The coverage also includes a \$2,000,000 lifetime maximum payment per person.

Liability Insurance:

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

The agreement with the Associated School Boards of South Dakota Property Liability Fund provides that the above coverage will be provided with a \$2,000,000 limit on liability coverage, \$250,000,000 limit on property, \$50,000,000 limit on boiler and machinery, and \$350,000 for various criminal acts. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of deductibles. As of June 30, 2017 the District carried the following deductibles related to insurance coverage:

General Liability	\$ -0-
Boiler and Machinery	1,000
Errors and Omissions	10,000
Property	500
Automobile	-0-
Crime	1,000
Employee Benefits Liability	1,000

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 during the past three years.

Hot Springs School District No. 23-2
Notes to the Financial Statements
June 30, 2017

NOTE 11 - RISK MANAGEMENT (CONTINUED)

Workmen's Compensation:

The District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool (the Fund) which provides workers' compensation insurance coverage for participating members of the pool. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

The District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report and to cooperate with the Fund to resolve any worker's compensation claims. The District pays an annual premium to provide worker's compensation coverage for its employees under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The District may also be responsible for additional assessments in the event the Fund is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments.

Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. For the year ended June 30, 2017, the pool's retained risk was \$500,000 per occurrence, with additional coverage of \$1,000,000 per occurrence. There was no additional assessment charged to pool members for the year ended June 30, 2017.

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. Unemployment claims, if any, are intended to be paid from current year appropriations, normally from the General Fund.

Claims are billed by the state quarterly. During the year ended June 30, 2017, no claims had been filed and paid for unemployment benefits and none deemed to be of a material nature are anticipated in the next fiscal year.

NOTE 12 - CONCENTRATIONS

The District is dependent upon program revenues and operating revenues from the State of South Dakota for its primary existence.

NOTE 13 - DEFICIT FUND BALANCES

There is a deficit unassigned fund balance of \$127,668 in the Special Education Fund. Deficits are a result of spending exceeding revenues. The District is working on a plan to reduce expenditures in 2018 in order to improve fund balances.

Hot Springs School District No. 23-2
Notes to the Financial Statements
June 30, 2017

NOTE 14 - PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2017, the District corrected an error related to the recognition of utility tax revenues. The changes were necessary for state aid reporting purposes so as to reduce revenues that will be equalized through the state aid formula. The impact of the change on previously reported fund balance/net position was as follows:

	General Fund	Governmental Activities
Fund Balance/Net Position as of July 1, 2016	\$ 950,138	\$ 7,247,191
Restatement for Utility Taxes and Gross Receipts	24,313	24,313
Fund Balance/Net Position July 1, 2016, as Restated	\$ 974,451	\$ 7,271,504

NOTE 15 - SUBSEQUENT EVENTS

Subsequent to year-end, the District issued capital outlay certificates in the amount of \$515,000 to be used to fund the replacement of the boiler, which is expected to cost \$194,672, and the replacement of the Middle School roof, which had not yet been bid.

Management has evaluated 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

**Hot Springs School District No. 23-2
Budgetary Comparison Schedule -
General Fund - Budgetary Basis
For the Year Ended June 30, 2017**

	Budgeted Original	Budgeted Final	Actual (Budgetary Basis)	Variance Positive (Negative)
REVENUE				
Revenue From Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 2,136,470	\$ 2,136,470	\$ 1,998,970	\$ (137,500)
Gross Receipts Taxes	212,649	257,649	266,964	9,315
Tax Deed	500	500	245	(255)
Penalties and Interest on Taxes	10,000	10,000	8,429	(1,571)
Cocurricular Activities	25,500	23,000	22,994	(6)
Earnings on Deposits	500	500	184	(316)
Other Local Revenue	43,300	40,300	30,898	(9,402)
Total Revenue From Local Sources	<u>2,428,919</u>	<u>2,468,419</u>	<u>2,328,684</u>	<u>(139,735)</u>
Revenue From Intermediate Sources:				
County Sources	75,000	75,000	105,373	30,373
Revenue in Lieu of Taxes	9,500	9,500	31,512	22,012
Total Revenue From Intermediate Sources	<u>84,500</u>	<u>84,500</u>	<u>136,885</u>	<u>52,385</u>
Revenue From State Sources:				
Unrestricted Grants-in-Aid	2,666,804	2,666,804	2,565,006	(101,798)
Other State Revenue	20,500	20,500	10,189	(10,311)
Total Revenue From State Sources	<u>2,687,304</u>	<u>2,687,304</u>	<u>2,575,195</u>	<u>(112,109)</u>
Revenue From Federal Sources:				
Unrestricted Grants-in-Aid	54,000	54,000	137,044	83,044
Restricted Grants-in-Aid	400,300	593,238	427,985	(165,253)
Other Federal Revenue	125,000	-	42,162	42,162
Total Revenue From Federal Sources	<u>579,300</u>	<u>647,238</u>	<u>607,191</u>	<u>(40,047)</u>
TOTAL REVENUE	<u>5,780,023</u>	<u>5,887,461</u>	<u>5,647,955</u>	<u>(239,506)</u>

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

	Budgeted Original	Budgeted Final	Actual (Budgetary Basis)	Variance Positive (Negative)
EXPENDITURES				
Instructional Services:				
Regular Programs	2,908,220	2,945,552	2,923,475	22,077
Special Programs	282,393	401,289	358,618	42,671
Adult Continuing Education	2,000	2,000	2,000	-
Total Instructional Services	<u>3,192,613</u>	<u>3,348,841</u>	<u>3,284,093</u>	<u>64,748</u>
Support Services:				
Pupils	161,751	161,751	161,751	-
Instructional Staff	408,123	458,113	363,501	94,612
General Administration	244,768	247,148	215,316	31,832
School Administration	456,252	463,598	466,629	(3,031)
Business	979,205	986,084	923,276	62,808
Central	5,394	23,400	24,012	(612)
Total Support Services	<u>2,255,493</u>	<u>2,340,094</u>	<u>2,154,485</u>	<u>185,609</u>
Community Services				
Nonpublic School	<u>4,434</u>	<u>1,054</u>	<u>1,330</u>	<u>(276)</u>
Cocurricular Activities:				
Male Activities	105,759	105,760	109,211	(3,451)
Female Activities	86,035	86,034	89,738	(3,704)
Activity Transportation	26,798	30,208	29,683	525
Combined Activities	<u>142,353</u>	<u>1,422,357</u>	<u>131,218</u>	<u>1,291,139</u>
Total Cocurricular Activities	<u>360,945</u>	<u>1,644,359</u>	<u>359,850</u>	<u>1,284,509</u>
NonProgrammed Charges	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contingencies	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>5,865,485</u>	<u>7,334,348</u>	<u>5,799,758</u>	<u>1,534,590</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(85,462)	(1,446,887)	(151,803)	1,295,084
OTHER FINANCING SOURCES				
Sale of General Fixed Assets	-	1,000	-	(1,000)
Transfers	<u>54,000</u>	<u>54,000</u>	<u>38,533</u>	<u>(15,467)</u>
NET CHANGE IN FUND BALANCES	(31,462)	(1,391,887)	(113,270)	1,278,617
FUND BALANCE - BEGINNING, AS RESTATED	<u>974,451</u>	<u>974,451</u>	<u>974,451</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 942,989</u>	<u>\$ (417,436)</u>	<u>\$ 861,181</u>	<u>\$ 1,278,617</u>

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

**Hot Springs School District No. 23-2
Budgetary Comparison Schedule -
Capital Outlay Fund - Budgetary Basis
For the Year Ended June 30, 2016**

	Budgeted Original	Budgeted Final	Actual (Budgetary Basis)	Variance Positive (Negative)
REVENUES				
Revenue From Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 1,213,990	\$ 1,213,990	\$ 1,164,470	\$ (49,520)
Penalties and Interest on Taxes	5,000	5,000	4,132	(868)
Tax Deed	250	250	-	(250)
Other Local Revenue	12,000	12,000	42,477	30,477
Total Revenue From Local Sources	<u>1,231,240</u>	<u>1,231,240</u>	<u>1,211,079</u>	<u>(20,161)</u>
Other Federal Revenue	128,164	130,164	-	(130,164)
TOTAL REVENUE	<u>1,359,404</u>	<u>1,361,404</u>	<u>1,211,079</u>	<u>(150,325)</u>
EXPENDITURES				
Instructional Services:				
Regular Programs	53,000	53,000	46,639	6,361
Special Programs	13,000	13,000	6,387	6,613
Total Instructional Services	<u>66,000</u>	<u>66,000</u>	<u>53,026</u>	<u>12,974</u>
Support Services:				
Instructional Staff	291,300	291,300	198,798	92,502
General Administration	2,000	2,000	690	1,310
School Administration	4,500	4,500	811	3,689
Business	677,777	619,511	759,461	(139,950)
Total Support Services	<u>975,577</u>	<u>917,311</u>	<u>959,760</u>	<u>(42,449)</u>
Cocurricular Activities:				
Male Activities	12,000	12,000	8,290	3,710
Female Activities	7,200	7,200	7,164	36
Combined Activities	30,373	11,173	9,176	1,997
Total Cocurricular Activities	<u>49,573</u>	<u>30,373</u>	<u>24,630</u>	<u>5,743</u>
Debt Services	452,465	452,465	324,590	127,875
TOTAL EXPENDITURES	<u>1,543,615</u>	<u>1,466,149</u>	<u>1,362,006</u>	<u>104,143</u>

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

	Budgeted Original	Budgeted Final	Actual (Budgetary Basis)	Variance Positive (Negative)
EXCESS OF REVENUE				
UNDER EXPENDITURES	(184,211)	(104,745)	(150,927)	(46,182)
OTHER FINANCING SOURCES				
Proceeds of Long-term debt	-	-	401,654	401,654
Interest Rebate	-	-	125,776	125,776
Proceeds from Sale of Assets	-	-	1,286	1,286
Transfers	<u>187,514</u>	<u>187,514</u>	<u>(241,093)</u>	<u>(428,607)</u>
TOTAL OTHER FINANCING SOURCES	<u>187,514</u>	<u>187,514</u>	<u>287,623</u>	<u>100,109</u>
NET CHANGE IN FUND BALANCES	3,303	82,769	136,696	53,927
FUND BALANCE - BEGINNING	<u>324,100</u>	<u>324,100</u>	<u>324,100</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 327,403</u>	<u>\$ 406,869</u>	<u>\$ 460,796</u>	<u>\$ 53,927</u>

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

**Hot Springs School District No. 23-2
Budgetary Comparison Schedule -
Special Education Fund - Budgetary Basis
For the Year Ended June 30, 2017**

	Budgeted Original	Budgeted Final	Actual (Budgetary Basis)	Variance Positive (Negative)
REVENUE				
Revenue From Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 540,892	\$ 540,892	\$ 571,075	\$ 30,183
Penalties and Interest on Taxes	10,000	10,000	1,992	(8,008)
Tax Deed	100	100	-	(100)
Other Local Revenue	10,000	10,000	2,306	(7,694)
Total Revenue From Local Sources	<u>560,992</u>	<u>560,992</u>	<u>575,373</u>	<u>14,381</u>
Revenue From State Sources:				
Restricted Grants-in-aid	481,800	481,800	409,953	(71,847)
Total Revenue From State Sources	<u>481,800</u>	<u>481,800</u>	<u>409,953</u>	<u>(71,847)</u>
Revenue From Federal Sources:				
Restricted Grants-in-aid	206,496	206,496	178,799	(27,697)
Total Revenue From Federal Sources	<u>206,496</u>	<u>206,496</u>	<u>178,799</u>	<u>(27,697)</u>
TOTAL REVENUE	<u>1,249,288</u>	<u>1,249,288</u>	<u>1,164,125</u>	<u>(85,163)</u>
EXPENDITURES				
Instructional Services:				
Special Programs	965,857	968,157	906,974	61,183
Support Services:				
Pupils	124,655	124,655	133,197	(8,542)
Instructional Staff	16,500	16,500	6,025	10,475
Special Education	146,741	149,241	142,485	6,756
Total Support Services	<u>287,896</u>	<u>290,396</u>	<u>281,707</u>	<u>8,689</u>
TOTAL EXPENDITURES	<u>1,253,753</u>	<u>1,258,553</u>	<u>1,188,681</u>	<u>69,872</u>
NET CHANGE IN FUND BALANCES	(4,465)	(9,265)	(24,556)	(15,291)
FUND BALANCE - BEGINNING	<u>(103,112)</u>	<u>(103,112)</u>	<u>(103,112)</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ (107,577)</u>	<u>\$ (112,377)</u>	<u>\$ (127,668)</u>	<u>\$ (15,291)</u>

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

Hot Springs School District No. 23-2
Notes to Required Supplementary Information
June 30, 2017

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.

Hot Springs School District No. 23-2
Schedule of Net Pension Liability (Asset)
For the Years Ended June 30

	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>
District's Proportion of the Net Pension Liability (Asset)	0.21147520%	0.20857020%	0.20427180%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 714,343	\$ (884,606)	\$ (1,471,695)
District's Covered-employee Payroll	4,402,309	4,023,423	3,780,020
District's Proportionate Share of the Net Position Liability (Asset) as a Percentage of its Covered-employee Payroll	16.23%	-21.99%	-38.93%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	96.89%	104.10%	107.29%

*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.

**Hot Springs School District No. 23-2
Schedule of Pension Contributions
For the Years Ended June 30**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 263,748	\$ 241,272	\$ 228,474
Contributions in Relation to the Contractually-required Contribution	<u>263,748</u>	<u>241,272</u>	<u>228,474</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-employee Payroll	<u>\$ 4,402,309</u>	<u>\$ 4,023,423</u>	<u>\$ 3,780,020</u>
Contributions as a Percentage of Covered-employee Payroll	6.0%	6.0%	6.0%

See independent auditor's report.

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SUPPLEMENTARY INFORMATION

**Hot Springs School District No. 23-2
School District Officials
June 30, 2017**

BOARD MEMBERS

Chairman - Scott Thompson
Vice Chairman - Kim Henningsen
Mark Walton
Tim Maciejewski
Dustin Kleinsasser
Brandi Christensen
Frances Stokes

SUPERINTENDENT

Kevin Coles

BUSINESS MANAGER

Deb Ollerich

See independent auditor's report.

Hot Springs School District No. 23-2
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

CFDA Numbers	Direct Award	Major Program	Cluster/Program Name	Pass-through Entity	Pass-through Entity Identifying Number	Amount
<i>Child Nutrition Cluster:</i>						
<u>U.S. Department of Agriculture</u>						
Non-cash Assistance (Commodities):						
10 .555	N	Y	National School Lunch Program	SD Department of Education	N/A	\$ 14,442
Cash Assistance:						
10 .553	N	Y	School Breakfast Program (Note 2)	SD Department of Education	N/A	45,696
10 .555	N	Y	National School Lunch Program (Note 2)	SD Department of Education	N/A	119,395
10 .559	N	Y	Summer Food Service Program for Children	SD Department of Education	N/A	8,222
Total Child Nutrition Cluster						<u>187,755</u>
<i>School and Roads Cluster:</i>						
<u>U.S. Department of Agriculture</u>						
10 .665	N		Schools and Roads - Grants to States (Note 2)	Fall River County	N/A	7,269
10 .665	N		Schools and Roads - Grants to Counties (Note 2)	Custer County	N/A	1,584
Total School and Road Cluster						<u>8,853</u>
<i>Special Education Cluster:</i>						
<u>U.S. Department of Education</u>						
84 .027	N		Special Education - Grants to States (Note 2)	SD Department of Education	H027A160091	175,925
84 .173	N		Special Education - Preschool Grants	SD Department of Education	H173A160091	8,673
Total Special Education Cluster						<u>184,598</u>

See independent auditor's report.

Hot Springs School District No. 23-2
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2017

CFDA Numbers	Direct Award	Major Program	Cluster/Program Name	Pass-through Entity	Pass-through Entity Identifying Number	Amount
<i>Other Programs:</i>						
<u>U.S. Department of Agriculture</u>						
10 .582	N		Fresh Fruit and Vegetable Program	SD Department of Education	173SD371L1603	17,011
Total Department of Agriculture						<u>17,011</u>
<u>U.S. Department of the Interior</u>						
15 .227	N		Distribution of Receipts to State and Local Governments (Note 2)	SD Department of Education	N/A	13,428
Total Department of the Interior						<u>13,428</u>
<u>U.S. Department of Education</u>						
84 .041	Y	Y	Impact Aid			350,000
84 .010	N		Title I Grants to Local Educational Agencies	SD Department of Education	S010A160041	310,666
84 .060	Y		Indian Education - Grants to Local Education Agencies			33,414
84 .358	N		Title VI - RLIS	SD Department of Education	S358B160041	17,376
84 .367	N		Improving Teacher Quality State Grants	SD Department of Education	S367A160039	110,765
Total Department of Education						<u>822,221</u>
<u>U.S. Department of Homeland Security</u>						
97 .067	Y	N	Homeland Security Grant Program			7,775
Total Department of Homeland Security						<u>7,775</u>
Total Federal Financial Assistance						<u>\$ 1,241,641</u>

See independent auditor's report.

NOTE 1: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

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

NOTE 3: The District has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

See independent auditor's report.