

HOWARD SCHOOL DISTRICT NO. 48-3
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2018

*HOWARD SCHOOL DISTRICT NO. 48-3
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2018*

Board Members:

**Julie Schwader - President
Jill Calmus - Vice President
Becky Connor
Cody Hoyer
Stacy Kampshoff
Evan Meyer
Laura Shumaker**

Superintendent:

Todd Lee

Business Manager:

Marcia Sherman

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

School Board
Howard School District No. 48-3
Miner County, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Howard School District No. 48-3, Miner County, South Dakota, as of and for the year ended June 30, 2018, which collectively comprise Howard School District's basic financial statements and have issued our report thereon dated January 3, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Howard School District's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Howard School District'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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Handwritten signature in cursive, appearing to read "CLO Prof LHC".

Huron, South Dakota
January 3, 2019

**HOWARD SCHOOL DISTRICT NO. 48-3
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
YEAR ENDED JUNE 30, 2018**

SCHEDULE OF PRIOR AUDIT FINDINGS

The prior audit report contained no written audit comments.

SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS

Current Federal Audit Findings:

There are no written current federal compliance audit findings to report.

Current Other Audit Findings:

There are no written current other audit findings to report.



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INDEPENDENT AUDITOR'S REPORT

**School Board
Howard School District No. 48-3
Howard, 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 Howard School District No. 48-3, Howard, South Dakota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Howard School 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Howard School District No. 48-3 as of June 30, 2018, 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 (MD&A), the budgetary comparison schedules, the schedule of proportionate share of the net pension liability (assets), schedule of school district contributions to pension, and the schedule of changes in total OPEB liability and related ratios listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 3, 2019 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions or laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the School District's internal control over financial reporting and compliance.



Huron, South Dakota
January 3, 2019

*HOWARD SCHOOL DISTRICT NO. 48-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2018*

This section of Howard School District No. 48-3's annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year ended on June 30, 2018. Please read it in conjunction with the School's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the year, the School's revenues of \$6,078,046 generated from taxes and other revenues of the governmental and business-type programs were \$1,423,184 more than the \$4,654,862 in governmental and business-type program expenditures. Mainly due to increased tax revenue and state sources.
- The District experienced a \$24,238,331 or 3% decrease in total property valuation in 2017. Ag land alone experienced a decline in value of 4.7% in 2017 as compared to 2016 as the result of "Olympic" averaging of land values over the prior seven year period.
- The total cost of the School's programs decreased by 10.32% mainly due to the controlling of expenses.
- The first two statements are government-wide financial statements that provide both long-term and short-term information about the School's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School government, reporting the School's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities that the School operates like businesses. The proprietary funds operated by the School are the Food Service Operation (Fund 51), and After School program and Drivers Education (Fund 53).
 - Fiduciary fund statements provide information about the financial relationships in which the School acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

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

**HOWARD SCHOOL DISTRICT NO. 48-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2018**

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

Figure A-1

Major Features of Howard School's Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School government (except fiduciary funds)	The activities of the School that are not proprietary or fiduciary, such as elementary and high school education programs	Activities the School operates similar to private businesses, the food service operation, preschool, PASS, and the drivers' education program	Instances in which the School is the trustee or agent for someone else's resources.
Required Financial Statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses and Changes in Net Position • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the School's funds do not currently contain capital assets although they can
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

**HOWARD SCHOOL DISTRICT NO. 48-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2018**

Government-Wide Statements

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

The two government-wide statements report the School's net position and how they have changed. Net position is one way to measure the School's financial health or position.

- Increases or decreases in the School's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the School you need to consider additional nonfinancial factors such as changes in the School'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 School are reported in two categories:

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

Fund Financial Statements

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

- State law requires some of the funds.
- The School Board establishes other funds to control and manage money for particular purposes.

The School has three kinds of funds:

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

**HOWARD SCHOOL DISTRICT NO. 48-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2018**

- **Proprietary Funds – Services for which the School 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, Drivers' Education, and FAST programs are Enterprise funds are the only proprietary funds maintained by the School.**
- **Fiduciary Funds – The School is the trustee, or fiduciary, for various external and internal parties. The School is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the School's fiduciary activities are reported in a separate statement of net position and a statement of changes in net position. We exclude these activities from the School's government-wide financial statements because the School cannot use these assets to finance its operations.**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The School's combined net position increased as follows:

Table A-1
Howard School District No. 48-3
Statement of Net Position

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>		<i>Percentage Change 2017-2018</i>
	<i>2017</i>	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>	<i>2018</i>	
Current and Other Assets	\$ 6,659,867	\$ 6,319,072	\$ 46,992	\$ 45,239	\$ 6,706,859	\$ 6,364,311	-5.11%
Capital Assets (Net of Depreciation)	6,477,469	7,898,408	27,651	23,931	6,505,120	7,922,339	21.79%
Total Assets	13,137,336	14,217,480	74,643	69,170	13,211,979	14,286,650	8.13%
Pension Related Deferred Outflows	947,800	1,161,369	--	--	947,800	1,161,369	22.53%
Total Deferred Outflows of Resources	947,800	1,161,369	--	--	947,800	1,161,369	22.53%
Long-Term Liabilities Outstanding	4,606,726	4,436,947	--	--	4,606,726	4,436,947	-3.69%
Other Liabilities	341,705	635,714	7,338	7,565	349,043	643,279	84.30%
Total Liabilities	4,948,431	5,072,661	7,338	7,565	4,955,769	5,080,226	2.51%
Taxes Levied for Future Period	1,986,290	1,795,007	--	--	1,986,290	1,795,007	-9.63%
Pension and OPEB Related Deferred Inflows	--	249,558	--	--	--	249,558	100.00%
Total Deferred Inflows of Resources	1,986,290	2,044,565	--	--	1,986,290	2,044,565	2.93%
Net Position							
Net Investment in Capital Assets	2,561,674	3,461,461	27,651	23,931	2,589,325	3,485,392	34.61%
Restricted	4,058,747	4,211,756	--	--	4,058,747	4,211,756	3.77%
Unrestricted	529,994	588,406	39,654	37,674	569,648	626,080	9.91%
Total Net Position	7,150,415	8,261,623	67,305	61,605	7,217,720	8,323,228	15.32%
Beginning Net Position Restated	6,557,152	6,832,739	46,270	67,305	6,603,422	6,900,044	4.49%
Increase (Decrease) in Net Position	\$ 593,263	\$ 1,428,884	\$ 21,035	\$ (5,700)	\$ 614,298	\$ 1,423,184	
Percentage of Increase (Decrease) in Net Position	9.05%	20.91%	45.46%	-8.47%	9.30%	20.63%	

The District's combined net position of approximately \$8.32 million is approximately \$1.42 million or 20.633% more than on June 30, 2017.

HOWARD SCHOOL DISTRICT NO. 48-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2018

The Statement of Net Position reports all financial and capital resources. The statement presents the assets, deferred outflows of resources, liabilities and deferred inflows of resources in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the School, consisting of net pension liability, compensated absences payable, GOB bonds QZAB bonds, and QSCB bonds, have been reported in this manner on the Statement of Net Position. The difference between the School's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is its net position.

Changes in Net Position

The District's revenues totaled \$6,078,046. (See Table A-4.) This was an approximately 5.27% increase. Approximately 78.02% of the District's revenue comes from property and other taxes, with another 12.20% from state aid. (See Table A-2.)

Table A-2
Howard School District No. 48-3
Sources of Revenues
Fiscal Year 2017-2018

Taxes	\$ 4,742,062	78.02%
State sources	741,672	12.20%
Operating grants & contributions	368,070	6.06%
Charges for services	164,626	2.71%
Other revenues	29,202	0.48%
Unrestricted investment earnings	32,414	0.24%
<i>Total Revenue</i>	\$ 6,078,046	100.00%

Total costs of all programs and service decreased by approximately 10.32%. The District's expenses totaled \$4,654,862. (See Table A-4.) The School's expenses cover a range of services, encompassing instruction, support services, interest on long term debt, co-curricular activities, food services, driver's education and FAST program. (See Table A-3.)

Table A-3
Howard School District No. 48-3
Statement of Expenditures
Fiscal Year 2017-2018

Instruction	\$ 2,508,994	53.90%
Support services	1,478,661	31.77%
Community services	316	0.01%
Interest on long-term debt	166,551	3.58%
Cocurricular activities	288,380	6.20%
Food service	199,643	4.29%
FAST program	7,669	0.16%
Drivers education	4,648	0.04%
<i>Total Expenditures</i>	\$ 4,654,862	100.00%

**HOWARD SCHOOL DISTRICT NO. 48-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2018**

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

Table A-4 and the narrative that follows consider the operations of the governmental activities and the business-type activities of the School.

Table A-4
Howard School District 48-3
Changes in Net Position

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>		<i>Total Percentage Change 2017-2018</i>
	<i>2017</i>	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>	<i>2018</i>	
<i>Revenues</i>							
Program Revenues:							
Charges for services	\$ 37,507	\$ 34,336	\$ 121,655	\$ 130,290	\$ 159,162	\$ 164,626	3.43%
Operating grants and contributions	324,372	292,634	76,810	75,436	401,182	368,070	-8.25%
General Revenues:							
Taxes	4,471,678	4,742,062	--	--	4,471,678	4,742,062	6.05%
Revenue state sources	709,523	741,672	--	--	709,523	741,672	4.53%
Unrestricted investment earnings	14,450	32,130	67	284	14,517	32,414	123.28%
Other general revenues	17,680	28,952	150	250	17,830	29,202	63.78%
Total Revenues	5,575,210	5,871,786	198,682	206,260	5,773,892	6,078,046	5.27%
<i>Expenses</i>							
Instruction	2,843,338	2,508,994	--	--	2,843,338	2,508,994	-11.76%
Support services	1,673,420	1,478,661	--	--	1,673,420	1,478,661	-11.64%
Community services	316	316	--	--	316	316	0.00%
Interest on long-term debt	149,490	166,551	--	--	149,490	166,551	11.41%
Curricular activities	292,355	288,380	--	--	292,355	288,380	-1.36%
Food service	--	--	193,215	199,643	193,215	199,643	3.33%
Other enterprise activity	--	--	7,460	12,317	7,460	12,317	65.11%
Total Expenses	4,958,919	4,442,902	200,675	211,960	5,159,594	4,654,862	-9.78%
Excess (Deficiency) Before Transfers							
Transfers	(23,028)	--	23,028	--	--	--	0.00%
Increase (Decrease) in Net Position	593,263	1,428,884	21,035	(5,700)	614,298	1,423,184	131.68%
Beginning Net Position Restated	6,557,152	6,832,739	46,270	67,305	6,603,422	6,900,044	4.49%
Ending Net Position	\$ 7,150,415	\$ 8,261,623	\$ 67,305	\$ 61,605	\$ 7,217,720	\$ 8,323,228	15.32%

GOVERNMENTAL ACTIVITIES

Revenues for the School's governmental activities increased primarily due to increases in ad valorem taxes and state aid. Property taxes did increase in General, Capital Outlay and Special Ed Funds due to increased valuations.

BUSINESS-TYPE ACTIVITIES

Net position of the School's business-type activities decreased approximately \$5,700 mainly due contributed capital from capital outlay. The contributed capital was cafeteria tables and a dish washing machine.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

Overall the governmental funds have decreased approximately \$472,654 in net position over last year. The main cause was increased capital outlay expenditures.

**HOWARD SCHOOL DISTRICT NO. 48-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2018**

GENERAL FUND BUDGETARY HIGHLIGHTS

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

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

There were budget changes for the year due to needing additional funding for general operating expenses in the General Fund.

CAPITAL ASSET ADMINISTRATION

By the end of 2018, the School had invested \$7,922,339 (net of depreciation) in a broad range of capital assets, including, land, buildings, various machinery and equipment. (See Table A-5.) Total capital outlay expenditures were \$1,888,985.

Table A-5
HOWARD SCHOOL DISTRICT - Capital Assets
(net of depreciation)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total Dollar Change</i>	<i>Total Percentage Change</i>
	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017-2018</u>	<u>2017-2018</u>
Land	\$ 19,265	\$ 19,265	\$ --	\$ --	\$ --	0.00%
Construction in progress	--	586,539	--	--	586,539	100.00%
Buildings	5,297,684	6,133,213	--	--	835,529	13.62%
Improvements other than buildings	478,695	470,552	--	--	(8,143)	-1.73%
Machinery and equipment	681,825	688,839	27,651	23,931	3,294	0.48%
<i>Total Capital Assets (Net)</i>	<u>\$ 6,477,469</u>	<u>\$ 7,898,408</u>	<u>\$ 27,651</u>	<u>\$ 23,931</u>	<u>\$ 1,417,219</u>	<u>17.94%</u>

LONG-TERM DEBT

At year-end the School had \$4,436,947 in long-term obligations. This balance includes Bonds payable, energy loan, OPEB liability and accrued sick leave payable. See individual balances as shown on Table A-6 below:

Table A-6
HOWARD SCHOOL DISTRICT - Outstanding Debt and Obligations

	<i>Governmental Activities</i>		<i>Total Dollar Change</i>	<i>Total Percentage Change</i>
	<u>2017</u>	<u>2018</u>	<u>2017-2018</u>	<u>2017-2018</u>
QSCB Bond	\$ 1,295,000	\$ 1,295,000	\$ --	0.00%
QZAB Bond	300,001	266,668	(33,333)	-11.11%
GOB -2015	1,775,000	1,655,000	(120,000)	-6.76%
Unamortized premium	30,794	28,425	(2,369)	-7.69%
GOB -2011	515,000	415,000	(100,000)	-19.42%
Energy loan	--	136,997	136,997	100.00%
OPEB	571,063	596,302	25,239	4.42%
Compensated absences	51,725	43,555	(8,170)	-15.80%
<i>Total Outstanding Debt and Obligations</i>	<u>\$ 4,538,583</u>	<u>\$ 4,436,947</u>	<u>\$ (101,636)</u>	<u>-2.24%</u>

The School is liable for the accrued sick leave payable to the various employees who have five consecutive years or more of employment at the School District.

*HOWARD SCHOOL DISTRICT NO. 48-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2018*

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Based on fund balances for governmental activities, the District's economic position decreased by \$472,654 or 11%. The fund balance for the largest fund, the General Fund, decreased by \$36,689 or 5%. This included a \$300,000 transfer from the Capital Outlay Fund permitted by statute. The \$300,000 transfer represents 15% of the Capital Outlay Revenue for FY 18. Statute allows up to 45% to be transferred. The fund balance for the Capital Outlay Fund decreased by \$696,194 or 57% mainly due to the transfer to Capital Outlay and completion of the Elementary Restroom and Jr-Sr High Locker Room, FACS and Science Classroom/Lab Renovation projects. The fund balance for the special education fund increased by \$149,185 or 11%. The pension fund increased by \$138 or less than 1%. The District did experience a \$24,238,331 or 3% decrease in total property valuation in 2017. While the growth or decrease in property valuation does increase or decrease the amount of revenue the District can generate from property taxes, the total amount which can be levied is limited by the State of South Dakota. In addition, growth in property valuation does not improve revenues for the General Fund or Special Education because major revenues for these funds are based on an annual allocation derived from a formula determined by the State. The allocation is based on a combination of local property tax revenue and state funds. Capital Outlay tax levy amounts are also limited to the 2016 taxing capability amount and adjusted annually by CPI and Growth % with the maximum amount to be levied limited to \$3.00 per thousand of valuation. The district was limited to a Capital Outlay levy rate of \$2.871.

As noted above, one of the District's primary sources of revenue for the General Fund is the district allocation received from the State of South Dakota. Beginning in FY2017, the student allocation is based on a new state aid calculation that combines a formula certified instructional staff salary/benefit need with an overhead need to get to the state aid total need. The District's enrollment was 365 students for the fall of 2017 which was the same as the fall of 2016. The District reviewed the FY2019 General Fund budget very carefully resulting in a budget that anticipates using \$300,004 of the fund balance and also transferring \$434,890 from Capital Outlay. With close monitoring of the budget, the District hopes to maintain a fund balance that accommodates the cash flow needs and is closely aligned with the limits allowed by the state.

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

<u>YEAR</u>	<u>ADM</u>	<i>Percent (Decrease) in ADM</i>
2018	363	-0.55%
2017	365	1.67%

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional information, contact the Howard School District's Business Office, 500 N. Section Line St., Howard, SD 57349.

HOWARD SCHOOL DISTRICT NO. 48-3
STATEMENT OF NET POSITION – GOVERNMENT-WIDE
JUNE 30, 2018

	<u>PRIMARY GOVERNMENT</u>		<u>TOTAL</u>
	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	
ASSETS:			
Cash and cash equivalents	\$ 2,464,792	\$ 39,008	\$ 2,503,800
Investments	865,473	--	865,473
Taxes receivable	1,849,248	--	1,849,248
Inventories	1,550	3,317	4,867
Other assets	519,024	2,914	521,938
Restricted assets:			
Cash and cash equivalents	608,171	--	608,171
Net pension asset	10,814	--	10,814
Capital assets:			
Land	605,804	--	605,804
Other capital assets, net of depreciation	7,292,604	23,931	7,316,535
TOTAL ASSETS	14,217,480	69,170	14,286,650
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows	1,161,369	--	1,161,369
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,161,369	--	1,161,369
LIABILITIES:			
Accounts payable	388,391	259	388,650
Other current liabilities	247,323	3,005	250,328
Unearned revenue	--	4,301	4,301
Noncurrent liabilities:			
Due within one year	280,573	--	280,573
Due in more than one year	4,156,374	--	4,156,374
TOTAL LIABILITIES	5,072,661	7,565	5,080,226
DEFERRED INFLOWS OF RESOURCES			
Taxes levied for future period	1,795,007	--	1,795,007
Pension related deferred inflows	221,614	--	221,614
OPEB related deferred inflows	27,944	--	27,944
TOTAL DEFERRED INFLOWS OF RESOURCES	2,044,565	--	1,822,951
NET POSITION:			
Net Investment in Capital Assets	3,461,461	23,931	3,485,392
Restricted for:			
Capital Outlay	926,932	--	926,932
Special Education	1,353,871	--	1,353,871
Pension	155,329	--	155,329
Debt Service	608,171	--	608,171
Capital Projects	23,214	--	23,214
SDRS Pension Purposes	1,144,239	--	1,144,239
Unrestricted	588,406	37,674	626,080
TOTAL NET POSITION	\$ 8,261,623	\$ 61,605	\$ 8,323,228

*The accompanying Notes to Financial Statements are
an integral part of these financial statements.*

HOWARD SCHOOL DISTRICT NO. 48-3
STATEMENT OF ACTIVITIES – GOVERNMENT-WIDE
FOR THE YEAR ENDED JUNE 30, 2018

FUNCTIONS / PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		TOTAL
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
<i>Primary Government:</i>							
<i>Governmental Activities:</i>							
Instruction	\$ 2,508,994	\$ --	\$ 284,427	\$ --	\$ (2,224,567)	\$ --	\$ (2,224,567)
Support services	1,478,661	8,767	--	--	(1,469,894)	--	(1,469,894)
Community services	316	--	--	--	(316)	--	(316)
Interest on long-term debt *	166,551	--	--	--	(166,551)	--	(166,551)
Cocurricular activities	288,380	25,569	8,207	--	(254,604)	--	(254,604)
<i>Total Governmental Activities</i>	<u>4,442,902</u>	<u>34,336</u>	<u>292,634</u>	<u>--</u>	<u>(4,115,932)</u>	<u>--</u>	<u>(4,115,932)</u>
<i>Business-Type Activities:</i>							
Food service	199,643	121,227	75,436	--	--	(2,980)	(2,980)
FAST program	7,669	3,417	--	--	--	(4,252)	(4,252)
Drivers education	4,648	5,646	--	--	--	998	998
<i>Total Business-Type Activities</i>	<u>211,960</u>	<u>130,290</u>	<u>75,436</u>	<u>--</u>	<u>--</u>	<u>(6,234)</u>	<u>(6,234)</u>
<i>Total Primary Government</i>	<u>\$ 4,654,862</u>	<u>\$ 164,626</u>	<u>\$ 368,070</u>	<u>\$ --</u>	<u>(4,115,932)</u>	<u>(6,234)</u>	<u>(4,122,166)</u>
<i>General Revenues:</i>							
<i>Taxes:</i>							
					4,353,067	--	4,353,067
					388,995	--	388,995
<i>Revenue from State Sources:</i>							
					741,672	--	741,672
					32,130	284	32,414
					28,952	250	29,202
					<u>5,544,816</u>	<u>534</u>	<u>5,545,349</u>
					1,428,884	(5,700)	1,423,184
					7,150,416	67,305	7,217,721
					(317,677)	--	(317,677)
					<u>6,832,739</u>	<u>67,305</u>	<u>6,900,044</u>
					<u>\$ 8,261,623</u>	<u>\$ 61,605</u>	<u>\$ 8,323,228</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 to Financial Statements are an integral part of these financial statements.

HOWARD SCHOOL DISTRICT NO. 48-3
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2018

	GENERAL FUND	CAPITAL OUTLAY FUND	SPECIAL EDUCATION FUND	BOND REDEMPTION FUND	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS:							
Cash and cash equivalents	\$ 4,934	\$ 874,215	\$ 1,347,100	\$ --	83,214	\$ 155,329	\$ 2,464,792
Investments	565,473	300,000	--	--	--	--	865,473
Taxes receivable--current	665,554	859,417	270,036	--	--	--	1,795,007
Taxes receivable--delinquent	35,603	12,328	5,925	--	--	385	54,241
Due from other governments	411,404	--	53,282	--	--	--	464,686
Inventory of supplies	1,550	--	--	--	--	--	1,550
Deposits	52,338	--	--	--	--	--	52,338
Advance from other fund	2,000	--	--	--	--	--	2,000
Restricted cash and cash equivalents	--	--	--	608,171	--	--	608,171
TOTAL ASSETS	\$ 1,738,856	\$ 2,045,960	\$ 1,676,343	\$ 608,171	\$ 83,214	\$ 155,714	\$ 6,308,258
LIABILITIES AND FUND BALANCES:							
<i>Liabilities:</i>							
Accounts payable	59,525	247,283	21,583	--	60,000	--	388,391
Contracts payable	147,567	--	21,754	--	--	--	169,321
Payroll deductions and withholding and employer matching payable	74,828	--	3,174	--	--	--	78,002
Total Liabilities	281,920	247,283	46,511	--	60,000	--	635,714
<i>Deferred Inflows of Resources:</i>							
Taxes Levied for a Future Period	665,554	859,417	270,036	--	--	--	1,795,007
Unavailable Revenue-Property Taxes	35,603	12,328	5,925	--	--	385	54,241
Unavailable Revenue-Utility Taxes	56,414	--	--	--	--	--	56,414
Total Deferred Inflows of Resources	757,571	871,745	275,961	--	--	385	1,905,662
<i>Fund Balances:</i>							
<i>Nonspendable:</i>							
Inventory	1,550	--	--	--	--	--	1,550
Deposits (Health Insurance)	52,338	--	--	--	--	--	52,338
Advance	2,000	--	--	--	--	--	2,000
<i>Restricted:</i>							
Capital outlay	--	926,932	--	--	--	--	926,932
Special education	--	--	1,353,871	--	--	--	1,353,871
Pension	--	--	--	--	--	155,329	155,329
Bond redemption	--	--	--	608,171	--	--	608,171
Capital projects	--	--	--	--	23,214	--	23,214
<i>Assigned to:</i>							
Next year's budget	312,165	--	--	--	--	--	312,165
Unassigned	331,312	--	--	--	--	--	331,312
Total Fund Balances	699,365	926,932	1,353,871	608,171	23,214	155,329	3,766,882
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,738,856	\$ 2,045,960	\$ 1,676,343	\$ 608,171	\$ 83,214	\$ 155,714	\$ 6,308,258

The accompanying Notes to Financial Statements are an integral part of these financial statements.

**HOWARD SCHOOL DISTRICT NO. 48-3
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION – GOVERNMENTAL FUNDS
JUNE 30, 2018**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 3,766,882**

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

Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds. 10,814

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 7,898,408

Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds. 1,161,369

Long-term liabilities, bonds payable, and accrued leave payable are not due and payable in the current period and therefore are not reported in the funds. (4,436,947)

Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds. (221,614)

OPEB related deferred inflows are components of OPEB liability and therefore are not reported in the funds. (27,944)

Assets such as taxes receivable (delinquent) are not available to pay for the current period expenditures, and therefore are deferred in the funds. 110,655

Net Position-Government Funds \$ 8,261,623

The accompanying Notes to Financial Statements are an integral part of these financial statements.

HOWARD SCHOOL DISTRICT NO. 48-3
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>GENERAL FUND</u>	<u>CAPITAL OUTLAY FUND</u>	<u>SPECIAL EDUCATION FUND</u>	<u>BOND REDEMPTION FUND</u>	<u>CAPITAL PROJECTS FUND</u>	<u>OTHER GOVERNMENTAL FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES:							
<i>Revenue from Local Sources:</i>							
<i>Taxes:</i>							
Ad valorem taxes	\$ 1,604,765	\$ 1,985,349	\$ 732,080	\$ --	\$ --	\$ --	\$ 4,322,194
Prior years' ad valorem taxes	3,921	1,273	713	--	--	118	6,025
Utility taxes	388,995	--	--	--	--	--	388,995
Penalties and interest on taxes	2,824	2,555	1,129	--	--	21	6,529
<i>Revenue from Local Government:</i>							
Revenue in lieu of taxes	1,648	--	--	--	--	--	1,648
<i>Earnings on Investments and Deposits</i>							
	5,135	8,190	9,481	7,318	807	1,199	32,130
<i>Cocurricular Activities:</i>							
Admissions	23,719	--	--	--	--	--	23,719
Other pupil activity income	1,850	--	--	--	--	--	1,850
<i>Other Revenue from Local Sources:</i>							
Rentals	3,785	--	--	--	--	--	3,785
Contributions and donations	1,672	6,441	94	--	--	--	8,207
Charges for services	5,107	--	3,660	--	--	--	8,767
Other	8,653	--	--	--	--	--	8,653
<i>Revenue from Intermediate Sources:</i>							
<i>County Sources:</i>							
County apportionment	10,952	--	--	--	--	--	10,952
Revenue in lieu of taxes	3,914	--	--	--	--	--	3,914
<i>Revenue from State Sources:</i>							
<i>Grants-in-Aid:</i>							
Unrestricted grants-in-aid	741,672	--	--	--	--	--	741,672
Other	2,742	--	--	--	--	--	2,742
<i>Other State Revenue</i>							
<i>Revenue from Federal Sources:</i>							
<i>Grants-in-Aid:</i>							
Restricted grants-in-aid received from federal government through the state	94,642	10,250	94,946	--	--	--	199,838
Other Federal Revenue	2,201	79,646	--	--	--	--	81,847
TOTAL REVENUES	2,908,197	2,093,704	842,103	7,318	807	1,338	5,853,467

The accompanying Notes to Financial Statements are an integral part of these financial statements.

HOWARD SCHOOL DISTRICT NO. 48-3
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(CONTINUED)

	<u>GENERAL FUND</u>	<u>CAPITAL OUTLAY FUND</u>	<u>SPECIAL EDUCATION FUND</u>	<u>BOND REDEMPTION FUND</u>	<u>CAPITAL PROJECTS FUND</u>	<u>OTHER GOVERNMENTAL FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
EXPENDITURES:							
<i>Instruction:</i>							
<i>Regular Programs:</i>							
Elementary	\$ 911,568	\$ 25,289	\$ --	\$ --	\$ --	\$ --	\$ 936,857
Middle school	214,782	9,015	--	--	--	--	223,797
High school	634,019	44,879	--	--	--	--	678,898
<i>Special Programs:</i>							
Programs for special education	--	--	488,934	--	--	--	488,934
Educationally Deprived	83,809	--	--	--	--	--	83,809
<i>Support Services:</i>							
<i>Pupils:</i>							
Guidance	69,111	--	--	--	--	--	69,111
Health	1,434	--	--	--	--	--	1,434
Psychological	--	--	24,768	--	--	--	24,768
Speech pathology	--	--	70,399	--	--	--	70,399
Student therapy services	--	--	22,720	--	--	--	22,720
<i>Instructional Staff:</i>							
Improvement of instruction	3,001	--	--	--	--	--	3,001
Educational media	134,696	8,224	--	--	--	--	142,920
<i>General Administration:</i>							
Board of education	39,689	--	--	--	--	--	39,689
Executive administration	71,708	--	--	--	--	--	71,708
<i>School Administration:</i>							
Office of the principal	244,970	--	--	--	--	--	244,970
Other	561	--	--	--	--	--	561
<i>Business:</i>							
Fiscal services	118,797	5,421	--	--	--	--	124,218
Operation and maintenance of plant	353,876	110,005	--	--	--	--	463,881
Pupil transportation	181,339	3,449	--	--	--	--	184,788
<i>Central:</i>							
Staff	346	--	--	--	--	--	346
<i>Special Education:</i>							
Administrative costs	--	--	20,051	--	--	--	20,051
Transportation costs	--	--	40,300	--	--	--	40,300
Other	--	--	16,267	--	--	--	16,267
<i>Debt Services:</i>							
	--	422,253	--	--	--	--	422,253
<i>Community Services:</i>							
Other	316	--	--	--	--	--	316

The accompanying Notes to Financial Statements are an integral part of these financial statements.

HOWARD SCHOOL DISTRICT NO. 48-3
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(CONTINUED)

	<u>GENERAL FUND</u>	<u>CAPITAL OUTLAY FUND</u>	<u>SPECIAL EDUCATION FUND</u>	<u>BOND REDEMPTION FUND</u>	<u>CAPITAL PROJECTS FUND</u>	<u>OTHER GOVERNMENTAL FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
EXPENDITURES:							
<i>Cocurricular Activities:</i>							
Transportation	\$ 13,646	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 13,646
Combined activities	187,809	8,709	--	--	--	--	196,518
Capital outlay	--	912,199	--	--	976,786	--	1,888,985
TOTAL EXPENDITURES:	<u>3,265,477</u>	<u>1,549,443</u>	<u>683,439</u>	<u>--</u>	<u>976,786</u>	<u>--</u>	<u>6,475,145</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(357,280)</u>	<u>544,261</u>	<u>158,664</u>	<u>7,318</u>	<u>(975,979)</u>	<u>1,338</u>	<u>(621,678)</u>
OTHER FINANCING SOURCES (USES):							
Transfers in	319,676	--	--	80,375	1,000,000	--	1,400,051
Transfers out	--	(1,388,564)	(9,481)	--	(807)	(1,199)	(1,400,051)
General long-term debt issued	--	136,997	--	--	--	--	136,997
Sales of surplus property	915	4,310	--	--	--	--	5,225
Compensation for loss on general fixed assets	--	6,802	--	--	--	--	6,802
TOTAL OTHER FINANCING SOURCES (USES)	<u>320,591</u>	<u>(1,240,455)</u>	<u>(9,481)</u>	<u>80,375</u>	<u>999,193</u>	<u>(1,199)</u>	<u>149,024</u>
<i>Net Change in Fund Balances</i>	<u>(36,689)</u>	<u>(696,194)</u>	<u>149,183</u>	<u>87,693</u>	<u>23,214</u>	<u>139</u>	<u>(472,654)</u>
<i>FUND BALANCE - Beginning of Year</i>	<u>736,054</u>	<u>1,623,126</u>	<u>1,204,688</u>	<u>520,478</u>	<u>--</u>	<u>155,190</u>	<u>4,239,536</u>
<i>FUND BALANCE - End of Year</i>	<u>\$ 699,365</u>	<u>\$ 926,932</u>	<u>\$ 1,353,871</u>	<u>\$ 608,171</u>	<u>\$ 23,214</u>	<u>\$ 155,329</u>	<u>\$ 3,766,882</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

HOWARD SCHOOL DISTRICT NO. 48-3
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (472,654)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.

Capital Outlays	\$	1,888,985	
Depreciation Expense		<u>(400,831)</u>	
Net			1,488,154

In the statement of activities, net gains and (losses) (\$55,188) on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds (\$12,027) from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized. (+gains, -losses, -proceeds=amount)

(67,215)

Payment of principal on long-term debt is an expenditure in the government funds but the payment reduces long-term liabilities in the statement of assets.

255,702

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

Energy loan			(136,997)
-------------	--	--	-----------

In both the government-wide and fund financials statements revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the funds' statements differs from the accounting in the government wide statements in that the fund financial statements require the amounts to be "available". This amount reflects the application of both the application period and "availability criteria".

18,319

Governmental funds recognize expenditures for amounts of compensated absences and early retirement benefits actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn leave credits or elect to retire early.

Sick Leave		8,170	
Other postemployment benefits		<u>(25,239)</u>	
			(17,069)

Changes in the pension and OPEB related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds.

360,644

Change in Net Position of Governmental Activities

\$ 1,428,884

The accompanying Notes to Financial Statements are an integral part of these financial statements.

HOWARD SCHOOL DISTRICT NO. 48-3
BALANCE SHEET – PROPRIETARY FUNDS
JUNE 30, 2018

	<i>ENTERPRISE FUND</i>		
	<i>FOOD SERVICE</i>	<i>OTHER</i>	<i>TOTAL</i>
	<i>FUND</i>	<i>FUND</i>	
ASSETS:			
<i>Current Assets:</i>			
Cash and cash equivalents	\$ 14,338	24,670	\$ 39,008
Accounts receivable	2,914	--	2,914
Inventory of stores purchased for resale	1,692	--	1,692
Inventory of donated foods	1,625	--	1,625
<i>Total Current Assets</i>	20,569	24,670	45,239
<i>Capital Assets:</i>			
Machinery and equipment	60,972	--	60,972
Accumulated depreciation	(37,041)	--	(37,041)
<i>Total Noncurrent Assets</i>	23,931	--	23,931
TOTAL ASSETS	\$ 44,500	\$ 24,670	\$ 69,170
 LIABILITIES AND NET POSITION:			
<i>Liabilities:</i>			
<i>Current Liabilities:</i>			
Accounts Payable	\$ --	\$ 259	\$ 259
Payroll deductions and withholdings and employer matching payable	3,005	--	3,005
Unearned revenue	4,301	--	4,301
<i>Total Current Liabilities</i>	7,306	259	7,565
<i>Net Position:</i>			
Invested in capital assets	23,931	--	23,931
Unrestricted	13,263	24,411	37,674
<i>Total Net Position</i>	37,194	24,411	61,605
TOTAL LIABILITIES AND NET POSITION	\$ 44,500	\$ 24,670	\$ 69,170

The accompanying Notes to Financial Statements are an integral part of these financial statements.

HOWARD SCHOOL DISTRICT NO. 48-3
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS
JUNE 30, 2018

	<i>ENTERPRISE FUND</i>		
	<i>FOOD SERVICE FUND</i>	<i>OTHER FUND</i>	<i>TOTAL</i>
OPERATING REVENUE:			
<i>Sales:</i>			
To pupils	\$ 104,063	\$ --	\$ 104,063
To adults	8,152	--	8,152
Ala carte	8,024	--	8,024
Other charges for goods and services	988	9,063	10,051
<i>Total Operating Revenue</i>	<u>121,227</u>	<u>9,063</u>	<u>130,290</u>
OPERATING EXPENSE:			
<i>Food Service:</i>			
Salaries	83,071	10,856	93,927
Employee benefits	27,654	880	28,534
Purchased services	1,491	--	1,491
Supplies	2,779	581	3,360
Cost of sales - purchased food	66,442	--	66,442
Cost of sales - donated food	14,486	--	14,486
Depreciation - local funds	3,720	--	3,720
<i>Total Operating Expenses</i>	<u>199,643</u>	<u>12,317</u>	<u>211,960</u>
<i>Operating Income (Loss)</i>	<u>(78,416)</u>	<u>(3,254)</u>	<u>(81,669)</u>
NONOPERATING REVENUES:			
<i>Investment Earnings</i>	97	187	284
<i>Other Local Revenue</i>	--	250	250
<i>State Sources:</i>			
Cash reimbursements	657	--	657
<i>Federal Sources:</i>			
Cash reimbursements	61,772	--	61,772
Donated food	13,007	--	13,007
<i>Total Nonoperating Revenue</i>	<u>75,533</u>	<u>437</u>	<u>75,970</u>
<i>Change in Net Position</i>	<u>(2,883)</u>	<u>(2,817)</u>	<u>(5,700)</u>
<i>NET POSITION - Beginning of Year</i>	<u>40,077</u>	<u>27,228</u>	<u>67,305</u>
<i>NET POSITION - End of Year</i>	<u>\$ 37,194</u>	<u>\$ 24,411</u>	<u>\$ 61,605</u>

*The accompanying Notes to Financial Statements are
an integral part of these financial statements.*

HOWARD SCHOOL DISTRICT NO. 48-3
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	<i>ENTERPRISE FUNDS</i>		
	<i>FOOD SERVICE FUND</i>	<i>OTHER FUND</i>	<i>TOTAL</i>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 121,361	\$ 9,063	\$ 130,424
Payments to suppliers	(70,970)	(521)	(71,491)
Payments to employees	(110,325)	(11,736)	(122,061)
NET CASH USED BY OPERATING ACTIVITIES:	(59,934)	(3,194)	(63,128)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Other Local Revenue	--	250	250
Cash reimbursements - state	657	--	657
Cash reimbursements - federal	61,772	--	61,772
NET CASH PROVIDED FROM NONCAPITAL FINANCING ACTIVITIES	62,429	250	62,679
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash received for interest	96	187	283
NET CASH PROVIDED BY INVESTING ACTIVITIES	96	187	283
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,591	(2,757)	(166)
CASH AND CASH EQUIVALENTS, Beginning of Year	11,747	27,427	39,174
CASH AND CASH EQUIVALENTS, End of Year	\$ 14,338	\$ 24,670	\$ 39,008
RECONCILIATION OF OPERATING LOSS TO			
NET CASH (USED) BY OPERATING ACTIVITIES			
Operating (Loss)	\$ (78,416)	\$ (3,254)	\$ (81,670)
<i>Adjustments to Reconcile Operating (Loss) to</i>			
<i>Net Cash (Used) by Operating Activities:</i>			
Depreciation expense	3,720	--	3,720
Noncash cost of sales - commodities	14,486	--	14,486
<i>Change in Assets and Liabilities:</i>			
Accounts receivable	366	--	366
Inventories	(257)	--	(257)
Accounts and other payables	400	60	460
Unearned revenue	(233)	--	(233)
<i>Net Cash (Used) by Operating Activities</i>	(59,934)	(3,194)	(63,128)
NONCASH, INVESTING CAPITAL, AND FINANCING ACTIVITIES:			
Value of Commodities Received	\$ 13,007	\$ --	\$ 13,007

*The accompanying Notes to Financial Statements are
an integral part of these financial statements.*

**HOWARD SCHOOL DISTRICT NO. 48-3
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2018**

	<u>PRIVATE PURPOSE TRUST FUND</u>	<u>AGENCY FUNDS</u>
ASSETS:		
Cash and cash equivalents	<u>\$ 70,332</u>	<u>\$ 172,645</u>
TOTAL ASSETS	<u><u>\$ 70,332</u></u>	<u><u>\$ 172,645</u></u>
LIABILITIES:		
Due to other fund	\$ --	\$ 2,000
Amounts held for others	<u>--</u>	<u>170,645</u>
TOTAL LIABILITIES	<u><u>--</u></u>	<u><u>172,645</u></u>
NET POSITION:		
Held in trust for school scholarship	<u>70,332</u>	<u>--</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 70,332</u></u>	<u><u>\$ 172,645</u></u>

*The accompanying Notes to Financial Statements are
an integral part of these financial statements.*

HOWARD SCHOOL DISTRICT NO. 48-3
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>PRIVATE PURPOSE TRUST FUND</u>
ADDITIONS:	
Contributions and Donations	<u>\$ 50,000</u>
Change in Net Position	50,000
NET POSITION - Beginning of Year	<u>20,332</u>
NET POSITION - End of Year	<u><u>\$ 70,332</u></u>

*The accompanying Notes to Financial Statements are
an integral part of these financial statements.*

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018*

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:*

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments.

a. *Financial Reporting Entity:*

The reporting entity of Howard School District No. 48-3, consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The School District is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the School District (primary government). The School District may also be financially accountable for another organization if that organization is fiscally dependent on the School District. The School District has no component units.

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

b. *Basis of Presentation:*

Government-Wide Financial Statements:

The Statement of Net Position and the Statement of Activities display information about the reporting entity as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. These statements distinguish between the governmental and business-type activities of the School District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange 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 minus liabilities equal net position). Net position are displayed in three components, as applicable, net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018*

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)*

b. *Basis of Presentation: (continued)*

Government-Wide Financial Statements: (continued)

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

Fund Financial Statements:

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

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

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

Governmental Funds:

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

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018*

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)*

b. *Basis of Presentation: (continued)*

Fund Financial Statements: (continued)

Governmental Funds: (continued)

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.

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

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

Pension Fund: A fund established by SDCL 13-10-6 for the purpose of paying pensions to retired employees of school districts, which have established such systems, paying the District's share of retirement plan contributions, and for funding early retirement benefits to qualifying employees. This fund is financed by property taxes. This is not a major fund.

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

The Bond Redemption Fund: The QZAB Fund is the only debt service fund. This fund was established to collect money in the sinking funds for payment of term bonds. The Capital Outlay fund transfers money to this fund on a yearly basis. At the end of the term, the bonds will be paid off. This is a major fund.

Capital Project Fund Types – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018*

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)*

b. *Basis of Presentation: (continued)*

Fund Financial Statements: (continued)

Proprietary Funds:

Enterprise Funds – Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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.

Other Enterprise Fund: A fund used to record financial transactions related to drivers' education and the FAST program. This fund is financed by user charges. This is not a major fund.

Fiduciary Funds:

Fiduciary Funds consist of the following sub-categories 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, benefit individuals, private organizations, or other governments. The School District maintains two private-purpose trust funds: Selix Scholarship Trust Fund and Diamond Davison Scholarship Trust Fund and their purpose is scholarships.

Agency Funds – Agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature, they do not involve the measurement of results of operations. The School District maintains several agency funds for various class years, clubs, athletic teams which account for the monies earned for the various class, club or team projects.

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018*

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)*

c. *Measurement Focus and Basis of Accounting:*

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

Measurement Focus:

Government-Wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

Government-Wide Financial Statements:

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

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Howard School District No. 48-3, the length of that cycle is sixty days.

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

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018*

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)*

c. *Measurement Focus and Basis of Accounting: (continued)*

Basis of Accounting: (continued)

Fund Financial Statements: (continued)

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

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

d. *Interfund Eliminations and Reclassifications:*

Government-Wide Financial Statements:

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

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables are reported as non-spendable fund balance to the extent that the proceeds from the collection of those receivables are not restricted, committed or assigned. Current portions of interfund receivables are considered "available spendable resources" and are reported in the appropriate fund balance category.

**HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** (continued)

e. **Capital Assets:**

Government-Wide Financial Statements:

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

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

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 the estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant, and which extend the useful life of the capital assets are also capitalized. For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

The total June 30, 2018 balance of capital assets for governmental activities includes approximately less than one percent for which the costs were determined by estimates of the original costs. These estimated original costs were established by appraisals or deflated current replacement cost. The total June 30, 2018 balance of capital assets for business-type activities are all valued at original cost.

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

	<i>Capitalization Threshold</i>	<i>Depreciation Method</i>	<i>Estimated Useful Life</i>
Land	\$ --	-- *	--
Land improvements	15,000	straight-line	20 years
Buildings	50,000	straight-line	50 years
Machinery and equipment	5,000	straight-line	4-20 years

*Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

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

HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

1. ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)***

f. **Long-Term Liabilities:**

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Long-term liabilities at June 30, 2017 consist primarily of compensated absences, net pension liability, general obligation bonds, QSCB, and QZAB.

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

g. **Program Revenues:**

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

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. **Proprietary Funds Revenue and Expense Classifications:**

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

i. **Cash and Cash Equivalents:**

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

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018*

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)*

j. *Equity Classifications:*

Government-Wide Financial Statements:

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

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

Fund Financial Statements:

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

k. *Application of Net Position:*

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

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018*

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)*

1. *Fund Balance Classification Policies and Procedures:*

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

Nonspendable – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by School Board.

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

The nonspendable fund balance is comprised of inventory.

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

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

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

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018*

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK:

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

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

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

As of June 30, 2018, the School District did not have any investments. The investments reported in the financial statements consist only of certificates of deposit.

Credit Risk – State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices. As of June 30, 2018, the School District’s investment in the SD FIT pool was unrated. The fair value was \$127,893.

The South Dakota Public Fund Investment Trust (SDFIT) 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 the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis, since the School District has ready access to the cash that is reported as cash and cash equivalents.

Concentration of Credit Risk – The School District places no limit on the amount that may be invested in any one issuer. All of the School District’s investments are in South Dakota Public Investment Trust (SDFIT).

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

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018*

2. *DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK: (continued)*

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The District’s policy is to credit all income from deposits and investments to the General Fund. United States generally accepted accounting principles, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities. These interfund transfers are not violations of the statutory restrictions on interfund transfers.

3. *RESTRICTED CASH AND INVESTMENTS:*

Assets restricted to use for a specific purpose through segregation of balances in separate accounts are as follows:

<u>Amount</u>	<u>Purpose</u>
<u>\$ 608,107</u>	For debt service, by debt covenants

4. *RECEIVABLES AND PAYABLES:*

Receivables and payables are not aggregated in these financial statements. The School Districts expects all receivables to be collected in one year.

5. *INVENTORY:*

Inventory held for consumption is stated at cost.

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

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

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

HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

6. 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 School District's taxes and remits them to the School District.

School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is intended to be used to finance the current year's appropriations, but which will not be collected during the current fiscal year or within the "availability period" has been deferred in the fund financial statements. Property tax revenues intended to finance the current year's appropriations, and therefore susceptible to accrual, has been reported as revenue in the government-wide financial statements, even though collection will occur in a future fiscal year.

7. CHANGES IN CAPITAL ASSETS:

A summary of changes in capital assets for the fiscal year ended June 30, 2018 is as follows:

Governmental Activities:

	<i>Balance 7/1/2017</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance 6/30/18</i>
Capital assets, not being depreciated:				
Land	\$ 19,265	\$ --	\$ --	\$ 19,265
Construction in progress	--	586,539	--	586,539
<i>Total, not being depreciated</i>	<u>19,265</u>	<u>586,539</u>	<u>--</u>	<u>605,804</u>
Capital assets, being depreciated:				
Buildings	7,637,723	1,152,802	(175,954)	8,614,571
Improvements other than buildings	769,578	56,145	--	825,723
Machinery and equipment	1,554,507	93,499	(66,938)	1,581,068
<i>Total, being depreciated</i>	<u>9,961,808</u>	<u>1,302,446</u>	<u>(242,892)</u>	<u>11,021,362</u>
Less accumulated depreciation for:				
Buildings	2,340,039	255,757	(114,438)	2,481,358
Improvements	290,883	64,288	--	355,171
Machinery and equipment	872,682	80,786	(61,239)	892,229
<i>Total accumulated depreciation</i>	<u>3,503,604</u>	<u>400,831</u>	<u>(175,677)</u>	<u>3,728,758</u>
Total capital assets, being depreciated, net	<u>6,458,204</u>	<u>901,615</u>	<u>(67,215)</u>	<u>7,292,604</u>
Governmental activity capital assets, net	<u>\$ 6,477,469</u>	<u>\$ 1,488,154</u>	<u>\$ (67,215)</u>	<u>\$ 7,898,408</u>

HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

7. CHANGES IN CAPITAL ASSETS: (continued)

Depreciation expense was charged to functions as follows:

	<i>Capitalization Threshold</i>	<i>Depreciation Method</i>	<i>Estimated Useful Life</i>
Land	\$ --	-- *	--
Land improvements	15,000	straight-line	20 years
Buildings	50,000	straight-line	50 years
Machinery and equipment	5,000	straight-line	4-20 years

*Land is an inexhaustible capital asset and is not depreciated.

Business-type Activities:

	<i>Balance 7/1/2017</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance 6/30/18</i>
Capital assets, being depreciated:				
Machinery and equipment	\$ 60,972	\$ --	\$ --	\$ 60,972
<i>Total, being depreciated</i>	<u>44,478</u>	<u>--</u>	<u>--</u>	<u>60,972</u>
Less accumulated depreciation for:				
Machinery and equipment	33,321	3,720	--	37,041
<i>Total accumulated depreciation</i>	<u>33,321</u>	<u>3,720</u>	<u>--</u>	<u>37,041</u>
Total capital assets, being depreciated, net	<u>77,799</u>	<u>(3,720)</u>	<u>--</u>	<u>23,931</u>
Business-type activity capital assets, net	<u>\$ 8,343</u>	<u>\$ (3,720)</u>	<u>\$ --</u>	<u>\$ 23,931</u>

Depreciation expense was charged to functions as follows:

<i>Business-Type Activities:</i>	
Food service	<u>\$ 3,720</u>

8. LONG-TERM LIABILITIES:

A summary of changes in long-term debt follows:

	<i>Balance 7/1/2017</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance 6/30/2018</i>	<i>Amount Due Within One Year</i>
Governmental Activities:					
QSCB Bond	\$ 1,295,000	\$ --	\$ --	\$ 1,295,000	\$ --
QZAB Bond	300,001	--	33,333	266,668	33,333
General obligation bonds - Series 2015	1,775,000	--	120,000	1,655,000	125,000
Plus: Unamortized Premium	30,794	--	2,369	28,425	--
General obligation bonds - Series 2011	515,000	--	100,000	415,000	100,000
Energy loan	--	136,997	--	136,997	17,740
OPEB	571,063	96,033	70,794	596,302	--
Compensated absences	51,725	--	8,170	43,555	4,500
<i>Total Governmental Activities</i>	<u>\$ 4,538,583</u>	<u>\$ 233,030</u>	<u>\$ 334,666</u>	<u>\$ 4,436,947</u>	<u>\$ 280,573</u>

HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

8. LONG-TERM LIABILITIES: (continued)

Compensated absences for governmental activities have been liquidated from the General and Special Education Fund.

Debt payable at June 30, 2018 is comprised of the following:

Qualified school construction bonds	QSCB for high school metal roof, maturity date January 15, 2026, interest rate 5.85%, annual deposits of \$86,333 are required to be made to the Debt Service fund.	\$ 1,295,000
Qualified Zone Academy bonds	QZAB bond for elementary metal roof, maturity date September 12, 2025, unstated interest rate 5%, due in annual installments of \$33,333 from Capital Outlay fund.	266,668
General obligation bonds	The School District issued \$2,010,000 of general obligation certificates, Series 2015. The bonds are payable July 1, 2016 through July 1, 2030 with fixed interest rates from .40% to 3.00% that vary depending on the term of maturity. The Capital Outlay fund makes this payment.	1,655,000
General obligation bonds	The School District issued \$1,070,000 of general obligation refunding certificates, Series 2011. The bonds are payable January 1, 2012 through July 1, 2022 with fixed interest rates from .65% to 3.15% that vary depending on the term of maturity. The Capital Outlay fund makes this payment.	415,000
State Energy Loan	The School District received a loan for \$177,368. The loan is 0% interest, and \$17,740 payments. Annual payments are due by July 31st. The Capital Outlay fund makes this payment. There are fund remaining to be spent from loan.	136,997
Other post-employment benefits	The School District provides medical coverage to retired employees and their dependents under certain conditions in accordance with SDCL 6-1-16. Benefit provisions were established and may be amended during the negotiated agreement process between district certified staff and the governing board.	596,302
Compensated absences	Sick leave is earned by employees at varying rates depending on position. Upon termination, certified staff and the business manager are entitled to reimbursement of unused sick leave up to 90 days at \$40 a day or a \$3,600 maximum. Classified staff are entitled to reimbursement of unused sick leave up to 60 days at \$30 a day or a \$1,800 maximum.	43,555

HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

8. LONG-TERM LIABILITIES: (continued)

The annual requirements to maturity for long-term debt June 30, 2018:

<i>Year Ending June 30,</i>	<i>Qualified School Construction Bonds</i>		<i>Qualified Zone Academy Bonds</i>		<i>General Obligation Bonds</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2019	\$ --	\$ 4,662	\$ 33,333	\$ --	\$ 225,000	\$ 50,995
2020	--	4,662	33,333	--	225,000	46,851
2021	--	4,662	33,333	--	230,000	42,039
2022	--	4,662	33,333	--	240,000	36,750
2023	--	4,662	33,333	--	130,000	30,750
2024-2028	1,295,000	11,655	100,003	--	705,000	100,717
2029-2031	--	--	--	--	315,000	9,525
TOTALS	\$ 1,295,000	\$ 34,965	\$ 266,668	\$ --	\$ 2,070,000	\$ 317,627

<i>Year Ending June 30,</i>	<i>Other Loans</i>		<i>TOTAL</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2019	17,740	--	276,073	55,657
2020	17,740	--	276,073	51,513
2021	17,740	--	281,073	46,701
2022	17,740	--	291,073	41,412
2023	17,740	--	181,073	35,412
2024-2028	48,297	--	2,148,300	112,372
2029-2031	--	--	315,000	9,525
TOTALS	\$ 136,997	\$ --	\$ 3,768,665	\$ 352,592

9. OPERATIONAL LEASES:

The School District entered into a three-year operational agreement with the Shannon Colony on September 13, 2013, expiring in the 2015-2016 school year. The agreement contains various covenants and restrictions. The School District will rent the colony school building for \$5,000 annually. Although the three-year agreement matured on June 30, 2016, the school and the colony will honor an oral agreement for the same lease amount to be paid every year. Payments are made from the Capital Outlay Fund.

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018*

10. RESTRICTED NET POSITION:

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

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay	law	\$ 926,932
Special Education	law	1,353,871
Pension	law	155,329
Bond Redemption Fund	debt covenants	608,171
Capital Projects Fund	law	23,214
SDRS Pension Purposes	law	1,144,239
		\$ 4,211,756

11. ASSIGNED FUND BALANCE FOR CASH FLOW:

As authorized by SDCL 13-11-2, the School Board has determined that year-end minimum \$312,165 is necessary to protect the School District's cash liquidity for July 1 through mid-November of the subsequent fiscal year. This amount is reported as Assigned Fund Balance in the affected fund.

12. INTERFUND TRANSFERS:

Interfund transfers for the year ended June 30, 2018 were as follows:

\$19,676 Transfers of investment and deposit earnings to the General Fund are reported. SDCL 4-5-9 and 13-16-18 give the School Board the authority to designate whether all such earnings should be retained by any individual funds or credited to the General Fund. These interfund transfers are not violations of the statutory restrictions on interfund transfers. Certain other statutes and debt covenants require earnings from investments and deposits to be retained in the fund that services the long-term debt.

\$80,375 Transfer from Capital Outlay for sinking fund requirements to bond redemption fund.

\$300,000 Transfer to cover the expenditures in the general fund for insurance, utilities, and fuel.

\$1,000,000 Transfer out of Capital outlay to start a capital projects fund

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018*

13. *PENSION PLAN:*

a. *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's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

b. *Benefits Provided:*

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

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

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

The 2017 legislation modified the COLA, effective for the July 1, 2018 increase:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

13. **PENSION PLAN:** *(continued)*

b. **Benefits Provided:** *(continued)*

All benefits except those depending on the member's accumulated contributions are annually increased by the cost-of-living adjustment.

c. **Contributions:**

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS are:

<i>Year Ended</i>	
<i>June 30,</i>	
2018	\$ 143,451
2017	\$ 145,262
2016	\$ 130,312

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

At June 30, 2017, SDRS is 100.1% funded and accordingly has a net pension asset. The proportionate share of the components of the net pension asset of South Dakota Retirement System, for the School District as of the measurement period ending June 30, 2017 and reported by the School District as of June 30, 2018 are as follows:

Proportionate share of pension liability	\$	13,863,920
Less proportionate share of net pension restricted for pension benefits		13,874,734
<i>Proportionate share of net pension (asset)</i>	\$	<i>(10,814)</i>

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018*

13. *PENSION PLAN: (continued)*

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

At June 30, 2018, the School District reported an (asset) of (\$10,814) for its proportionate share of the net pension (asset). The net pension (asset) was measured as of June 30, 2017 and the total pension asset used to calculate the net pension asset was based on a projection of the School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2017, the School District's proportion was 0.11915740%, which is a decrease of 0.0049387% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School District recognized reduction of pension expense of \$245,137. At June 30, 2017 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>
Difference between expected and actual experience	\$ 173,265	\$ --
Changes in assumption	839,613	--
Net difference between projected and actual earnings on pension plan investments	--	207,903
Changes in proportion and difference between District contributions and proportionate share of contributions	5,040	13,711
District contributions subsequent to the measurement date	143,451	--
<i>TOTAL</i>	<u>\$ 1,161,369</u>	<u>\$ 221,614</u>

\$143,451 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

<i>Year Ended June 30,</i>	
2019	\$ 217,304
2020	364,342
2021	265,856
2022	(51,198)
<i>TOTAL</i>	<u>\$ 796,304</u>

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018*

13. *PENSION PLAN: (continued)*

e. *Actuarial Assumptions:*

The total pension asset in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary increases	Graded by years of service, from 6.50% at entry to 3.00%
Discount Rate	6.50% net of plan investment expense

Mortality rates were based on 97% of the RP-Mortality Table, projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, projected generationally with Scale MP-2016.

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, 2017 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<i>Asset Class</i>	<i>Target Allocation</i>	<i>Long-term Expected Real Rate of Return</i>
Global equity	58.0%	4.5%
Fixed income	30.0%	1.8%
Real estate	10.0%	4.6%
Cash	2.0%	0.7%
<i>TOTAL</i>	<u>100.0%</u>	

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018*

13. *PENSION PLAN: (continued)*

f. *Discount Rate:*

The discount rate used to measure the total pension asset was 6.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

g. *Sensitivity of asset to changes in the discount rate:*

The following presents the School District’s proportionate share of net pension (asset) calculated using the discount rate of 6.50 as well as what the School’s proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	<i>1% Decrease</i>	<i>Current Discount Rate</i>	<i>1% Increase</i>
School District's proportionate share of the net pension liability (asset)	\$ 1,980,519	\$ (10,814)	\$ (1,632,406)

h. *Pension Plan Fiduciary Net Position:*

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

i. *Payables to the Pension Plan:*

No payables were reported to the defined benefit plan at end of year.

HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

14. JOINT VENTURES:

The School District participates in the Prairie Lakes Educational Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special education services and fiscal management services to the member school districts.

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

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

The School District retains no equity in the net position of the 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 for this joint venture are available from Prairie Lakes Educational Cooperative.

	<i>6/30/2018</i>
Total Assets	\$ 124,717
Total Liabilities	\$ 68,928
Total net position	\$ 55,843

The School District participates in the Prairie Lakes Educational Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special education services and fiscal management services to the member school districts.

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

Baltic School District No. 49-1	8.00%
Chester Area School District No. 39-1	6.00%
Colman-Egan School District No. 50-6	5.00%
Dell Rapids School District No. 49-3	15.00%
Flandreau School District No. 50-3	15.00%
Garretson School District No. 49-4	6.00%
Howard School District No. 48-3	8.00%
Madison Central School District No. 39-2	15.00%
Oldham-Ramona School District No. 39-5	4.00%
Rutland School District No. 39-4	3.00%
Tri-Valley School District No. 49-6	15.00%

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

HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

15. RISK MANAGEMENT:

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2018, the School District managed its risks as follows:

Health Insurance:

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

Unemployment Benefits:

The School District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. During the year ended June 30, 2017, no claims were filed for unemployment benefits. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

Liability Insurance:

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

Workers' Compensation:

The School District purchases liability insurance for workers' compensation from a commercial carrier.

**HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

16. POST EMPLOYMENT HEALTHCARE PLAN:

Plan Description:

The Howard School District offers a single-employer defined benefit healthcare plan. The plan provides medical coverage to retired employees and their dependents under certain conditions in accordance with SDCL 6-1-16. Benefit provisions were established and may be amended during the negotiated agreement process between District certified staff and the governing board. The health plan does not issue separately stated stand-alone financial statements.

An employee who is employed by the District and who is eligible to participate in the group health plan is covered. An employee with a combination of years of service with the school district and age totaling 60 or greater leaving the district may continue insurance coverage with the group health insurance plan until they reach the age 65. Spousal and dependent coverage is provided as long as the required contributions are paid. Spouses may continue coverage after the retiree's coverage terminates until the spouse has reached age 65. The eligible retiree must pay monthly contributions based on 100% of the full active employee premium rate. All coverage ceases when the retiree or spouse attains age 65 or becomes eligible for Medicare except for COBRA continuation if elected.

Funding Policy:

The retiree is responsible for 100% of the full active premium rates for either single or family coverage.

Changes in Liability:

For the year ended June 30, 2018, the beginning balance of the OPEB liability was \$571,063. Total OPEB liability was determined as of the measurement date, which is June 30, 2018. The changes in the total OPEB liability for 2018 were as follows:

	<i>2017-2018</i>
Beginning of year balances	\$ 571,063
Charges for the year:	
Service cost	78,077
Interest on total OPEB liability	17,956
Effect on assumption changes or inputs	(32,345)
Benefit payments	(38,449)
End of year balances	<u>\$ 596,302</u>

HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

16. POST EMPLOYMENT HEALTHCARE PLAN: (continued)

For the year ended June 30, 2018, the District recognized OPEB Expense of \$91,632. OPEB expense was determined as follows:

	<i>2017-2018</i>
Service Cost	\$ 78,077
Interest on total OPEB liability	17,956
Recognition of Deferred Inflos/Outflows of Resources:	
Recognition of assumption changes	<u>(4,401)</u>
End of year balances	<u>\$ 91,632</u>

As of June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>
Changes in Assumptions	\$ --	\$ --
District contributions subsequent of the measurement date	<u>(27,944)</u>	<u>--</u>
End of year balances	<u>\$ (27,944)</u>	<u>\$ --</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB (revenue) expense as follows:

	<i>Year ended June 30</i>
2019	\$ (4,401)
2020	(4,401)
2021	(4,401)
2022	(4,401)
2023	(4,401)
Thereafter	<u>(5,939)</u>
Total	<u>\$ (27,944)</u>

**HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

16. POST EMPLOYMENT HEALTHCARE PLAN: (continued)

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. Active employees and retirees are charged an equal, blended premium rate for single or family coverage. Although both groups are charged the same rate, GAAP requires the actuarial amounts to be calculated based on the discount rate and actuarial assumptions below and projected forward to the measurement date.

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following assumptions:

- The discount rate used was 3.87% and was based up on the Bond Buyer General Obligation 20-year Municipal Bond Index as of the measurement date.
- The retiree participation rate was assumed to be 25%. The retiree election of family coverage rate was assumed to be 25%.
- Mortality rate were based on 97% of the RP_2014 Mortality Table, White Collar table for females, total dataset for males, adjusted to 2006 and projected generationally with MP-2017.
- Net Claims Cost in future years equal the starting claim cost adjusted for the assumed ongoing cost trends. Such trends are based on the health care cost trend rate adjusted for the impact of plan design and cost containment features. Selected rates are shown below:

<u>Duration</u>	<u>Medical Rate</u>
1	6.10%
2	5.80%
3	6.50%
4	5.00%
5	5.00%
10	5.30%
15	5.80%
20	5.70%
25	5.60%
30	5.30%
35	5.10%
40	5.00%
45	4.90%

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018*

16. *POST EMPLOYMENT HEALTHCARE PLAN: (continued)*

Actuarial Methods and Assumptions: (continued)

- Assumed annual salary, including inflation, for active members are as follows:

<u>Service</u>	<u>Percentage Increase</u>
0	6.50%
1	6.00%
2	5.55%
3	5.30%
4	5.15%
10	4.25%
15	3.76%
20	3.36%
25	3.05%
25+	3.00%

Sensitivity Analysis

The following represents the District's total OPEB liability, calculated using a discount rate that is one percent lower or one percentage point higher than the current rate:

	<i>1% Decrease</i>	<i>Current Discount Rate</i>	<i>1% Increase</i>
	2.58%	3.58%	4.58%
Total OPEB Liability	\$ 641,015	\$ 596,302	\$ 554,643

The following represents the District's total OPEB liability, calculated using healthcare the current healthcare cost trend rates as well as what the District's total OPEB liability would be if it were calculated using trend rates that are one percentage point lower or one percentage point higher than the current trends analysis.

	<i>1% Decrease</i>	<i>Current Trend Rate</i>	<i>1% Increase</i>
Total OPEB Liability	\$ 534,718	\$ 596,302	\$ 668,227

17. *PRIOR PERIOD ADJUSTMENT:*

During the year ended June 30, 2018 the District implemented GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result, beginning net position has been restated to reflect the related total OPEB liability as of July 1, 2017 as follows:

Net Position July 1, 2017, as Previously Reported	\$ 7,150,416
Restatement for Accounting for OPEB costs:	
Total OPEB Liability	<u>(317,677)</u>
Net Position July 1, 2017, as Restated	<u><u>\$ 6,832,739</u></u>

***REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MD&A***

HOWARD SCHOOL DISTRICT NO. 48-3
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u> <u>BUDGETARY</u> <u>BASIS</u>	<u>FINAL BUDGET-</u> <u>POSITIVE</u> <u>(NEGATIVE)</u>
REVENUES:				
<i>Revenue from Local Sources:</i>				
<i>Taxes:</i>				
Ad valorem taxes	\$ 1,532,620	\$ 1,532,620	\$ 1,604,765	\$ 72,145
Prior years' ad valorem taxes	2,500	2,500	3,921	1,421
Utility taxes	338,000	338,000	388,995	50,995
Penalties and interest on taxes	2,000	2,000	2,824	824
<i>Revenue from Local Governmental Units Other Than LEAs:</i>				
Revenue in lieu of taxes	--	--	1,648	1,648
Earnings on Investments and Deposits	2,250	2,250	5,135	2,885
<i>Cocurricular Activities:</i>				
Admissions	23,300	23,300	23,719	419
Other pupil activity income	2,400	2,400	1,850	(550)
<i>Other Revenue from Local Sources:</i>				
Rentals	2,000	2,000	3,785	1,785
Contributions and donations	--	--	1,672	1,672
Charges for services	5,000	5,000	5,107	107
Other	1,500	1,500	8,653	7,153
<i>Revenue from Intermediate Sources:</i>				
<i>County Sources:</i>				
County apportionment	10,000	10,000	10,952	952
Revenue in lieu of taxes	3,000	3,000	3,914	914
<i>Revenue from State Sources:</i>				
<i>Grants-in-Aid:</i>				
Unrestricted grants-in-aid	769,903	769,903	741,672	(28,231)
Other State Revenue	--	--	2,742	2,742
<i>Revenue from Federal Sources:</i>				
<i>Grants-in-Aid:</i>				
Restricted grants-in-aid received from federal government through the state	81,748	81,748	94,642	12,894
Other Federal Revenue	--	--	2,201	2,201
TOTAL REVENUES	<u>\$ 2,776,221</u>	<u>\$ 2,776,221</u>	<u>\$ 2,908,197</u>	<u>\$ 131,976</u>

The accompanying Notes to Required Supplementary Information are an integral part of these financial statements.

HOWARD SCHOOL DISTRICT NO. 48-3
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018
(CONTINUED)

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>BUDGETARY</u>	<u>FINAL BUDGET-</u>
			<u>BASIS</u>	<u>POSITIVE</u>
				<u>(NEGATIVE)</u>
EXPENDITURES:				
<i>Instruction:</i>				
<i>Regular Programs:</i>				
Elementary	\$ 932,450	\$ 932,450	\$ 911,568	\$ 20,882
Middle school	245,195	217,945	214,782	3,163
High school	617,955	645,205	634,019	11,186
<i>Special Programs:</i>				
Educationally deprived	86,570	86,570	83,809	2,761
<i>Support Services:</i>				
<i>Pupils:</i>				
Guidance	65,235	69,735	69,111	624
Health	1,600	1,600	1,434	166
<i>Instructional Staff:</i>				
Improvement of instruction	6,000	6,000	3,001	2,999
Educational media	135,680	137,920	134,696	3,224
<i>General Administration:</i>				
Board of education	46,350	46,350	39,689	6,661
Executive administration	72,200	72,200	71,708	492
<i>School Administration:</i>				
Office of the principal	252,860	252,860	244,970	7,890
Other	500	600	561	39
<i>Business:</i>				
Fiscal services	122,655	122,655	118,797	3,858
Operation and maintenance of plant	365,255	365,255	353,876	11,379
Pupil transportation	181,660	181,660	181,339	321
<i>Central:</i>				
Staff	750	750	346	404
<i>Community Services:</i>				
Other	350	350	316	34
<i>Cocurricular Activities:</i>				
Transportation	14,010	14,010	13,646	364
Combined activities	201,460	201,460	187,810	13,650
Contingencies	40,000	40,000	--	40,000
Amount Transferred	--	(6,840)	--	(6,840)
TOTAL EXPENDITURES	3,388,735	3,388,735	3,265,478	123,258
<i>Excess of Revenue Over (Under) Expenditures</i>	(612,514)	(612,514)	(357,281)	255,234
OTHER FINANCING SOURCES:				
Transfers in	300,000	300,000	319,677	19,677
Sales of surplus property	--	--	915	915
TOTAL OTHER FINANCING SOURCES	300,000	300,000	320,592	20,592
<i>Net Change in Fund Balances</i>	(312,514)	(312,514)	(36,689)	275,825
<i>FUND BALANCE - Beginning of Year</i>	736,054	736,054	736,054	--
<i>FUND BALANCE - End of Year</i>	\$ 423,540	\$ 423,540	\$ 699,365	\$ 275,825

The accompanying Notes to Required Supplementary Information are an integral part of these financial statements.

HOWARD SCHOOL DISTRICT NO. 48-3
BUDGETARY COMPARISON SCHEDULE – CAPITAL OUTLAY FUND
FOR THE YEAR ENDED JUNE 30, 2018

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u> <u>BUDGETARY</u> <u>BASIS</u>	<u>FINAL BUDGET-</u> <u>POSITIVE</u> <u>(NEGATIVE)</u>
REVENUES:				
<i>Revenue from Local Sources:</i>				
<i>Taxes:</i>				
Ad valorem taxes	\$ 1,952,557	\$ 1,952,557	\$ 1,985,349	\$ 32,792
Prior years' ad valorem taxes	--	--	1,273	1,273
Penalties and interest on taxes	1,500	1,500	2,555	1,055
<i>Earnings on Investments and Deposits</i>	--	--	8,190	8,190
<i>Other Revenue from Local Sources</i>				
Contributions and donations	--	--	6,441	6,441
<i>Revenue from State Sources:</i>				
Restricted grants-in-aid	--	--	--	--
<i>Revenue from Federal Sources:</i>				
Restricted Grants-in-Aid from federal government	--	--	10,250	10,250
Other Federal Revenue	83,808	83,808	79,646	(4,162)
TOTAL REVENUES	<u>2,037,865</u>	<u>2,037,865</u>	<u>2,093,704</u>	<u>55,839</u>
EXPENDITURES:				
<i>Instruction:</i>				
<i>Regular Programs:</i>				
Elementary	40,000	40,000	25,289	14,711
Middle/Junior high	7,030	9,530	9,015	515
High school	52,970	52,970	50,129	2,841
<i>Support Services:</i>				
<i>Instructional Staff:</i>				
Educational media	16,400	16,400	14,454	1,946
<i>Business:</i>				
Fiscal services	7,500	7,500	5,421	2,079
Operation and maintenance of plant	600,000	1,611,500	994,043	617,457
Pupil transportation	77,000	77,000	3,449	73,551
Food Services	2,750	2,750	--	2,750
<i>Debt Services</i>	400,457	423,057	422,253	804
<i>Cocurricular Activities:</i>				
Combined activities	16,825	26,325	25,390	935
TOTAL EXPENDITURES	<u>1,220,932</u>	<u>2,267,032</u>	<u>1,549,443</u>	<u>717,589</u>
<i>Excess of Revenue Over (Under) Expenditures</i>	<u>816,933</u>	<u>(229,167)</u>	<u>544,261</u>	<u>773,428</u>
OTHER FINANCING SOURCES:				
Transfers out	(386,335)	(1,386,335)	(1,388,564)	(2,229)
Proceeds from long term debt	--	--	136,997	136,997
Sale of surplus property	--	--	4,310	4,310
Compensation for Loss of General Fixed Assets	--	--	6,802	6,802
TOTAL OTHER FINANCING SOURCES:	<u>(386,335)</u>	<u>(1,386,335)</u>	<u>(1,240,455)</u>	<u>145,880</u>
<i>Net Change in Fund Balances</i>	430,598	(1,615,502)	(696,194)	919,308
FUND BALANCE - Beginning of Year	<u>1,623,126</u>	<u>1,623,126</u>	<u>1,623,126</u>	<u>--</u>
FUND BALANCE - End of Year	<u>\$ 2,053,724</u>	<u>\$ 7,624</u>	<u>\$ 926,932</u>	<u>\$ 919,308</u>

The accompanying Notes to Required Supplementary Information are an integral part of these financial statements.

HOWARD SCHOOL DISTRICT NO. 48-3
BUDGETARY COMPARISON SCHEDULE – SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2018

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>BUDGETARY</u>	<u>FINAL BUDGET-</u>
			<u>BASIS</u>	<u>POSITIVE</u>
				<u>(NEGATIVE)</u>
REVENUES:				
<i>Revenue from Local Sources:</i>				
<i>Taxes:</i>				
Ad valorem taxes	\$ 833,279	\$ 833,279	\$ 732,080	\$ (101,199)
Prior years' ad valorem taxes	--	--	713	713
Penalties and interest on taxes	--	--	1,129	1,129
<i>Earnings on Investments and Deposits</i>	--	--	9,481	9,481
<i>Other Revenue from Local Sources:</i>				
Contributions and Donations	--	--	94	94
Charges for services	1,000	1,000	3,660	2,660
<i>Revenue from Federal Sources:</i>				
<i>Grants-in-Aid:</i>				
Restricted grants-in-aid received through the state	100,743	100,743	94,946	(5,797)
TOTAL REVENUES:	<u>935,022</u>	<u>935,022</u>	<u>842,103</u>	<u>(92,919)</u>
EXPENDITURES:				
<i>Instruction:</i>				
<i>Special Programs:</i>				
Programs for special education	734,500	669,500	488,934	180,566
<i>Support Services:</i>				
<i>Pupils:</i>				
Psychological	40,000	40,000	24,768	15,232
Speech pathology	72,735	72,735	70,399	2,336
Student therapy services	31,326	33,926	22,720	11,206
<i>Special Education:</i>				
Administrative costs	35,000	33,535	20,051	13,484
Transportation costs	21,461	70,826	40,300	30,526
Other	--	17,100	16,267	833
TOTAL EXPENDITURES	<u>935,022</u>	<u>937,622</u>	<u>683,439</u>	<u>254,183</u>
<i>Excess of Revenue Over Expenditures</i>	--	(2,600)	158,664	161,264
OTHER FINANCING USES:				
Transfers out	--	--	(9,481)	(9,481)
<i>Net Change in Fund Balances</i>	--	(2,600)	149,183	151,783
<i>FUND BALANCE - Beginning of Year</i>	1,204,688	1,204,688	1,204,688	--
<i>FUND BALANCE - End of Year</i>	<u>\$ 1,204,688</u>	<u>\$ 1,202,088</u>	<u>\$ 1,353,871</u>	<u>\$ 151,783</u>

*The accompanying Notes to Required Supplementary Information are
an integral part of these financial statements.*

HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MD&A
JUNE 30, 2017

1. BUDGETS AND BUDGETARY ACCOUNTING:

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

- a. 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.
- b. The proposed budget is considered by the school board at the first regular meeting held in the month of May of each year.
- c. The proposed budget is published for public review no later than July 15 each year.
- d. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
- e. Before October 1 of each year, the school board must approve the budget for the ensuing fiscal year for each fund, except fiduciary funds.
- f. 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.
- g. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the school board to any other budget category, except for capital outlay, that is deemed insufficient during the year. No amount of expenditures may be charged directly to the contingency line item in the budget.
- h. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
- i. Unexpended appropriations lapse at year-end unless encumbered by resolution of the school board.
- j. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
- k. Budgets for the General Fund and each major special revenue fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

*HOWARD SCHOOL DISTRICT NO. 48-3
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MD&A
JUNE 30, 2017*

2. USGAAP/BUDGETARY ACCOUNTING BASIS DIFFERENCES:

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

HOWARD SCHOOL DISTRICT NO. 48-3
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
SOUTH DAKOTA RETIREMENT SYSTEM
JUNE 30, 2018

	<i>2018</i>	<i>2017</i>	<i>2016</i>	<i>2015</i>
District's proportion of the net pension liability (asset)	0.1191574%	0.1142187%	0.1150060%	0.1172107%
District's proportionate share of net pension liability (asset)	\$ (10,814)	\$ 385,820	\$ (487,773)	\$ (844,455)
District's covered-employee payroll	\$ 2,421,038	\$ 2,171,866	\$ 2,100,249	\$ 2,049,700
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-0.45%	17.76%	-23.22%	-41.20%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.10%	96.89%	104.10%	107.29%

HOWARD SCHOOL DISTRICT NO. 48-3
SCHEDULE OF THE SCHOOL DISTRICT CONTRIBUTIONS TO PENSION
SOUTH DAKOTA RETIREMENT SYSTEM
JUNE 30, 2018

	<i>2018</i>	<i>2017</i>	<i>2016</i>	<i>2015</i>
Contractually required contribution	\$ 143,451	\$ 145,262	\$ 130,312	\$ 126,015
Contributions in relation to the contractually required contribution	<u>(143,451)</u>	<u>(145,262)</u>	<u>(130,312)</u>	<u>(126,015)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
District's covered-employee payroll	\$ 2,393,331	\$ 2,421,033	\$ 2,171,867	\$ 2,100,250
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.00%

HOWARD SCHOOL DISTRICT NO. 48-3
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
JUNE 30, 2018

	<i>2018</i>
Service cost	\$ 78,077
Interest on total OPEB liability	17,956
Effect on assumption changes or inputs	(32,345)
Benefit payments	<u>(38,449)</u>
	<u>25,239</u>
 Beginning of year balances	 <u>\$ 571,063</u>
 End of year balances	 <u>\$ 596,302</u>
 District's covered employee payroll	 N/A
 Total OPEB liability as a Percentage of Covered-employee Payroll	 N/A