

IROQUOIS SCHOOL DISTRICT NO. 2-3
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2016

***IROQUOIS SCHOOL DISTRICT NO. 2-3
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2016***

Board Members:

**Greg Blue - Board President
Greg Bich - Vice President
Rex Geyer
Jeannie Keating
Greg Schortzmann**

Superintendent:

Mike Ruth

Business Manager:

Jill Cundy

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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
Iroquois School District No. 2-3
Kingsbury 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 Iroquois School District No. 2-3, Kingsbury County, South Dakota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Iroquois School District's basic financial statements and have issued our report thereon dated March 22, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Iroquois School District's internal control over financial reporting (internal control) as a basis for designing our 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 the 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 School District's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Current Audit Findings and Questioned Costs as Finding Number 2016-01 to be a significant deficiency.

Compliance and Other Matters

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

School District's Response to Findings

The School District's response to the finding identified in our audit is described in the accompanying Schedule of Prior and Current Audit Findings. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Huron, South Dakota
March 22, 2017

**IROQUOIS SCHOOL DISTRICT NO. 2-3
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

PRIOR AUDIT FINDINGS

Finding Number 2015-01:

A significant deficiency in internal control was disclosed by our audit for a lack of proper segregation of duties for the revenues and expenditures. This finding has not been corrected and is being restated as current audit finding number 2016-01.

CURRENT AUDIT FINDINGS

Finding Number 2016-01:

A significant deficiency in internal control was disclosed by our audit for a lack of proper segregation of duties for revenues and expenditures.

Internal Control – Related Finding – Significant Deficiency

Criteria: The internal control system of a School can help assist in increased reliability of reported financial data, compliance with laws and regulations, and decreased potential for the loss of public records.

Condition: The School District has a limited number of office personnel and, accordingly, does not have adequate accounting controls in the revenue and expenditure functions because of a lack of segregation of duties.

Effect: As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

Recommendation: We recommend a high level of awareness be maintained by management to assist in preventing, detecting, or correcting matters that may arise due to this internal control weakness. We recommend that management attempt to provide compensating internal controls whenever, and wherever, possible and practical.

Management's Response: Due to staff size, it is not deemed feasible to adequately segregate duties. However, we are aware of this internal control weakness and intend to provide continuous monitoring in an effort to prevent, detect, or correct matters that may result.



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INDEPENDENT AUDITOR'S REPORT

**School Board
Iroquois School District No. 2-3
Kingsbury County, South Dakota**

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 Iroquois School District No. 2-3, Kingsbury County, South Dakota, as of June 30, 2016 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Iroquois School District's basic financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Iroquois School District No. 2-3 as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Budgetary Comparison Schedules, The Schedule of the Proportionate Share of the Net Pension Liability, the Schedule of the School District Contributions and the Schedule of Funding Progress 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 March 22, 2017 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
March 22, 2017

*IROQUOIS SCHOOL DISTRICT NO. 2-3
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016*

This section of Iroquois School District No. 2-3's annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year ended on June 30, 2016. 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 \$3,129,358 generated from taxes and other revenues of the governmental and business-type programs were \$293,632 more than the \$2,835,726 in governmental and business-type program expenditures.
- The total cost of the School's programs increased by 13%, mainly due to increased costs of support services and the purchase of new uniforms and football equipment.
- 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 is the Food Service Operation (Fund 51), and Concessions 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.

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.

**IROQUOIS SCHOOL DISTRICT NO. 2-3
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

Figure A-1

Major Features of Iroquois 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

***IROQUOIS SCHOOL DISTRICT NO. 2-3
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016***

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) 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 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.

IROQUOIS SCHOOL DISTRICT NO. 2-3
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016

- **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 and Drivers Education 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
Iroquios School District No. 2-3
Statement of Net Position

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>		<i>Percentage</i>
	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>Change</i>
							<i>2015-2016</i>
Current and Other Assets	\$ 3,977,937	\$ 4,635,395	\$ 19,944	\$ 9,891	\$ 3,997,881	\$ 4,645,286	16.19%
Capital Assets (Net of Depreciation)	1,337,004	1,422,129	--	--	1,337,004	1,422,129	6.37%
Total Assets	5,314,941	6,057,524	19,944	9,891	5,334,885	6,067,415	13.73%
Pension Related Deferred Outflows	288,088	376,411	--	--	288,088	376,411	30.66%
Total Deferred Outflows of Resources	288,088	376,411	--	--	288,088	376,411	30.66%
Long-Term Liabilities Outstanding	101,475	226,817	--	--	101,475	226,817	123.52%
Other Liabilities	179,840	301,318	--	--	179,840	301,318	67.55%
Total Liabilities	281,315	528,135	--	--	281,315	528,135	87.74%
Taxes Levied for Future Period	906,286	1,262,354	--	--	906,286	1,262,354	39.29%
Pension Related Deferred Inflows	377,856	302,189	--	--	377,856	302,189	-20.03%
Total Deferred Inflows of Resources	1,284,142	1,564,543	--	--	1,284,142	1,564,543	21.84%
Net Position							
Net Investment in Capital Assets	1,337,004	1,422,129	--	--	1,337,004	1,422,129	6.37%
Restricted	621,303	985,828	--	--	621,303	985,828	58.67%
Unrestricted	2,079,265	1,933,300	19,944	9,891	2,099,209	1,943,191	-7.43%
Total Net Position	4,037,572	4,341,257	19,944	9,891	4,057,516	4,351,148	7.24%
Beginning Net Position	3,779,469	4,037,572	11,141	19,944	3,790,610	4,057,516	7.04%
Increase (Decrease) in Net Position	\$ 258,103	\$ 303,685	\$ 8,803	\$ (10,053)	\$ 266,906	\$ 293,632	

The District’s combined net position of approximately \$4.3 million is approximately \$293,000 or 7% more than on June 30, 2015.

IROQUOIS SCHOOL DISTRICT NO. 2-3
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016

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 compensated absences payable, capital lease payable, and OPEB, 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 (excluding transfers) totaled \$3,129,358 (See Table A-2.) This was approximately a 13% increase. Approximately 80% of the District’s revenue comes from property and other taxes, with another 11% from state aid. (See Table A-2.)

Table A-2
Iroquios School District No. 2-3
Sources of Revenues
Fiscal Year 2015-2016

Taxes	\$ 2,514,088	80.34%
State Sources	329,706	10.54%
Operating Grants & Contributions	174,801	5.59%
Charges for Services	49,658	1.59%
Other Revenues	56,240	1.79%
Unrestricted Investment Earnings	<u>4,865</u>	<u>0.15%</u>
<i>Total Revenue</i>	<u><u>\$ 3,129,358</u></u>	<u><u>100.00%</u></u>

Cost of all programs and service increased by approximately 13%. The District’s expenses totaled \$2,835,726. (See Table A-3.) The School’s expenses cover a range of services, encompassing instruction, support services, interest on long term debt, co-curricular activities, food services, and driver’s education. (See Table A-3.)

Table A-3
Iroquios School District No. 2-2
Statement of Expenditures
Fiscal Year 2015-2016

Instruction	\$ 1,472,752	51.94%
Support Services	1,104,851	38.96%
Cocurricular Activities	134,975	4.76%
Food Service	120,255	4.24%
Drivers Education	2,455	0.09%
Interest - on Long-Term Debt	308	0.01%
Community Services	<u>130</u>	<u>0.00%</u>
<i>Total Expenditures</i>	<u><u>\$ 2,835,726</u></u>	<u><u>100.00%</u></u>

IROQUOIS SCHOOL DISTRICT NO. 2-3
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016

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
Iroquois School District No. 2-3
Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>		<u>Total Percentage Change 2015-2016</u>
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	
<i>Revenues</i>							
Program Revenues							
Charges for Services	\$ 9,966	\$ 8,855	\$ 38,911	\$ 40,803	\$ 48,877	\$ 49,658	1.60%
Operating Grants and Contributions	107,311	117,947	59,602	56,854	166,913	174,801	4.73%
General Revenues							
Taxes	2,128,868	2,514,088	--	--	2,128,868	2,514,088	18.10%
Revenue State Sources	385,356	329,706	--	--	385,356	329,706	-14.44%
Unrestricted Investment Earnings	3,647	4,865	--	--	3,647	4,865	33.40%
Other General Revenues	36,846	56,240	--	--	36,846	56,240	52.64%
<i>Total Revenues</i>	<u>2,671,994</u>	<u>3,031,701</u>	<u>98,513</u>	<u>97,657</u>	<u>2,770,507</u>	<u>3,129,358</u>	12.95%
<i>Expenses</i>							
Instruction	1,375,828	1,472,752	--	--	1,375,828	1,472,752	7.04%
Support Services	931,566	1,104,851	--	--	931,566	1,104,851	18.60%
Community Services	130	130	--	--	130	130	0.00%
Interest on Long Term Debt	308	308	--	--	308	308	0.00%
Cocurricular Activities	90,688	134,975	--	--	90,688	134,975	48.83%
Food Service	--	--	108,223	120,255	108,223	120,255	11.12%
Other Enterprise Activity	--	--	3,571	2,455	3,571	2,455	-31.25%
<i>Total Expenses</i>	<u>2,398,520</u>	<u>2,713,016</u>	<u>111,794</u>	<u>122,710</u>	<u>2,510,314</u>	<u>2,835,726</u>	12.96%
<i>Excess (Deficiency) Before Transfers</i>	<u>273,474</u>	<u>318,685</u>	<u>(13,281)</u>	<u>(25,053)</u>	<u>260,193</u>	<u>293,632</u>	12.85%
<i>Transfers</i>	<u>(15,371)</u>	<u>(15,000)</u>	<u>15,371</u>	<u>15,000</u>	<u>--</u>	<u>--</u>	
<i>Increase (Decrease) in Net Position</i>	<u>258,103</u>	<u>303,685</u>	<u>2,090</u>	<u>(10,053)</u>	<u>260,193</u>	<u>293,632</u>	12.85%
<i>Beginning Net Position</i>	<u>3,779,469</u>	<u>4,037,572</u>	<u>17,854</u>	<u>19,944</u>	<u>3,797,323</u>	<u>4,057,516</u>	6.85%
<i>Ending Net Position</i>	<u>\$ 4,037,572</u>	<u>\$ 4,341,257</u>	<u>\$ 19,944</u>	<u>\$ 9,891</u>	<u>\$ 4,057,516</u>	<u>\$ 4,351,148</u>	7.24%

GOVERNMENTAL ACTIVITIES

Revenues for the School's governmental activities increased by 13%. Overall net position increased by 7%.

**IROQUOIS SCHOOL DISTRICT NO. 2-3
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

BUSINESS-TYPE ACTIVITIES

Net position of the School's business-type activities decreased approximately \$10,053. The main cause was increased expenses of food purchased.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

Overall the governmental funds have \$303,023 increase in fund balance over last year.

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 2016, the School had invested \$1,422,129 (net of depreciation) in a broad range of capital assets, including, land, buildings, various machinery and equipment. (See Table A-5.) The increase in capital assets was mainly for the boiler project.

Table A-5
Iroquios School District No. 2-3
(net of depreciation)

	<i>Governmental Activities</i>		<i>Total Dollar Change</i>	<i>Total Percentage Change</i>
	<u>2015</u>	<u>2016</u>	<u>2015-2016</u>	<u>2015-2016</u>
Land	\$ 16,630	\$ 16,630	\$ --	0.00%
Constuction in Progress	13,705	--	(13,705)	100.00%
Buildings	1,048,066	1,018,869	(29,197)	-2.79%
Improments Other than Building	211,724	298,624	86,900	41.04%
Machinery and Equipment	46,879	88,006	41,127	87.73%
<i>Total Capital Assets (Net)</i>	<u>\$ 1,337,004</u>	<u>\$ 1,422,129</u>	<u>\$ 85,125</u>	6.37%

This year's capital asset purchases of \$170,083 were for the crow's nest, ventilation, landscaping, and network switches.

**IROQUOIS SCHOOL DISTRICT NO. 2-3
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

LONG-TERM DEBT

At year-end the School had \$226,817 in general long term obligations. This balance includes OPEB, state lighting loan and accrued sick leave payable. See individual balances as shown on Table A-6 below.

**Table A-6
IROQUOIS SCHOOL DISTRICT
Outstanding Debt & Obligations**

	<i>Governmental Activities</i>		<i>Total Dollar Change</i>	<i>Total Percentage Change</i>
	<u>2015</u>	<u>2016</u>	<u>2015-2016</u>	<u>2015-2016</u>
Capital lease	\$ 7,817	\$ --	\$ (7,817)	-100.00%
State lighting loan	--	107,080	107,080	100.00%
OPEB	89,478	114,933	25,455	28.45%
Compensated absences	4,180	4,804	624	14.93%
Total Outstanding Debt and Obligations	\$ 101,475	\$ 226,817	\$ 125,342	123.52%

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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

One of the primary sources of revenue to the School is based on a per student allocation received from the State of South Dakota. In FY16, the state aid formula for the current year ensures that property taxes plus state aid will equal \$4,876.

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>
2016	238	9.68%
2015	217	-11.43%

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 Iroquois School District's Business Office, 111 East Washita Street, Iroquois, SD 57353 or (605) 546-2210.

IROQUOIS SCHOOL DISTRICT NO. 2-3
STATEMENT OF NET POSITION – GOVERNMENT-WIDE
JUNE 30, 2016

	<i>PRIMARY GOVERNMENT</i>		
	<i>GOVERNMENTAL ACTIVITIES</i>	<i>BUSINESS-TYPE ACTIVITIES</i>	<i>TOTAL</i>
ASSETS:			
Cash and cash equivalents	\$ 2,951,721	\$ 6,294	\$ 2,958,015
Taxes receivable	1,268,983	--	1,268,983
Incidental imprest account	2,500	--	2,500
Inventories	--	3,597	3,597
Other assets	211,733	--	211,733
Restricted assets:			
Net pension asset	200,458	--	200,458
Capital Assets:			
Land and construction in progress	16,630	--	16,630
Other capital assets, net of depreciation	1,405,499	--	1,405,499
TOTAL ASSETS	6,057,524	9,891	6,067,415
DEFERRED OUTFLOWS OF RESOURCES:			
Pension related deferred outflows	376,411	--	376,411
TOTAL DEFERRED OUTFLOWS OF RESOURCES	376,411	--	376,411
LIABILITIES:			
Other current liabilities	301,318	--	301,318
Noncurrent liabilities:			
Due within one year	600	--	600
Due in more than one year	226,217	--	226,217
TOTAL LIABILITIES	528,135	--	528,135
DEFERRED INFLOWS OF RESOURCES:			
Taxes levied for a future period	1,262,354	--	1,262,354
Pension related deferred inflows	302,189	--	302,189
TOTAL DEFERRED INFLOWS OF RESOURCES	1,564,543	--	1,564,543
NET POSITION:			
Net investment in capital assets	1,422,129	--	1,422,129
Restricted for:			
Capital outlay	397,972	--	397,972
Special education	166,884	--	166,884
Pension	146,292	--	146,292
SDRS pension purposes	274,680	--	274,680
Unrestricted	1,933,300	9,891	1,943,191
TOTAL NET POSITION	\$ 4,341,257	\$ 9,891	\$ 4,351,148

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

IROQUOIS SCHOOL DISTRICT NO. 2-3
STATEMENT OF ACTIVITIES – GOVERNMENT-WIDE
FOR THE YEAR ENDED JUNE 30, 2016

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	
PRIMARY GOVERNMENT:							
<i>Governmental Activities:</i>							
Instruction	\$ 1,472,752	\$ --	\$ 117,947	\$ --	\$ (1,354,805)	\$ --	\$ (1,354,805)
Support services	1,104,851	--	--	--	(1,104,851)	--	(1,104,851)
Community Services	130	--	--	--	(130)	--	(130)
Interest on long term debt	308	--	--	--	(308)	--	(308)
Cocurricular activities	134,975	8,855	--	--	(126,120)	--	(126,120)
<i>Total Governmental Activities</i>	<u>2,713,016</u>	<u>8,855</u>	<u>117,947</u>	<u>--</u>	<u>(2,586,214)</u>	<u>--</u>	<u>(2,586,214)</u>
BUSINESS-TYPE ACTIVITIES:							
Food service	120,255	37,053	56,854	--	--	(26,348)	(26,348)
Drivers education	2,455	3,750	--	--	--	1,295	1,295
<i>Total Business-Type Activities</i>	<u>122,710</u>	<u>40,803</u>	<u>56,854</u>	<u>--</u>	<u>--</u>	<u>(25,053)</u>	<u>(25,053)</u>
<i>Total Primary Government</i>	<u>\$ 2,835,726</u>	<u>\$ 49,658</u>	<u>\$ 174,801</u>	<u>\$ --</u>	<u>(2,586,214)</u>	<u>(25,053)</u>	<u>(2,611,267)</u>
GENERAL REVENUES AND TRANSFERS:							
Taxes:							
Property taxes					2,466,769	--	2,466,769
Utility taxes					47,319	--	47,319
Revenue from State Sources:							
State aid					329,706	--	329,706
Unrestricted investment earnings					4,865	--	4,865
Other general revenues					56,240	--	56,240
Transfers					(15,000)	15,000	--
<i>Total General Revenues, and Transfers</i>					<u>2,889,899</u>	<u>15,000</u>	<u>2,904,899</u>
<i>Change in Net Position</i>					<u>303,685</u>	<u>(10,053)</u>	<u>293,632</u>
<i>NET POSITION - Beginning of Year</i>					<u>4,037,572</u>	<u>19,944</u>	<u>4,057,516</u>
<i>NET POSITION - End of Year</i>					<u>\$ 4,341,257</u>	<u>\$ 9,891</u>	<u>\$ 4,351,148</u>

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

IROQUOIS SCHOOL DISTRICT NO. 2-3
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2016

	<i>GENERAL FUND</i>	<i>CAPITAL OUTLAY FUND</i>	<i>SPECIAL EDUCATION FUND</i>	<i>PENSION FUND</i>	<i>TOTAL GOVERNMENTAL FUNDS</i>
ASSETS:					
Cash and cash equivalents	\$ 2,215,694	\$ 397,972	\$ 183,853	\$ 154,202	\$ 2,951,721
Taxes receivable--current	678,275	281,824	264,685	37,570	1,262,354
Taxes receivable--delinquent	5,724	393	404	108	6,629
Due from other government	104,653	107,080	--	--	211,733
Advance payments	2,500	--	--	--	2,500
TOTAL ASSETS	\$ 3,006,846	\$ 787,269	\$ 448,942	\$ 191,880	\$ 4,434,937
LIABILITIES AND FUND BALANCES:					
<i>Liabilities:</i>					
Accounts payable	\$ 1,190	\$ 107,080	\$ --	\$ --	\$ 108,270
Contracts payable	130,008	--	12,075	--	142,083
Payroll deductions and withholding and employer matching payable	38,161	--	4,894	7,910	50,965
Total Liabilities	169,359	107,080	16,969	7,910	301,318
<i>Deferred Inflows of Resources:</i>					
Taxes levied for a future period	678,275	281,824	264,685	37,570	1,262,354
Unavailable revenue-property taxes	5,724	393	404	108	6,629
Total Deferred Inflows of Resources	683,999	282,217	265,089	37,678	1,268,983
<i>Fund Balances:</i>					
Restricted					
Capital Outlay	--	397,972	--	--	397,972
Special Education	--	--	166,884	--	166,884
Pension	--	--	--	146,292	146,292
Unassigned	2,153,488	--	--	--	2,153,488
Total Fund Balances	2,153,488	397,972	166,884	146,292	2,864,636
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,006,846	\$ 787,269	\$ 448,942	\$ 191,880	\$ 4,434,937

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

IROQUOIS SCHOOL DISTRICT NO. 2-3
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION – GOVERNMENTAL FUNDS
JUNE 30, 2016

<i>Total Fund Balances - Governmental Funds</i>		\$	2,864,636
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>			
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.			200,458
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	The cost of capital assets are Accumulated depreciation is Net	\$ 2,620,878 <u>(1,198,749)</u>	1,422,129
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.			376,411
Long-term liabilities, capital lease payable OPEB, and compensated absences are not due and payable in the current period and therefore are not reported in the funds.			(226,817)
Assets such as taxes receivable (delinquent) are not available to pay for the current period expenditures, and therefore are deferred in the funds.			6,629
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.			<u>(302,189)</u>
<i>Net Position-Governmental Funds</i>		\$	<u><u>4,341,257</u></u>

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

IROQUOIS SCHOOL DISTRICT NO. 2-3
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>GENERAL</u> <u>FUND</u>	<u>CAPITAL</u> <u>OUTLAY</u> <u>FUND</u>	<u>SPECIAL</u> <u>EDUCATION</u> <u>FUND</u>	<u>PENSION</u> <u>FUND</u>	<u>TOTAL</u> <u>GOVERNMENTAL</u> <u>FUNDS</u>
REVENUES:					
<i>Revenue from Local Sources:</i>					
<i>Taxes:</i>					
Ad valorem taxes	\$ 1,474,812	\$ 447,468	\$ 462,687	\$ 75,629	\$ 2,460,596
Prior years' ad valorem taxes	1,513	95	133	30	1,771
Utility taxes	47,319	--	--	--	47,319
Penalties and interest on taxes	1,138	236	287	57	1,718
<i>Earnings on Investments and Deposits</i>	4,865	--	--	--	4,865
<i>Cocurricular Activities:</i>					
Admissions	8,855	--	--	--	8,855
<i>Other Revenue from Local Sources:</i>					
Charges for services	5,549	--	1,939	--	7,488
Other	5,712	20,950	10	--	26,672
<i>Revenue from Intermediate Sources:</i>					
<i>County Sources:</i>					
County apportionment	18,131	--	--	--	18,131
Revenue in Lieu of Taxes	3,949	--	--	--	3,949
<i>Revenue from State Sources:</i>					
<i>Grants-in-Aid:</i>					
Unrestricted grants-in-aid	329,706	--	--	--	329,706
<i>Revenue from Federal Sources:</i>					
<i>Grants-in-Aid:</i>					
Restricted grants-in-aid received from federal government through the state	117,947	--	--	--	117,947
TOTAL REVENUES	<u>2,019,496</u>	<u>468,749</u>	<u>465,056</u>	<u>75,716</u>	<u>3,029,017</u>

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

IROQUOIS SCHOOL DISTRICT NO. 2-3
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

	GENERAL FUND	CAPITAL OUTLAY FUND	SPECIAL EDUCATION FUND	PENSION FUND	TOTAL GOVERNMENTAL FUNDS
EXPENDITURES:					
<i>Instruction:</i>					
<i>Regular Programs:</i>					
Elementary	\$ 457,313	\$ 22,789	\$ --	\$ 15,107	\$ 495,209
Middle school	112,447	3,743	--	4,399	120,589
High school	462,047	24,192	--	15,948	502,187
Preschool Services	13,934	--	--	--	13,934
<i>Special Programs:</i>					
Programs for special education	--	--	217,347	3,754	221,101
Educationally deprived	89,797	--	--	2,497	92,294
<i>Support Services:</i>					
<i>Pupils:</i>					
Guidance	60,788	--	510	2,772	64,070
Psychological	--	--	9,344	--	9,344
Speech pathology	--	--	19,272	--	19,272
Student therapy services	--	--	56,376	--	56,376
<i>Instructional Staff:</i>					
Educational media	76,804	1,524	--	1,308	79,636
<i>General Administration:</i>					
Board of education	22,073	--	--	--	22,073
Executive administration	49,984	370	--	2,259	52,613
<i>School Administration:</i>					
Office of the principal	89,289	--	--	4,438	93,727
<i>Business:</i>					
Fiscal services	73,387	--	--	--	73,387
Facilities acquisition and construction	--	51,696	--	--	51,696
Operation and maintenance of plant	204,081	55,115	--	--	259,196
Transportation	223,572	--	--	--	223,572
Food service	10,464	2,538	--	--	13,002
<i>Central</i>					
Staff	654	--	--	--	654
<i>Special Education</i>					
Administrative costs	--	--	13,068	585	13,653
Other special education costs	--	--	45,984	--	45,984
<i>Community Services</i>					
Debt Service	--	8,125	--	--	8,125
<i>Cocurricular Activities:</i>					
Male activities	27,075	22,758	--	625	50,458
Female activities	25,044	10,671	--	659	36,374
Transportation	17,942	--	--	--	17,942
Combined activities	11,108	228	--	57	11,393
Capital Outlay	--	170,083	--	--	170,083
TOTAL EXPENDITURES	2,027,803	373,832	361,901	54,538	2,818,074
<i>Excess of Revenue Over (Under) Expenditures</i>	<i>(8,307)</i>	<i>94,917</i>	<i>103,155</i>	<i>21,178</i>	<i>210,943</i>
OTHER FINANCING SOURCES (USES):					
Transfers out	(15,000)	--	--	--	(15,000)
General Long-Term Debt Issued	--	107,080	--	--	107,080
TOTAL OTHER FINANCING SOURCES (USES)	(15,000)	107,080	--	--	92,080
<i>Net Change in Fund Balances</i>	<i>(23,307)</i>	<i>201,997</i>	<i>103,155</i>	<i>21,178</i>	<i>303,023</i>
<i>FUND BALANCE - Beginning of Year</i>	<i>2,176,795</i>	<i>195,975</i>	<i>63,729</i>	<i>125,114</i>	<i>2,561,613</i>
<i>FUND BALANCE - End of Year</i>	<i>\$ 2,153,488</i>	<i>\$ 397,972</i>	<i>\$ 166,884</i>	<i>\$ 146,292</i>	<i>\$ 2,864,636</i>

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

IROQUOIS SCHOOL DISTRICT NO. 2-3
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCES
TO THE GOVERNMENT-WIDE STATEMENTS OF ACTIVITIES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

Net Change in Fund Balances - Total Governmental Funds \$ 303,023

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

<p>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 position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period.</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Capital Outlays</td> <td style="width: 50%; text-align: right;">\$ 170,083</td> </tr> <tr> <td>Depreciation Expense</td> <td style="text-align: right;"><u>(84,958)</u></td> </tr> <tr> <td>Net</td> <td style="text-align: right;">85,125</td> </tr> </table>	Capital Outlays	\$ 170,083	Depreciation Expense	<u>(84,958)</u>	Net	85,125	85,125
Capital Outlays	\$ 170,083							
Depreciation Expense	<u>(84,958)</u>							
Net	85,125							

<p>Payment on principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net position.</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Capital Purchase Payable</td> <td style="width: 50%; text-align: right;">7,817</td> </tr> </table>	Capital Purchase Payable	7,817	7,817
Capital Purchase Payable	7,817			

<p>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.</p>	(107,080)
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<p>Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds, and are instead counted as deferred tax revenues. They are, however, recorded as revenues in the statement of activities. The amount reported is the change in deferred tax revenues from last year.</p>	2,684
--	-------

<p>Governmental funds recognize expenditures for amounts of compensated absences 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.</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">OPEB benefits</td> <td style="width: 50%; text-align: right;">(25,455)</td> </tr> <tr> <td>Sick Leave</td> <td style="text-align: right;"><u>(624)</u></td> </tr> <tr> <td>Net</td> <td style="text-align: right;">(26,079)</td> </tr> </table>	OPEB benefits	(25,455)	Sick Leave	<u>(624)</u>	Net	(26,079)	(26,079)
OPEB benefits	(25,455)							
Sick Leave	<u>(624)</u>							
Net	(26,079)							

<p>Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds.</p>	38,195
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<i>Change in Net Position of Governmental Activities</i>	<u><u>\$ 303,685</u></u>
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The accompanying Notes to Financial Statements are an integral part of these financial statements.

IROQUOIS SCHOOL DISTRICT NO. 2-3
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
JUNE 30, 2016

	<i>ENTERPRISE FUNDS</i>		
	<i>FOOD SERVICE FUND</i>	<i>OTHER ENTERPRISE FUND</i>	<i>TOTAL</i>
ASSETS:			
<i>Current Assets:</i>			
Cash and cash equivalents	\$ 2,499	\$ 3,795	\$ 6,294
Inventory of stores purchased for resale	2,730	--	2,730
Inventory of donated food	867	--	867
<i>Total Current Assets</i>	<u>6,096</u>	<u>3,795</u>	<u>9,891</u>
<i>Capital Assets:</i>			
Machinery and equipment-local funds	23,218	--	23,218
Less: accumulated depreciation	<u>(23,218)</u>	<u>--</u>	<u>(23,218)</u>
<i>Total Capital Assets</i>	<u>--</u>	<u>--</u>	<u>--</u>
 <i>TOTAL ASSETS</i>	 <u>\$ 6,096</u>	 <u>\$ 3,795</u>	 <u>\$ 9,891</u>
 NET POSITION:			
<i>Net Position</i>			
Unrestricted net position	<u>\$ 6,096</u>	<u>\$ 3,795</u>	<u>\$ 9,891</u>
 <i>TOTAL NET POSITION</i>	 <u>\$ 6,096</u>	 <u>\$ 3,795</u>	 <u>\$ 9,891</u>

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

IROQUOIS SCHOOL DISTRICT NO. 2-3
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<i>ENTERPRISE FUNDS</i>		<i>TOTAL</i>
	<i>FOOD SERVICE FUND</i>	<i>OTHER ENTERPRISE FUND</i>	
OPERATING REVENUES:			
<i>Sales:</i>			
To pupils	\$ 35,740	\$ --	\$ 35,740
To adults	1,313	--	1,313
<i>Other Charges for Goods and Services:</i>	--	3,750	3,750
<i>Total Operating Revenue</i>	<u>37,053</u>	<u>3,750</u>	<u>40,803</u>
OPERATING EXPENSES:			
<i>Food Service:</i>			
Salaries	30,180	2,160	32,340
Employee benefits	22,512	165	22,677
Purchased services	1,454	--	1,454
Supplies	2,971	130	3,101
Cost of sales - purchased food	54,899	--	54,899
Cost of sales - donated food	6,481	--	6,481
Miscellaneous	1,758	--	1,758
<i>Total Operating Expenses</i>	<u>120,255</u>	<u>2,455</u>	<u>122,710</u>
<i>Operating Income (Loss)</i>	<u>(83,202)</u>	<u>1,295</u>	<u>(81,907)</u>
NONOPERATING REVENUES:			
<i>State Sources:</i>			
Cash reimbursements	823	--	823
<i>Federal Sources:</i>			
Cash reimbursements	49,340	--	49,340
Donated food	6,691	--	6,691
<i>Total Nonoperating Revenue</i>	<u>56,854</u>	<u>--</u>	<u>56,854</u>
<i>Income (Loss) Before Transfers</i>	<u>(26,348)</u>	<u>1,295</u>	<u>(25,053)</u>
<i>Transfers In</i>	<u>15,000</u>	<u>--</u>	<u>15,000</u>
<i>Change in Net Position</i>	<u>(11,348)</u>	<u>1,295</u>	<u>(10,053)</u>
<i>NET POSITION - Beginning of Year</i>	<u>17,444</u>	<u>2,500</u>	<u>19,944</u>
<i>NET POSITION - End of Year</i>	<u>\$ 6,096</u>	<u>\$ 3,795</u>	<u>\$ 9,891</u>

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

IROQUOIS SCHOOL DISTRICT NO. 2-3
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<i>ENTERPRISE FUNDS</i>		
	<i>FOOD SERVICE FUND</i>	<i>OTHER ENTERPRISE FUND</i>	<i>TOTAL</i>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 37,053	\$ 3,750	\$ 40,803
Payments to suppliers	(61,810)	(130)	(61,940)
Payments to employees	(52,692)	(2,325)	(55,017)
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(77,449)	1,295	(76,154)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Cash reimbursements - state	823	--	823
Cash reimbursements - federal	49,340	--	49,340
Operating transfers - in	15,000	--	15,000
CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	65,163	--	65,163
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12,286)	1,295	(10,991)
CASH AND CASH EQUIVALENTS, Beginning of Year	14,785	2,500	17,285
CASH AND CASH EQUIVALENTS, End of Year	\$ 2,499	\$ 3,795	\$ 6,294
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:			
Operating Loss	\$ (83,202)	\$ 1,295	\$ (81,907)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:			
Noncash cost of sales-commodities	6,481	--	6,481
Change in Assets and Liabilities:			
Inventories	(728)	--	(728)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (77,449)	\$ 1,295	\$ (76,154)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:			
Value of commodities received	\$ 6,691	\$ --	\$ 6,691

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

IROQUOIS SCHOOL DISTRICT NO. 2-3
STATEMENT OF NET POSITION – FIDUCIARY FUNDS
JUNE 30, 2016

	PRIVATE-PURPOSE TRUST FUNDS	AGENCY FUNDS
ASSETS:		
Cash and cash equivalents	\$ 74,451	\$ 42,733
TOTAL ASSETS	\$ 74,451	\$ 42,733
LIABILITIES:		
Amounts held for others	\$ --	\$ 42,733
NET POSITION		
Held in trust for scholarships	74,451	--
TOTAL LIABILITIES AND NET POSITION	\$ 74,451	\$ 42,733

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

**IROQUOIS SCHOOL DISTRICT NO. 2-3
STATEMENT OF CHANGES IN NET POSITION – FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	PRIVATE-PURPOSE TRUST FUNDS
ADDITIONS:	
Other additions	\$ 222
<i>Total Additions</i>	222
DEDUCTIONS:	
Trust deductions for scholarships	1,000
<i>Total Deductions</i>	1,000
<i>Change in Net Position</i>	(778)
NET POSITION - Beginning of Year	75,229
NET POSITION - End of Year	\$ 74,451

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

*IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

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 Iroquois School District No. 2-3, 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 the 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 revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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

b. **Basis of Presentation:** *(continued)*

Government-wide Financial Statements: *(continued)*

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

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

Fund Financial Statements:

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

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

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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

b. ***Basis of Presentation: (continued)***

Fund Financial Statements: (continued)

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 the capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

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

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 that reside within the School 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 School 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 a major fund.

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 driver's education operations. This is not a major fund.

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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

b. ***Basis of Presentation: (continued)***

Fund Financial Statements: (continued)

Fiduciary Funds:

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

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

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, their purposes are for scholarships.

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.

*IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

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

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

Basis of Accounting:

Government-Wide Financial Statements:

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

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or 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 Iroquois School District 2-3, the length of that cycle is sixty days. The revenues which are accrued at June 30, 2016 are grants due from state and federal government.

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

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

All proprietary 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 balances in the fund financial statements have been eliminated or reclassified, as follows:

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.

**IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

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

e. **Capital Assets:**

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

Government-Wide Financial Statements:

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at the estimated fair value on the date donated.

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs. The total June 30, 2016 balance of capital assets for governmental activities and 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:

	<u>Capitalization</u> <u>Threshold</u>	<u>Depreciation</u> <u>Method</u>	<u>Estimated</u> <u>Useful Life</u>
Land	All	-- *	--
Land improvements	\$5,000	straight-line	10-20 years
Buildings	\$5,000	straight-line	50-75 years
Machinery and equipment	\$5,000	straight-line	5-20 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.

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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. The long-term liabilities consist of a capital lease/purchase debt and compensated absences.

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 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:

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

Program-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.

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 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.

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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

i. **Cash and Cash Equivalents:**

The School District pools its cash resources for depositing and investing purposes. The enterprise fund has access to its 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.

j. **Equity Classifications:**

Government-Wide Financial Statements:

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

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

Fund Financial Statements:

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

k. **Application of Net Position:**

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

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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

l. **Fund Balance Classification Policies and Procedures:**

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

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

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

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

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

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

The School District uses restricted 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 assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

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

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

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

m. **Use of Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

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

n. *Pensions:*

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

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:

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-loan 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.

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. Deposits are reported at cost plus interest, if the account is of the add-on type.

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

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.

*IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

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

Concentration of Credit Risk – The School District places no limit on the amount that may be invested in any one issuer.

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 for all governmental funds.

The United States generally accepted accounting principles, on the other hand, requires income from deposits and investments to be recorded 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. RECEIVABLE AND PAYABLES:

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

4. 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 financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

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

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

5. 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.

6. CHANGES IN CAPITAL ASSETS:

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

	<i>Balance 7/1/2015</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance 6/30/16</i>
<i>Governmental Activities:</i>				
Capital assets, not being depreciated:				
Land	\$ 16,630	\$ --	\$ --	\$ 16,630
Construction in progress	13,705	--	(13,705)	--
<i>Total, not being depreciated</i>	<u>30,335</u>	<u>--</u>	<u>(13,705)</u>	<u>16,630</u>
Capital assets, being depreciated:				
Buildings	1,859,091	8,234	--	1,867,325
Improvements other than buildings	255,536	111,360	--	366,896
Machinery and equipment	305,833	64,194	--	370,027
<i>Total, being depreciated</i>	<u>2,420,460</u>	<u>183,788</u>	<u>--</u>	<u>2,604,248</u>
Less accumulated depreciation for:				
Buildings	811,025	37,431	--	848,456
Improvements other than buildings	43,812	24,460	--	68,272
Machinery and equipment	258,954	23,067	--	282,021
<i>Total accumulated depreciation</i>	<u>1,113,791</u>	<u>84,958</u>	<u>--</u>	<u>1,198,749</u>
<i>Capital Assets, Net</i>	<u>\$ 1,337,004</u>	<u>\$ 98,830</u>	<u>\$ (13,705)</u>	<u>\$ 1,422,129</u>

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

6. **CHANGES IN CAPITAL ASSETS:** (continued)

Depreciation expense was charged to functions as follows:

Governmental activities:

Instruction	\$ 39,554
Support services	26,596
Cocurricular activities	<u>18,808</u>
<i>Total Depreciation Expense - Governmental Activities</i>	<u><u>\$ 84,958</u></u>

	<u>Balance</u> <u>7/1/2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/16</u>
<i>Business-Type Activities:</i>				
Capital assets, being depreciated:				
Machinery and equipment	\$ 23,218	\$ --	\$ --	23,218
<i>Total, being depreciated</i>	<u>23,218</u>	<u>--</u>	<u>--</u>	<u>23,218</u>
Less accumulated depreciation for:				
Machinery and equipment	23,218	--	--	23,218
<i>Total accumulated depreciation</i>	<u>23,218</u>	<u>--</u>	<u>--</u>	<u>23,218</u>
<i>Total Capital Assets, being depreciated, net</i>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<i>Business-type activity capital assets, net</i>	<u><u>\$ --</u></u>	<u><u>\$ --</u></u>	<u><u>\$ --</u></u>	<u><u>\$ --</u></u>

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

7. LONG-TERM LIABILITIES:

A summary of changes in long-term debt follows:

	<u>Balance 7/1/2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/16</u>	<u>Amount Due Within One Year</u>
<i>Governmental Activities:</i>					
Capital lease payable	\$ 7,817	\$ --	\$ 7,817	\$ --	\$ --
Other loan	--	107,080	--	107,080	--
OPEB	89,478	27,706	2,251	114,933	--
Compensated absences	4,180	624	--	4,804	600
<i>Total Debt</i>	<u>\$ 101,475</u>	<u>\$ 135,410</u>	<u>\$ 10,068</u>	<u>\$ 226,817</u>	<u>\$ 600</u>

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

Liabilities at June 30, 2016 are comprised of the following:

Compensated absences \$ 4,804

SD Energy Efficient loan:

The School District received a \$123,440, 0% loan on November 1, 2015. (\$107,080 distributed in fiscal year 2016) Annual payments of \$123,440 are due for 10 years beginning July 31, 2017. The Capital Outlay Fund makes payemnt on this debt. \$ 107,080

OPEB

The District provides medical coverage to retired employees and their dependents under certain conditions in accordance with SDCL 6-1-16. Benefit provisions were established andy may be amended during the negotiated agreement process between distict certified staff and the governing board. \$ 114,933

*IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

8. OPERATING LEASE:

The District entered into an agreement to lease a copier for a sixty three (63) month period in December 2010. The monthly payment is \$190 with provisions for adjustments based on copier usage, etc. The agreement contains various covenants, restrictions, and provisions. Payments are made from the Capital Outlay Fund. The minimal rental payments are follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 1,776
2018	1,776
2019	1,776
2020	1,776
2021	1,628

The District entered into an agreement to lease a dishwasher. The payments are \$65 per month. The agreement expires in January 2020.

9. INTERFUND ACTIVITY:

Transfers to/from other funds at June 30, 2016, consist of the following:

Transfer from the General Fund to the Food Service Fund to help finance operations	<u><u>\$ 15,000</u></u>
---	-------------------------

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	\$ 397,972
Special Education	Law	166,884
Pension	Law	146,292
SDRS Pension	Law	274,680
		<u><u>\$ 985,828</u></u>

*IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

11. **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://www.sdrs.sd.gov/publications/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

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

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

*IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

11. *PENSION PLAN: (continued)*

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 for the fiscal years ended June 30, 2016, 2015, and 2014 were \$53,559, \$51,774, and \$47,514, respectively, equal to the required contributions each year.

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

At June 30, 2015, SDRS is 104.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the School District as of June 30, 2016 are as follows:

Proportionate share of net position restricted for pension benefits	\$	5,093,377
Less proportionate share of total pension liability		<u>4,892,919</u>
<i>Proportionate share of net pension liability (asset)</i>	<i>\$</i>	<u><u>(200,458)</u></u>

At June 30 2016, the School District reported a liability (asset) of \$ (200,458) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2015 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the School District's proportion was .04726360%, which is an increase of .0019822% from its proportion measured as of June 30, 2014.

*IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

11. *PENSION PLAN: (continued)*

c. *Contributions: (continued)*

For the year ended June 30, 2016, the School District recognized pension expense (revenue) of (\$20,012). At June 30, 2016 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	\$ 41,045	\$ --
Changes in assumption	158,951	--
Net difference between projected and actual earnings on pension plan investments	122,457	295,780
Changes in proportion and difference between District contributions and proportionate share of contributions	--	6,409
District contributions subsequent to the measurement date	<u>53,959</u>	<u>--</u>
<i>TOTAL</i>	<u>\$ 376,412</u>	<u>\$ 302,189</u>

\$53,959 was 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, 2017. 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>	
2017	\$ 11,571
2018	11,571
2019	(23,482)
2020	<u>34,140</u>
<i>TOTAL</i>	<u>\$ 33,800</u>

*IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

11. *PENSION PLAN: (continued)*

d. *Actuarial Assumptions:*

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

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

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

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

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

<i>Asset Class</i>	<i>Target Allocation</i>	<i>Long-term Expected Real Rate of Return</i>
Global equity	61.0%	4.5%
Fixed income	27.0%	1.8%
Real estate	10.0%	5.2%
Cash	2.0%	0.8%
<i>TOTAL</i>	<u>100.0%</u>	

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

11. PENSION PLAN: (continued)

e. Discount Rate:

The discount rate used to measure the total pension liability (asset) was 7.25 percent through 2017 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset). (NOTE: If there had been a change in the discount rate since the prior measurement date, the School District should disclose information about that change, as required by paragraph 78a of Statement 68.)

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

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

	<i>1% Decrease</i>	<i>Current Discount Rate</i>	<i>1% Increase</i>
School District's proportionate share of the net pension liability (asset)	\$ 504,552	\$ (200,458)	\$ (775,333)

g. Pension Plan Fiduciary Net Position:

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

h. Payables to the Pension Plan:

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

***IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016***

12. JOINT VENTURES:

The School participates in the Northeast Educational Services Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special education services to the member school districts. The members of the co-op and their relative percentage participation in the co-op are as follows:

Arlington School District No. 38-1	3.84%	Hamlin School District No. 28-3	9.94%
Britton-Hecla School District No. 45-4	62.29%	Henry School District No. 14-2	2.46%
Castlewood School District No. 28-1	3.62%	Iroquois School District No. 2-3	2.99%
Clark School District No. 12-2	5.20%	Lake Preston School District No. 38-3	2.31%
DeSmet School District No. 38-2	4.27%	Rosholt School District No. 54-4	3.00%
Deubrook School District No. 5-2	5.08%	Sioux Valley School District No. 5-5	8.50%
Deuel School District No. 19-4	7.08%	Summit School District No. 54-6	2.03%
Elkton School District No. 5-3	4.63%	Waubay School District No. 18-3	2.17%
Enemy Swim Day School	2.38%	Waverly School District No. 14-5	2.92%
Estelline School District No. 28-2	3.52%	Webster School District No. 18-4	6.86%
Florence School District No. 14-1	3.14%	Willow Lake School District No. 12-3	3.17%
Grant-Deuel School District No. 25-3	1.18%	Wilmot School District No. 54-7	2.92%

The co-op's governing board is composed of one representative from each member school, 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 retains no equity in the net assets 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 the Northeast Educational Services Cooperative.

At June 30, 2016, this joint venture had a total of \$1,996,262 net position, total liabilities and deferred inflows of resources of \$1,287,516 and net assets and deferred outflows of resources of \$3,283,778.

***IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016***

13. 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, 2016, the School District managed its risks as follows:

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

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

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

Unemployment Benefits – The School District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended June 30, 2016, \$0 in claims were paid for unemployment. At June 30, 2016, no new claims had been filed for unemployment benefits but claims are anticipated to be paid out in the next fiscal year.

*IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016*

14. OTHER POSTEMPLOYMENT BENEFITS:

Plan description – The Iroquois School District Other Postemployment Benefits Plan is a single employer defined benefit OPEB plan. The 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. The health plan does not issue separately stated stand-alone financial statements.

Funding Policy – The contribution requirements of plan members and the School District are established and may be amended during the negotiated agreement process between District certified staff and the governing board. A teacher or administrator, who retires from the District on or after the age of 55 and with at least 15 years of consecutive service with the District, may be eligible for retiree health insurance coverage. Coverage ceases when the retiree attains the age of 65. The retiree is responsible for 100% of the full active premium rates for either single or family coverage. (The pay-as-you-go basis).

Annual OPEB Cost and Net OPEB Obligation – The entity’s annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The following table shows the financial components of the plan:

Annual required contribution (ARC)	\$	29,454
Interest on net OPEB obligation		2,684
Adjustment to ARC		<u>(4,432)</u>
<i>Annual OPEB Cost</i>		<u>27,706</u>
Contribution made		<u>(2,251)</u>
<i>Increase in net OPEB obligation</i>		<u>25,455</u>
<i>Net OPEB Obligation, Beginning of Year</i>		<u>89,478</u>
<i>Net OPEB Obligation, End of Year</i>	\$	<u><u>114,933</u></u>

**IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

14. OTHER POSTEMPLOYMENT BENEFITS: (continued)

The entity's annual OPEB cost data and net OPEB obligation was as follows:

<i>Fiscal Year Ended</i>	<i>Annual OPEB Cost</i>	<i>Percentage of Annual OPEB Cost Contributed</i>	<i>Net OPEB Obligation</i>
6/30/16	\$ 27,706	8.10%	\$ 114,933
6/30/15	\$ 27,568	5.90%	\$ 89,478
6/30/14	\$ 13,108	62.90%	\$ 63,549

Funded Status and Funding Progress as of June 30, 2015, the most recent actuarial valuation date, the plan's statistics were as follows:

Actuarial Accrued Liability (AAL)	\$ 147,968
Actuarial Value of Benefit Assets	--
Unfunded Actuarial Accrued Liability (UAAL)	147,968
Funded Ratio	0.00%
Covered Payroll	1,053,841
UAAL as a Percentage of Covered Payroll	14.04%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

**IROQUOIS SCHOOL DISTRICT NO. 2-3
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS BUDGETARY</u>	<u>VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>BASIS</u>	
REVENUES:				
<i>Revenue from Local Sources:</i>				
<i>Taxes:</i>				
Ad valorem taxes	\$ 1,342,762	\$ 1,342,762	\$ 1,474,812	\$ 132,050
Prior years' ad valorem taxes	2,800	2,800	1,513	(1,287)
Utility taxes	30,000	30,000	47,319	17,319
Penalties and interest on taxes	1,600	1,600	1,138	(462)
<i>Earnings on Investments and Deposits</i>	3,200	3,200	4,865	1,665
<i>Cocurricular Activities:</i>				
Admissions	9,700	9,700	8,855	(845)
<i>Other Revenue from Local Sources:</i>				
Charges for services	5,000	5,000	5,549	549
Other	2,500	2,500	5,712	3,212
<i>Revenue from Intermediate Sources:</i>				
<i>County Sources:</i>				
County apportionment	15,000	15,000	18,131	3,131
Revenue in lieu of taxes	2,000	2,000	3,949	1,949
<i>Revenue from State Sources:</i>				
<i>Grants-in-Aid:</i>				
Unrestricted grants-in-aid	400,271	400,271	329,706	(70,565)
<i>Revenue from Federal Sources:</i>				
<i>Grants-in-Aid:</i>				
Restricted grants-in-aid received				
From federal government				
through the state	95,181	95,181	117,947	22,766
TOTAL REVENUES:	<u>1,910,014</u>	<u>1,910,014</u>	<u>2,019,496</u>	<u>109,482</u>

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

IROQUOIS SCHOOL DISTRICT NO. 2-3
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>BUDGETARY</u>	<u>FINAL BUDGET- POSITIVE (NEGATIVE)</u>
			<u>BASIS</u>	
EXPENDITURES:				
<i>Instruction:</i>				
<i>Regular Programs:</i>				
Elementary	\$ 474,500	\$ 479,400	\$ 457,313	\$ 22,087
Middle school	112,700	112,700	112,447	253
High school	497,500	497,500	462,047	35,453
Preschool Services	--	15,000	13,934	1,066
<i>Special Programs:</i>				
Educationally deprived	90,181	90,181	89,797	384
<i>Support Services:</i>				
<i>Support Services - Pupils:</i>				
Guidance	61,500	61,500	60,788	712
<i>Instructional Staff:</i>				
Educational media	78,800	78,800	76,804	1,996
<i>General Administration:</i>				
Board of education	31,950	31,950	22,073	9,877
Executive administration	54,400	54,400	49,984	4,416
<i>School Administration:</i>				
Office of the principal	97,750	97,750	89,289	8,461
Other	1,000	1,000	--	1,000
<i>Business:</i>				
Fiscal services	70,250	72,750	73,387	(637)
Operation and maintenance of plant	242,100	242,100	204,081	38,019
Pupil transportation	252,500	252,700	223,572	29,128
Food service	5,000	10,500	10,464	36
<i>Central</i>				
Staff	500	700	654	46
<i>Nonprogrammed Charges:</i>				
Payments to state - unemployment	20,000	20,000	--	20,000
<i>Cocurricular Activities:</i>				
Male activities	28,000	29,700	27,075	2,625
Female activities	28,000	28,000	25,044	2,956
Transportation	25,000	25,000	17,942	7,058
Combined activities	13,250	13,250	11,108	2,142
<i>Contingencies</i>	15,000	--	--	--
Amount transferred (enter as negative)	--	(15,000)	--	(15,000)
TOTAL EXPENDITURES	2,199,881	2,199,881	2,027,803	172,078
<i>Excess of Revenue Over Expenditures</i>	(289,867)	(289,867)	(8,307)	281,560
OTHER FINANCING SOURCES				
Transfers out	--	(15,000)	(15,000)	(30,000)
TOTAL OTHER FINANCING SOURCES	--	(15,000)	(15,000)	(30,000)
<i>Net Change in Fund Balances</i>	(289,867)	(274,867)	(23,307)	251,560
<i>FUND BALANCE - Beginning of Year</i>	2,176,795	2,176,795	2,176,795	--
<i>FUND BALANCE - End of Year</i>	\$ 1,886,928	\$ 1,901,928	\$ 2,153,488	\$ 251,560

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

IROQUOIS SCHOOL DISTRICT NO. 2-3
BUDGETARY COMPARISON SCHEDULE – CAPITAL OUTLAY FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<i>BUDGETED AMOUNTS</i>		<i>ACTUAL AMOUNTS BUDGETARY</i>	<i>VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)</i>
	<i>ORIGINAL</i>	<i>FINAL</i>	<i>BASIS</i>	<i>(NEGATIVE)</i>
REVENUES:				
<i>Revenue from Local Sources:</i>				
<i>Taxes:</i>				
Ad valorem taxes	\$ 306,847	\$ 306,847	\$ 447,468	\$ 140,621
Prior years' ad valorem taxes	200	200	95	(105)
Penalties and interest on taxes	300	300	236	(64)
<i>Other Revenue from Local Sources:</i>				
Other	--	--	20,950	20,950
TOTAL REVENUES	307,347	307,347	468,749	161,402
EXPENDITURES:				
<i>Instruction:</i>				
<i>Regular Programs:</i>				
Elementary	25,000	25,000	24,387	613
Middle school	13,000	13,000	3,743	9,257
High school	25,000	25,000	24,192	808
<i>Support Services:</i>				
<i>Instructional Staff:</i>				
Educational media	5,000	5,000	1,524	3,476
<i>General Administration:</i>				
Board of education	500	500	--	500
Executive administration	500	500	370	130
<i>School Administration:</i>				
Office of the principal	500	500	--	500
<i>Business:</i>				
Fiscal services	5,000	5,000	--	5,000
Facilities acquisition and construction	135,000	135,000	220,181	(85,181)
Operation and maintenance of plant	48,000	55,500	55,115	385
Transportation	20,000	20,000	--	20,000
Food service	5,000	5,000	2,538	2,462
<i>Debt Services</i>	50,000	50,000	8,125	41,875
<i>Cocurricular Activities:</i>				
Male activities	15,500	23,000	22,758	242
Female activities	11,500	11,500	10,671	829
Combined activities	1,000	1,000	228	772
TOTAL EXPENDITURES	360,500	375,500	373,832	1,668
<i>Excess of Revenue Under Expenditures</i>	<i>(53,153)</i>	<i>(68,153)</i>	<i>94,917</i>	<i>163,070</i>
OTHER FINANCING SOURCES (USES):				
General Long-Term Debt Issued	--	--	107,080	107,080
TOTAL OTHER FINANCING SOURCES (USES)	--	--	107,080	107,080
<i>Net Change in Fund Balances</i>	<i>(53,153)</i>	<i>(68,153)</i>	<i>201,997</i>	<i>270,150</i>
FUND BALANCE - Beginning of Year	195,975	195,975	195,975	--
FUND BALANCE - End of Year	\$ 142,822	\$ 127,822	\$ 397,972	\$ 270,150

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

IROQUOIS SCHOOL DISTRICT NO. 2-3
BUDGETARY COMPARISON SCHEDULE – SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<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	\$ 404,000	\$ 404,000	\$ 462,687	\$ 58,687
Prior years' ad valorem taxes	300	300	133	(167)
Penalties and interest on taxes	200	200	287	87
<i>Other Revenue From Local Sources:</i>				
Charges for services	3,500	3,500	1,939	(1,561)
Other	--	--	10	10
TOTAL REVENUE	408,000	408,000	465,056	57,056
EXPENDITURES:				
<i>Instruction:</i>				
<i>Special Programs:</i>				
Programs for special education	228,000	260,000	217,347	42,653
<i>Support Services:</i>				
<i>Pupils:</i>				
Guidance	1,000	1,000	510	490
Psychological	11,000	11,000	9,344	1,656
Speech pathology	24,000	24,000	19,272	4,728
Student therapy services	66,000	66,000	56,376	9,624
<i>Special Education:</i>				
Administrative costs	15,000	15,000	13,068	1,932
Transportation costs	5,000	5,000	--	5,000
Other special education costs	58,000	58,000	45,984	12,016
TOTAL EXPENDITURES	408,000	440,000	361,901	78,099
<i>Excess of Revenue Over Expenditures</i>	--	(32,000)	103,155	135,155
<i>Net Change in Fund Balances</i>	--	(32,000)	103,155	135,155
<i>FUND BALANCE - Beginning of Year</i>	63,729	63,729	63,729	--
<i>FUND BALANCE - End of Year</i>	\$ 63,729	\$ 31,729	\$ 166,884	\$ 135,155

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

IROQUOIS SCHOOL DISTRICT NO. 2-3
BUDGETARY COMPARISON SCHEDULE – PENSION FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<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	\$ 69,000	\$ 69,000	\$ 75,629	\$ 6,629
Prior years' ad valorem taxes	50	50	30	(20)
Penalties and interest on taxes	50	50	57	7
TOTAL REVENUE	69,100	69,100	75,716	6,616
EXPENDITURES:				
<i>Instruction:</i>				
<i>Regular Programs:</i>				
Elementary programs	19,000	19,000	15,107	3,893
Middle school programs	5,000	5,000	4,399	601
High school programs	20,000	20,000	15,948	4,052
<i>Special Programs:</i>				
Programs for special education	6,000	6,000	3,754	2,246
Educationally deprived	3,000	3,000	2,497	503
<i>Pupils:</i>				
Guidance	3,000	3,000	2,772	228
<i>Instructional Staff:</i>				
Educational Media	1,500	1,500	1,308	192
<i>General Administration:</i>				
Executive Administration	2,500	2,500	2,259	241
<i>School Administration:</i>				
Office of the Principal	5,000	5,000	4,438	562
<i>Special Education:</i>				
Administrative Costs	900	900	585	315
<i>Community Services:</i>				
	--	150	130	20
<i>Cocurricular Activities:</i>				
Male activities	1,500	1,500	625	875
Female activities	1,500	1,500	659	841
Combined activities	200	200	57	143
TOTAL EXPENDITURES	69,100	69,250	54,538	14,712
<i>Excess of Revenue Over Expenditures</i>	--	(150)	21,178	21,328
<i>Net Change in Fund Balances</i>	--	(150)	21,178	21,328
<i>FUND BALANCE - Beginning of Year</i>	125,114	125,114	125,114	--
<i>FUND BALANCE - End of Year</i>	\$ 125,114	\$ 124,964	\$ 146,292	\$ 21,328

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

*IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MD&A
JUNE 30, 2016*

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 Item (h).
- 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 Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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.

**IROQUOIS SCHOOL DISTRICT NO. 2-3
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2016**

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets (a)</i>	<i>Actuarial Accrued Liability (Unit Credit) (b)</i>	<i>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</i>	<i>Funded Ratio (a/b)</i>	<i>Covered Payroll (c)</i>	<i>UAAL as a Percentage of Covered Payroll [(b-a)/c]</i>
6/30/2015	\$ --	\$ 147,968	\$ 147,968	0.00%	\$ 1,053,842	14.04%
6/30/2012	\$ --	\$ 90,292	\$ 90,292	0.00%	\$ 813,647	11.10%

IROQUOIS SCHOOL DISTRICT NO. 2-3
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
SOUTH DAKOTA RETIREMENT SYSTEM
JUNE 30, 2016

	<i>2016</i>	<i>2015</i>
District's proportion of the net pension liability (asset)	0.0472636%	0.0452841%
District's proportionate share of net pension liability (asset)	\$ (200,458)	\$ (326,253)
District's covered-employee payroll	\$ 899,317	\$ 862,900
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-22.29%	-37.81%
Plan fiduciary net position as a percentage of the total pension liability (asset)	104.10%	107.29%

IROQUOIS SCHOOL DISTRICT NO. 2-3
SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS
SOUTH DAKOTA RETIREMENT SYSTEM
JUNE 30, 2016

	<i>2016</i>	<i>2015</i>
Contractually required contribution	\$ 53,959	\$ 51,774
Contributions in relation to the contractually required contribution	<u>(53,959)</u>	<u>(51,774)</u>
Contribution deficiency (excess)	<u><u>\$ --</u></u>	<u><u>\$ --</u></u>
District's covered-employee payroll	<u><u>\$ 899,317</u></u>	<u><u>\$ 862,900</u></u>
Contributions as a percentage of covered-employee payroll	6.00%	6.00%