

KADOKA AREA SCHOOL DISTRICT NO. 35-2

FINANCIAL REPORT

JUNE 30, 2015

KADOKA AREA SCHOOL DISTRICT NO. 35-2

SCHOOL DISTRICT OFFICIALS

June 30, 2015

BOARD MEMBERS

Daniel J. Vander May - Chairperson

Ross Block – Vice Chairperson

Mark Williams

Dale Christensen

Ken Lensegrav

Dawn Rasmussen

SUPERINTENDENT

Jamie Hermann

BUSINESS MANAGER

Jo Beth Uhlir

KADOKA AREA SCHOOL DISTRICT NO. 35-2

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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
Kadoka Area School District No. 35-2
Jackson 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 the Kadoka Area School District No. 35-2, South Dakota (School District), as of June 30, 2015, and for the year then ended, and the related notes to the financial statements, which collectively comprise School District's basic financial statements and have issued our report thereon dated March 30, 2016.

Internal Control Over Financial Reporting

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

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

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

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 (continued)

A *significant deficiency* is a deficiency or 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. We consider the deficiency described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2015-002 to be significant deficiency.

Compliance and Other Matters

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

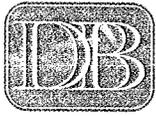
School District's Response to Findings

The School District's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings and Questioned Costs. 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 them.

Purpose of this Report

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

Desmet and Bigg, JTB
March 30, 2016



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

School Board
Kadoka Area School District No. 35-2
Jackson County, South Dakota

Report on Compliance For Each Major Federal Program

We have audited the Kadoka Area School District No. 35-2, South Dakota (School District) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2015. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School District's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the School District's compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133 (continued)

Opinion on Each Major Federal Program

In our opinion, Kadoka Area School District No. 35-2, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2015-001 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2015-003 to be a significant deficiency.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133 (continued)

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. According, this report is not suitable for any other purposes. As required by South Dakota Codified Law 4-11-11, this report and our report on compliance for each major federal program are matters of public record and their distribution is not limited.

Desmit and Beggs, LLP
March 30, 2016

KADOKA AREA SCHOOL DISTRICT NO. 35-2

SCHEDULE OF PRIOR AUDIT FINDINGS
AND QUESTIONED COSTS

Prior Financial Statement Findings:

2014-001

Internal Control Over Revenues, Expenditure, and Payroll.

A material weakness was disclosed by our audit of the financial statements for a lack of segregation of duties for the revenues, expenditure and payroll functions.

2014-002: Provide oversight of the Financial Reporting Process

A significant deficiency was reported in controls to provide oversight of the financial reporting process.

Corrective Action Plan:

Management accepts the degree of risk associated with this condition because of the cost or other considerations. The significant deficiency continues to exist and is restated under the current audit findings as finding number 2015-002.

Prior Federal Award Findings:

A material weakness was reported for lack of segregation of duties for the expenditures, payroll functions, journal entries, and reconciliations as discussed above in finding 2014-001.

2014-003

A significant deficiency was reported for a lack of segregation of duties for the student count for Impact Aid.

Corrective Action Plan:

The School Board President is the contact person responsible for the corrective action plan for these comments 2014-001 and 2014-003. These comments are the result of the size of Kadoka Area School District which precludes staffing at a level sufficient to provide an ideal environment for internal controls. Kadoka Area School District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenues, expenditures and payroll and student count for Impact Aid. Kadoka Area School District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties continues to exist and is restated under the current audit findings as finding numbers 2015-001 and 2015-003.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

SCHEDULE OF CURRENT AUDIT FINDINGS
AND QUESTIONED COSTS

Section I - Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- Material weaknesses identified?
- Significant deficiency identified that are not considered to be material weaknesses?

yes no

yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards:

Internal control over major programs:

- Material weaknesses identified?
- Significant deficiency identified that are not considered to be material weaknesses?

yes no

yes none reported

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133

yes no

Identification of Major Programs:

<u>Name of Federal Program or Clusters</u>	<u>CFDA Numbers</u>
Impact Aid - Maintenance and Operations	84.041
Title I Programs - Local Education Agencies	84.010

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes no

KADOKA AREA SCHOOL DISTRICT NO. 35-2

SCHEDULE OF CURRENT AUDIT FINDINGS
AND QUESTIONED COSTS (continued)

Section II - Current Financial Statement Findings:

Internal Control Over Revenue, Expenditure and Payroll.

Finding Number 2015-001

A material weakness was disclosed by our audit of the financial statements for a lack of segregation of duties for the revenues, expenditure, and payroll functions.

Analysis:

For the revenues, expenditure, payroll functions, there is a lack of segregation of duties because one or two persons perform a major portion of the procedures with few checks and balances. This may effect the completeness and existence of transactions. Lack of segregation of duties could adversely affect the organization's ability to record, process, summarize and report financial data consistent with management assertions.

Recommendation:

1. We recommend the Kadoka Area School District No. 35-2 officials be cognizant of this lack of segregation of duties for revenues, expenditure and payroll functions, and attempt to provide compensating internal controls whenever and wherever possible and practical.

Corrective Action Plan

See Corrective Action Plan as discussed in Section III.

Finding Number 2015-002: Provide Oversight of the Financial Reporting Process

A significant deficiency in controls to provide oversight of the financial reporting process was disclosed by our audit. School District's management is responsible for establishing and maintaining internal controls in the financial reporting system and for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with U.S. generally accepted accounting principles (GAAP). We noted the absence of appropriate internal controls in the following areas:

- The School does not have a system of internal controls that would enable management to conclude that the financial statements and the related disclosures are complete and presented in accordance with generally accepted accounting principles. As such, management requested that we assist in identifying adjustments to the accounting records and prepare a draft of the financial statements, including the related footnote disclosures. The outsourcing of this service is not unusual in schools of your size and is a result of management's cost benefit decision to use our accounting expertise rather than to incur internal resource costs. Management reviewed the adjustments and also reviewed, approved, and accepted responsibility for those financial statements prior to their issuance. The adjustments were for reclassifying revenue, accumulated depreciation, and recording capital assets.

Recommendation:

1. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the condition because of cost or other considerations.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

SCHEDULE OF CURRENT AUDIT FINDINGS
AND QUESTIONED COSTS (continued)

Finding Number 2015-002: Provide Oversight of the Financial Reporting Process (continued)

Response:

Management accepts the degree of risk associated with this condition because of the cost or other considerations.

Section III – Current Federal Award Findings and Questioned Costs:

Impact Aid - Maintenance and Operations cfda 84.041, Title I cfda 84.010

Activities Allowed or Unallowed and Special Tests and Provisions:

A material weakness was disclosed by our audit of the internal control over major federal programs, as listed in Section I - Summary of Auditor's Results, Identification of Major Programs, for lack of segregation of duties for the revenues, expenditure and payroll functions as discussed in Section II in audit finding 2015-001. This finding initially occurred in June 30, 2007 and continues to exist.

Finding Number 2015-003

Impact Aid – Maintenance and Operations cfda 84.041

Reporting:

A significant deficiency was disclosed by our audit of the internal control over major federal program for lack of segregation of duties in the preparation of the Impact Aid application. This finding initially occurred in June 30, 2007 and continues to exist.

Analysis:

For preparation of the Impact Aid application, there is a lack of segregation of duties because one or two persons perform a major portion of the procedures with few checks and balances. The lack of segregation of duties may affect the completeness and accuracy of the application.

Recommendation:

1. We recommend the Kadoka Area School District No. 35-2 officials be cognizant of this lack of segregation of duties in the preparation of the Impact Aid application and attempt to provide compensating internal controls whenever and wherever possible and practical.

Corrective Action Plan

The School board president is the contact person responsible for the corrective action plan for these comments 2015-001 and 2015-003. These comments are the result of the size of Kadoka Area School District which precludes staffing at a level sufficient to provide an ideal environment for internal controls. Kadoka Area School District has determined it is not cost beneficial to employ additional personnel to adequately segregate duties for revenues, expenditures, payroll and the preparation of the Impact Aid application. Kadoka Area School District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties continues to exist.



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INDEPENDENT AUDITOR'S REPORT

School Board
Kadoka Area School District No. 35-2
Jackson County, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Kadoka Area School District No. 35-2, South Dakota (School District), as of June 30, 2015, and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

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.

INDEPENDENT AUDITOR'S REPORT (continued)

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 of our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Kadoka Area School District 35-2 as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Adoption of New Accounting Standard. As described in Note 11 to the financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As discussed in Note 10 to the financial statements, the school district has retroactively restated the previously reported Net Position in accordance with the statement. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 13 through 21, the Budgetary Comparison Schedules, Schedule of the School District's Proportionate Share of the Net Pension Liability (Asset), and Schedule of the School District's Contributions on pages 58 through 66, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures, to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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.

INDEPENDENT AUDITOR'S REPORT (continued)

Other Matters (continued)

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The Schedule of Expenditures of Federal Awards, which as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2016 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

D. Smit and Briggs, LLP
March 30, 2016

KADOKA AREA SCHOOL DISTRICT 35-2 MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Kadoka Area School District 35-2's annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year ended on June 30, 2015. Please read it in conjunction with the School's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- 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 only proprietary fund operated by the school is the Food Service Operation.
- Fiduciary fund statements provide information about the financial relationships - like scholarship plans for graduating students - 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.

Figure A-1

Major Features of Kadoka 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 and the School's component units.)	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.	Instances in which the School is the trustee or agent for someone else's resources.
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Balance Sheet *Statement of Revenues, Expenses and Changes in Net Position *Statement of Cash Flows	*Statement of Fiduciary Net Assets *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

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 – the difference between the School's assets and liabilities – 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 non-financial 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, federal grants and interest earnings finance most of these activities.
- **Business-type Activities** - The school charges a fee to students to help cover the costs of providing hot lunch services to all students. The Food Service Fund is the only business-type activity of the 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 (like the Scholarship Trust).

The School has three kinds of funds:

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

The fund level statements are reported on a modified accrual basis. Only those assets that are measureable and currently available are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

In the fund financial statements, capital assets purchased with cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payment of principal and interest on long-term obligations are recorded as expenditures.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The School's combined net position increased as follows:

TABLE A-1
KADOKA AREA SCHOOL DISTRICT 35-2
STATEMENT OF NET POSITION

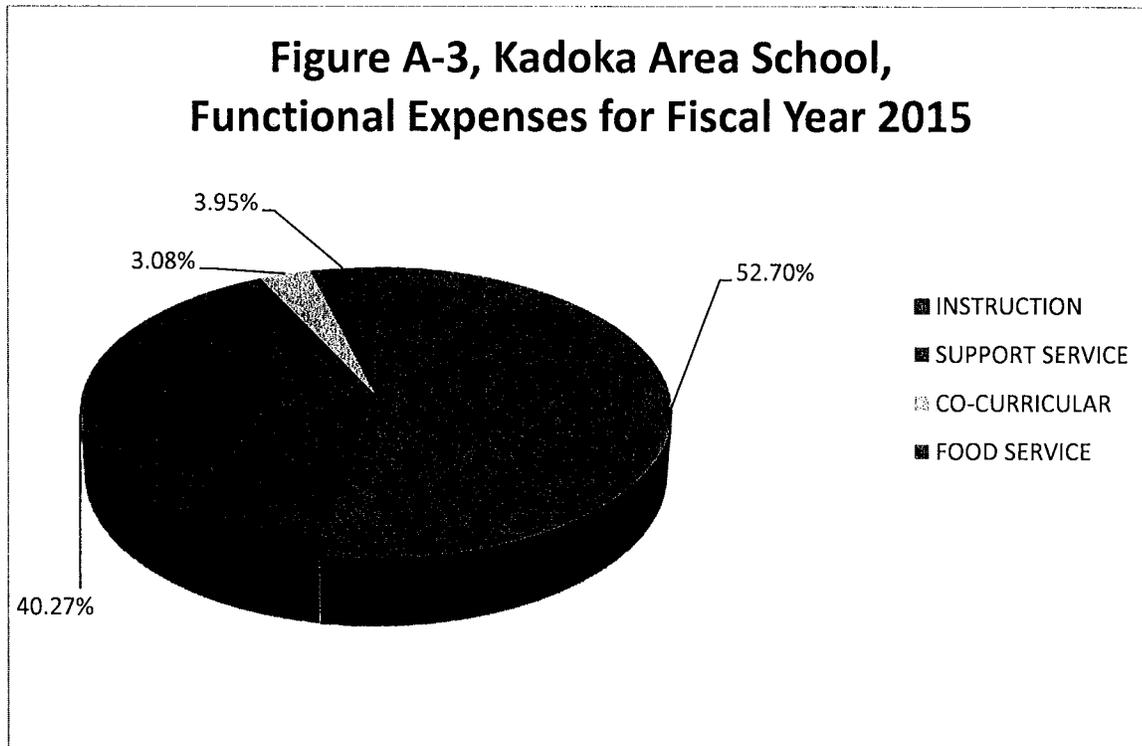
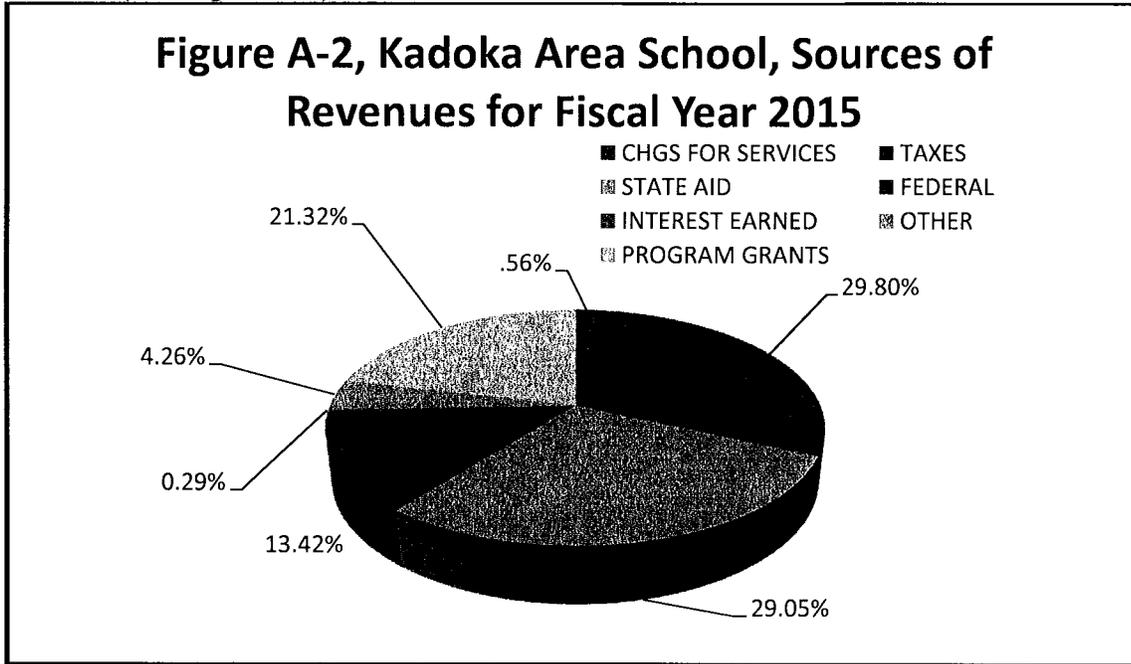
	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2014	2015	2014	2015	2014	2015	2014-2015
Current and Other Assets	\$ 4,114,500.27	\$ 4,926,290.36	\$ 5,889.04	\$ 29,679.09	\$ 4,120,389.31	\$ 4,955,969.45	20.2792%
Capital Assets (Net of Depreciation)	<u>2,498,220.79</u>	<u>2,602,991.51</u>	<u>26,641.29</u>	<u>29,655.09</u>	<u>2,524,862.08</u>	<u>2,632,646.60</u>	4.2689%
Total Assets	<u>6,612,721.06</u>	<u>7,529,281.87</u>	<u>32,530.33</u>	<u>59,334.18</u>	<u>6,645,251.39</u>	<u>7,588,616.05</u>	14.1961%
Long-Term Liabilities							
Outstanding	11,977.97	10,690.60	57.21	43.10	12,035.18	10,733.70	-10.8140%
Other Liabilities	<u>388,162.98</u>	<u>446,842.88</u>	-	-	<u>388,162.98</u>	<u>446,842.88</u>	15.1173%
Total Liabilities	<u>400,140.95</u>	<u>457,533.48</u>	<u>57.21</u>	<u>43.10</u>	<u>400,198.16</u>	<u>457,576.58</u>	4.3034%
Net Position:							
Invested in Capital Assets							
Net of Related Debt	2,498,220.79	2,602,991.51	26,641.29	29,655.09	2,524,862.08	2,632,646.60	4.2689%
Restricted	997,930.36	1,702,929.24	-	12,442.87	997,930.36	1,715,372.11	71.8930%
Unrestricted	<u>1,947,164.19</u>	<u>1,827,461.58</u>	<u>5,831.83</u>	<u>12,593.78</u>	<u>1,952,996.02</u>	<u>1,840,055.36</u>	-5.7829%
Total Net Position	<u>5,443,315.34</u>	<u>6,133,382.33</u>	<u>32,473.12</u>	<u>54,691.74</u>	<u>5,475,788.46</u>	<u>6,188,074.07</u>	70.379%
Adjusted Beginning Net Position	<u>5,688,690.06</u>	<u>5,972,832.39</u>	<u>40,004.29</u>	<u>41,624.37</u>	<u>5,728,694.35</u>	<u>6,014,456.76</u>	
Increase (Decrease) in Net Position	<u>\$ (245,374.72)</u>	<u>\$ 160,549.94</u>	<u>\$ (7,531.17)</u>	<u>\$ 13,067.37</u>	<u>\$ (252,905.89)</u>	<u>\$ 173,617.31</u>	
Percentage change	<u>-4.313%</u>	<u>2.688%</u>	<u>-18.826%</u>	<u>31.394%</u>	<u>-4.41%</u>	<u>2.887%</u>	

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

Changes in Net Position

The School's total revenues totaled \$4,948,699.85 (See Table A-2.) Approximately 30.76% of the School's revenue comes from property and other taxes, 29.99% from state sources and 33.99% coming from program grants and federal revenues with the balance from other sources.(See Figure A-2)

The School's expenses cover a range of services, encompassing instruction, support services and food services. (See Figure A-3).



GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

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

TABLE A-2
KADOKA AREA SCHOOL DISTRICT 35-2
CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2014	2015	2014	2015	2014	2015	2014-2015
Revenues							
Program Revenues	909,640.98	965,672.85	102,657.61	89,561.42	\$1,012,298.59	\$1,055,234.27	4.24%
Charges for Service	51,931.28	26,913.64	55,374.93	64,756.00	107,306.21	91,669.64	-14.57%
Operating Grants and Contributions							
Taxes	1,319,755.84	1,474,690.93	-	-	1,319,755.84	1,474,690.93	11.74%
State Sources	1,386,441.50	1,437,765.37	-	-	1,386,441.50	1,437,765.37	3.70%
Federal Sources	445,450.19	663,962.54	-	-	445,450.19	663,962.54	49.05%
Investment Earnings	15,242.84	14,566.83	-	-	15,242.84	14,566.83	-4.43%
Other General Revenues	58,337.86	210,810.27	-	-	58,337.86	210,810.27	261.36%
Total Revenues	<u>4,186,800.49</u>	<u>4,794,382.43</u>	<u>158,032.54</u>	<u>154,317.42</u>	<u>4,344,833.03</u>	<u>4,948,699.85</u>	<u>13.90%</u>
Expenses							
Instruction	2,445,673.23	2,516,370.37	-	-	2,445,673.23	2,516,370.37	2.89%
Support Services	1,710,663.73	1,923,004.03	-	-	1,710,663.73	1,923,004.03	12.41%
Community Service	12,355.00	-	-	-	12,355.00	-	100.00%
Cocurricular Activities	147,485.40	147,307.52	-	-	147,485.40	147,307.52	-0.12%
Non-Program	84,797.85	-	-	-	84,797.85	-	-100.00%
Food Service	-	-	196,763.71	188,401.21	196,763.71	188,401.21	-4.25%
Total Expenses	<u>4,400,975.21</u>	<u>4,586,681.92</u>	<u>196,763.71</u>	<u>188,401.21</u>	<u>4,597,738.92</u>	<u>4,775,083.13</u>	<u>3.86%</u>
Excess (Deficiency) Before							
Special Items and Transfers	(214,174.72)	207,700.51	(38,731.17)	(34,083.79)	(252,905.89)	173,616.72	168.65%
Transfers	(31,200.00)	(47,151.16)	31,200.00	47,151.16	-	-	0.00%
Increase (Decrease) in Net Position	<u>(245,374.72)</u>	<u>160,549.35</u>	<u>(7,531.17)</u>	<u>13,067.37</u>	<u>(252,905.89)</u>	<u>173,616.72</u>	<u>168.65%</u>
Adjusted Beginning Net Position	<u>5,688,690.06</u>	<u>5,972,832.98</u>	<u>40,004.29</u>	<u>41,624.37</u>	<u>5,728,694.35</u>	<u>6,014,457.35</u>	<u>4.99%</u>
Net Position Ending:	<u>\$ 5,443,315.34</u>	<u>\$ 6,133,382.33</u>	<u>\$ 32,473.12</u>	<u>\$ 54,691.74</u>	<u>\$5,475,788.46</u>	<u>\$6,188,074.07</u>	<u>13.01%</u>

GOVERNMENTAL ACTIVITIES

Program revenues increased partially as a result of use of carryover funds being utilized. The State sources increased slightly. Federal sources increased due to back payments made for impact aid. There was a decrease in investment interest due to lower interest rates. Charge for services decreased to the district no longer charging a sports fee for participants, and smaller crowds at athletic events. Other revenues increased to insurance payments from prior years

BUSINESS-TYPE ACTIVITIES

The Kadoka Area School District business type activity is the school district food service program. There was a slight increase in revenue for sales due to adjustment of lunch prices. The amount of increase in revenue did not offset program expense due to fixed costs at each attendance center and operation of three food service sites with decreasing numbers of students.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

Fund balance for General Fund decreased . The decrease in the General Fund balance is \$125,082.17. due to transfers of impact aid funds to other funds to balance the budget. The Special Education fund decreased due to increased amount of special education students. The Special Education fund balance decrease is \$7,420.42. Fund balance for Pension fund decreased by \$98.89, due to all funds being transferred used for retirement. Capital Outlay Fund reflects an increase of \$3,398.86 as funds are budgeted for and placed in a designation for five year plan for future building project needs. The board is considering future capital outlay expenditures for facility improvements. The impact aid resources along with the designated capital outlay funds will be used for the future improvements.

BUDGETARY HIGHLIGHTS

Over the course of the year, the school board revised the budget several times. The amendments consist of:

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

CAPITAL ASSET ADMINISTRATION

By the end of 2015, the district had invested \$2,572,180.75 (net of depreciation) in a broad range of capital assets, including land, buildings and various machinery and equipment. (See Table A-3).

TABLE A-3
KADOKA AREA SCHOOL DISTRICT 35-2-CAPITAL ASSETS
(net of depreciation)

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2014	2015	2014	2015	2014-2015	2014-2015
Land	\$ 24,740.00	\$ 30,810.76	\$ -	\$ -	\$ 6,070.76	24.54%
Buildings	1,854,505.85	1,921,743.61	-	-	67,237.76	3.63%
Improvements Other Than Buildings	269,858.88	254,526.53	-	-	(15,332.35)	-5.68%
Machinery and Equipment	349,116.06	395,910.61	26,641.29	29,655.09	49,808.35	13.40%
Total Capital Assets (Net)	<u>\$ 2,498,220.79</u>	<u>\$ 2,602,991.51</u>	<u>\$ 26,641.29</u>	<u>\$ 29,655.09</u>	<u>\$ 107,784.52</u>	<u>14.19%</u>

This year's capital asset purchases were primarily computers and food service equipment.

LONG-TERM DEBT

Table A-4
Kadoka Area School District 35-2 – Outstanding Debt and Obligations

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2014	2015	2014	2015	2014-2015	2014-2015
Capital Leases	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%
Early Retirement	-	-	-	-	-	0.00%
Compensated Absence	66,732.26	65,192.84	-	-	(1,539.42)	-2.36%
Total Outstanding Debt	<u>\$ 66,732.26</u>	<u>\$ 65,192.84</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(1,539.42)</u>	<u>-2.36%</u>

The Kadoka Area School District has a policy whereby teachers, principals, and business office personnel who leave employment with the district after having been employed a minimum of two years, may be paid for unused sick leave.

The district also maintains an early retirement plan, which allows those meeting certain qualifications, to retire early and receive 60% of their last year's salary. The early retirement plan allows the school to reduce overall program cost by hiring lower paid teachers to replace the higher paid teachers. This plan grandfathers out and does not apply to those who were not employed by the district in 2005.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

One of the primary sources of revenue to the school district is based on a per student allocation received from the State of South Dakota. Although the state aid formula, according to current statute, shall increase by 3% or the CPI whichever is less, the 2010 and 2011 legislature voted to ignore this provision, and due to economics of the state, there was only a slight increase in the per pupil allocation of state funding.

The state's economy has improved and the state sales tax revenues have exceeded projections. Due to this it appears that school district's will receive at least the 3% state aid increase in the next fiscal year. The utilization for federal impact aid reserves will be necessary to continue to offer programs and services currently offered.

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 Kadoka Area School's Business Office, 800 Bayberry Street, Kadoka, SD 57543.

EXHIBIT I - STATEMENT OF NET POSITION

KADOKA AREA SCHOOL DISTRICT NO. 35-2

EXHIBIT I - STATEMENT OF NET POSITION

June 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$2,981,856.48	\$ 3,871.66	\$2,985,728.14
Taxes receivable	677,297.45	-	677,297.45
Inventories	-	4,314.34	4,314.34
Other assets	281,025.08	4,450.88	285,475.96
Net pension asset	986,111.35	17,042.21	1,003,153.56
Capital assets:			
Land, land improvements	24,740.00	-	24,740.00
Other capital assets, net of depreciation	<u>2,578,251.51</u>	<u>29,655.09</u>	<u>2,607,906.60</u>
Total Assets	<u>7,529,281.87</u>	<u>59,334.18</u>	<u>7,588,616.05</u>
Deferred Outflows of Resources:			
Pension related deferred outflows	<u>871,880.30</u>	<u>15,138.43</u>	<u>887,018.73</u>

Liabilities:			
Accounts payable	10,690.60	43.10	10,733.70
Other current liabilities	381,650.04	-	381,650.04
Noncurrent Liabilities:			
Due within one year	13,038.57	-	13,038.57
Due in more than one year	<u>52,154.27</u>	<u>-</u>	<u>52,154.27</u>
Total Liabilities	<u>457,533.48</u>	<u>43.10</u>	<u>457,576.58</u>
Deferred Inflows of Resources:			
Taxes levied for future periods	668,163.18	-	668,163.18
Pension related deferred inflows	<u>1,142,083.18</u>	<u>19,737.77</u>	<u>1,161,820.95</u>
Total Deferred Inflows of Resources	<u>1,810,246.36</u>	<u>19,737.77</u>	<u>1,829,984.13</u>
Net Position:			
Net investment in capital assets	2,602,991.51	29,655.09	2,632,646.60
Restricted for:			
Capital Outlay	791,998.05	-	791,998.05
Pension	387.29	-	387.29
Special Education	194,635.43	-	194,635.43
SDRS Pension	715,908.47	12,442.87	728,351.34
Unrestricted	<u>1,827,461.58</u>	<u>12,593.78</u>	<u>1,840,055.36</u>
Total Net Position	<u>\$ 6,133,382.33</u>	<u>\$ 54,691.74</u>	<u>\$ 6,188,074.07</u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT II - STATEMENT OF ACTIVITIES

KADOKA AREA SCHOOL DISTRICT NO. 35-2

EXHIBIT II - STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary Government:							
Governmental activities:							
Instruction	\$2,516,370.37	\$ 2,981.23	\$ 804,182.86	\$ -	\$(1,709,206.28)		\$ (1,709,206.28)
Support services	1,923,004.03	6,180.00	161,489.99	-	(1,755,334.04)		(1,755,334.04)
Community Service	-	-	-	-	-		-
Nonprogrammed charges	-	-	-	-	-		-
Cocurricular activities	<u>147,307.52</u>	<u>17,752.41</u>	<u>-</u>	<u>-</u>	<u>(129,555.11)</u>		<u>(129,555.11)</u>
Total governmental activities	4,586,681.92	26,913.64	965,672.85	-	(3,594,095.43)		(3,594,095.43)
Business-type Activities:							
Food service	<u>188,401.21</u>	<u>64,756.00</u>	<u>89,561.42</u>	<u>-</u>		<u>(34,083.79)</u>	<u>(34,083.79)</u>
Total primary government	<u>\$4,775,083.13</u>	<u>\$ 91,669.64</u>	<u>\$ 1,055,234.27</u>	<u>\$ -</u>	<u>(3,594,095.43)</u>	<u>(34,083.79)</u>	<u>(3,628,179.22)</u>
General Revenues:							
Taxes:							
Property taxes					1,313,478.78	-	1,313,478.78
Utility taxes					161,212.15	-	161,212.15
Revenue from State Sources:							
State aid					1,437,765.37	-	1,437,765.37

Revenue from Federal sources	662,412.54	-	662,412.54
Grants and contributions not restricted to specific programs	1,550.00	-	1,550.00
Unrestricted investment earnings	14,566.83	-	14,566.83
Other general revenues	210,810.27	-	210,810.27
Transfers	<u>(47,151.16)</u>	<u>47,151.16</u>	<u>-</u>
Total General Revenues and Transfers	<u>3,754,644.78</u>	<u>47,151.16</u>	<u>3,801,795.94</u>
Change in Net Position	<u>160,549.35</u>	<u>13,067.37</u>	<u>173,616.72</u>
Net Position-Beginning	5,443,315.34	32,473.12	5,475,788.46
Prior Period Adjustment (See Note 10)	<u>529,517.64</u>	<u>9,151.25</u>	<u>538,668.89</u>
Adjusted Net Position-Beginning	<u>5,972,832.98</u>	<u>41,624.37</u>	<u>6,014,457.35</u>
Net Position - Ending	<u>\$ 6,133,382.33</u>	<u>\$ 54,691.74</u>	<u>\$ 6,188,074.07</u>

The accompanying notes are an integral part of
these financial statements.

EXHIBIT III - BALANCE SHEET - GOVERNMENTAL FUNDS

KADOKA AREA SCHOOL DISTRICT NO. 35-2

EXHIBIT III - BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2015

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
Assets:					
Cash and cash equivalents	\$ 1,978,568.96	\$ 791,131.34	\$ 212,156.18	\$ -	\$ 2,981,856.48
Taxes receivable--current	337,090.53	120,726.60	174,724.32	35,621.73	668,163.18
Taxes receivable--delinquent	5,170.79	1,521.92	2,054.27	387.29	9,134.27
Due from Federal government	<u>246,126.08</u>	<u>-</u>	<u>34,899.00</u>	<u>-</u>	<u>281,025.08</u>
Total Assets	<u><u>\$ 2,566,956.36</u></u>	<u><u>\$ 913,379.86</u></u>	<u><u>\$ 423,833.77</u></u>	<u><u>\$ 36,009.02</u></u>	<u><u>\$ 3,940,179.01</u></u>
Liabilities, Deferred Inflows of Resources and Fund Balances:					
Liabilities:					
Accounts payable	\$ 8,087.39	\$ 655.21	\$ 1,948.00	\$ -	\$ 10,690.60
Contracts payable	261,822.31	-	36,414.53	-	298,236.84
Payroll deductions and withholdings and employer matching payable	<u>72,845.68</u>	<u>-</u>	<u>10,567.52</u>	<u>-</u>	<u>83,413.20</u>
Total Liabilities	<u><u>342,755.38</u></u>	<u><u>655.21</u></u>	<u><u>48,930.05</u></u>	<u><u>-</u></u>	<u><u>392,340.64</u></u>

Deferred Inflows of Resources:					
Unavailable revenue - property taxes	5,170.79	1,521.92	2,054.27	387.29	9,134.27
Property taxes levied for future periods	<u>337,090.53</u>	<u>120,726.60</u>	<u>174,724.32</u>	<u>35,621.73</u>	<u>668,163.18</u>
Total Deferred Inflows of Resources	<u>342,261.32</u>	<u>122,248.52</u>	<u>176,778.59</u>	<u>36,009.02</u>	<u>677,297.45</u>
Fund Balances:					
Restricted					
Capital Outlay	-	787,587.22	-	-	787,587.22
Special Education	-	-	198,125.13	-	198,125.13
Capital Outlay-Sports Complex	-	2,888.91	-	-	2,888.91
Pension	-	-	-	-	-
Unassigned	<u>1,881,939.66</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,881,939.66</u>
Total Fund Balances	<u>1,881,939.66</u>	<u>790,476.13</u>	<u>198,125.13</u>	<u>-</u>	<u>2,870,540.92</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,566,956.36</u>	<u>\$ 913,379.86</u>	<u>\$ 423,833.77</u>	<u>\$ 36,009.02</u>	<u>\$ 3,940,179.01</u>

The accompanying notes are an integral part of these financial statements.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2015

Total Fund Balances - Governmental Funds \$2,870,540.92

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

Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds. 986,111.35

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds. The cost of assets is \$5,274,099.27 and the accumulated depreciation is \$2,671,107.76 2,602,991.51

In both the government-wide and fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the funds statements differ from the accounting in the government-wide statements in that the fund financial statements require the amounts to be "available". This amount reflects the application of both the application period and "availability criteria". 9,134.27

Pension related deferred outflows are components of pension asset and therefore are not reported in the funds. 871,880.30

Long-term liabilities, applicable to the School's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities-both current and long-term-are reported in the statement of net position.

Balance at June 30, 2015:
Accrued leave payable (65,192.84)

Pension related deferred inflows are components of pension asset and therefore are not reported in the funds. (1,142,083.18)

Net Position- Governmental Funds \$6,133,382.33

The accompanying notes are integral part of these financial statements.

EXHIBIT IV - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS

KADOKA AREA SCHOOL DISTRICT NO. 35-2

EXHIBIT IV STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2015

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
Revenues:					
Revenue from local sources:					
Taxes:					
Ad valorem taxes	\$ 643,388.15	\$ 238,976.30	\$ 346,415.12	\$ 70,608.19	\$ 1,299,387.76
Prior years' ad valorem taxes	6,747.14	1,841.74	2,029.85	288.74	10,907.47
Utility taxes	161,212.15	-	-	-	161,212.15
Penalties and interest on taxes	3,340.26	1,096.92	1,434.99	260.38	6,132.55
Earnings on investments and deposits	10,936.21	2,777.30	853.32	-	14,566.83
Cocurricular activities:					
Admissions	11,915.89	-	-	-	11,915.89
Rentals	2,479.35	-	-	-	2,479.35
Other pupil activity income	3,357.17	-	-	-	3,357.17
Other revenue from local sources:					
Rentals	4,057.00	-	-	-	4,057.00
Contributions and donations	-	1,550.00	-	-	1,550.00
Services provided other LEAs	6,180.00	-	-	-	6,180.00
Refund of prior years' expenditures	6,497.53	-	-	-	6,497.53
Charges for services	2,701.23	-	280.00	-	2,981.23
Other local sources	5,450.78	6,518.18	-	-	11,968.96

Revenue from intermediate sources:					
County sources:					
County apportionment	36,192.56	-	-	-	36,192.56
Revenue from State sources:					
Grants-in-aid:					
Unrestricted grants-in-aid	1,437,765.37	-	-	-	1,437,765.37
Restricted grants-in-aid	8,125.00	-	-	-	8,125.00
Revenue from Federal sources:					
Grants-in-aid:					
Unrestricted grants-in-aid received directly from Federal government	552,365.81	-	31,379.21	-	583,745.02
Unrestricted grants-in-aid received from Federal government through the State	71,061.00	-	-	-	71,061.00
Unrestricted grants-in-aid received from Federal government through intermediate source	7,606.52	-	-	-	7,606.52
Restricted grants-in-aid received directly from Federal government	36,301.00	-	-	-	36,301.00
Restricted grants-in-aid received from Federal government through the State	<u>749,947.88</u>	<u>-</u>	<u>129,646.00</u>	<u>-</u>	<u>879,593.88</u>
Total Revenue	<u>3,767,628.00</u>	<u>252,760.44</u>	<u>512,038.49</u>	<u>71,157.31</u>	<u>4,603,584.24</u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT IV - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)

KADOKA AREA SCHOOL DISTRICT NO. 35-2

EXHIBIT IV STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (CONTINUED)

For the Year Ended June 30, 2015

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
Expenditures:					
Instruction:					
Regular programs:					
Elementary	\$ 1,018,721.14	\$ 39,940.63	\$ -	\$ 33,212.63	\$ 1,091,874.40
High School	491,833.25	13,466.94	-	15,047.34	520,347.53
Preschool	28,197.61	-	-	-	28,197.61
Special programs:					
Programs for special education	-	-	372,304.62	-	372,304.62
Educationally deprived	513,186.10	-	-	-	513,186.10
Support services:					
Pupils:					
Guidance	99,054.80	-	-	3,893.29	102,948.09
Health	2,138.00	-	-	-	2,138.00
Psychological	1,620.00	-	36,991.58	-	38,611.58
Speech pathology	-	-	61,115.19	-	61,115.19
Student therapy services	442.31	-	9,151.06	-	9,593.37
Support services - instructional staff:					
Improvement of instruction	96,646.78	8,036.97	1,276.99	-	105,960.74
Educational media	105,932.40	-	-	3,545.19	109,477.59
Support services - general administration:					
Board of education	50,144.43	-	-	-	50,144.43
Executive administration	102,017.88	-	-	4,447.24	106,465.12
Support services - school administration:					
Office of the principal	218,655.49	-	-	7,090.93	225,746.42
Other	59.80	-	-	-	59.80

Support services - business:					
Fiscal services	130,738.95	-	-	4,019.58	134,758.53
Operation and maintenance of plant	524,269.49	174,970.20	-	-	699,239.69
Pupil transportation	167,400.37	7,200.00	-	-	174,600.37
Food services	11,566.16	7,151.16	-	-	18,717.32
Support services - central:					
Staff	821.75	-	-	-	821.75
Support services - special education:					
Administrative costs	-	-	33,088.71	-	33,088.71
Transportation costs	-	-	5,530.76	-	5,530.76
Cocurricular activities:					
Male activities	39,002.98	-	-	-	39,002.98
Female activities	29,765.32	-	-	-	29,765.32
Transportation	10,354.03	-	-	-	10,354.03
Combined activities	62,235.35	-	-	-	62,235.35
Capital outlay	-	298,595.68	-	-	298,595.68
Total Expenditures	<u>3,704,804.39</u>	<u>549,361.58</u>	<u>519,458.91</u>	<u>71,256.20</u>	<u>4,844,881.08</u>
Excess of Revenue Over (Under) Expenditures	<u>62,823.61</u>	<u>(296,601.14)</u>	<u>(7,420.42)</u>	<u>(98.89)</u>	<u>(241,296.84)</u>
Other Financing Sources (Uses):					
Transfers in	-	300,000.00	-	-	300,000.00
Transfers out	(340,000.00)	-	-	-	(340,000.00)
Compensation for loss of general capital assets	152,094.22	-	-	-	152,094.22
Total Other Financing Sources (Uses)	<u>(187,905.78)</u>	<u>300,000.00</u>	<u>-</u>	<u>-</u>	<u>112,094.22</u>
Net Change in Fund Balances	(125,082.17)	3,398.86	(7,420.42)	(98.89)	(129,202.62)
Fund Balance - Beginning	<u>2,007,021.83</u>	<u>787,077.27</u>	<u>205,545.55</u>	<u>98.89</u>	<u>2,999,743.54</u>
Fund Balance - Ending	<u>\$ 1,881,939.66</u>	<u>\$ 790,476.13</u>	<u>\$ 198,125.13</u>	<u>\$ 0.00</u>	<u>\$ 2,870,540.92</u>

The accompanying notes are an integral part of these financial statements.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities

For the Year Ended June 30, 2015

Total Net Change in Fund Balances - Governmental Funds	\$(129,202.62)
Amounts reported for governmental activities in the statement of activities are different because:	
Government Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$298,595.68) exceed depreciation expense (\$193,824.96) in the period.	104,770.72
Governmental Funds report property taxes as revenue in the period for which the tax is levied, subject to 'Availability', but the Statement of Activities includes the property taxes as revenue in the period for which the taxes are levied, regardless of when collection occurs.	(2,949.00)
Governmental Funds do not reflect the change in accrued leave or early retirement, but the Statement of Activities reflects the change through expenditures.	1,539.42
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (e.g., accrued interest revenue, pension revenue)	41,652.97
Changes in the pension related deferred outflows/inflows are direct components of pension asset and are not reflected in the governmental funds.	<u>144,737.86</u>
Change in Net Position of Governmental Activities	<u>\$ 160,549.35</u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT V - BALANCE SHEET - PROPRIETARY FUND

KADOKA AREA SCHOOL DISTRICT NO. 35-2

EXHIBIT V- STATEMENT OF NET POSITION
 PROPRIETARY FUND

June 30, 2015

	<u>Enterprise Fund</u>
	<u>Food Service</u>
	<u>Fund</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 3,871.66
Other asset	4,450.88
Inventory of supplies	463.41
Inventory of stores purchased for resale	1,955.27
Inventory of donated food	<u>1,895.66</u>
Total current assets	<u>12,636.88</u>
Noncurrent assets:	
Net pension asset	17,042.21
Capital assets:	
Machinery and equipment--local funds	69,980.49
Machinery and equipment--federal assistance	12,262.00
Less: accumulated depreciation	<u>(52,587.40)</u>
Total noncurrent assets	<u>46,697.30</u>
Total Assets	<u>59,334.18</u>
Deferred Outflows of Resources	
Pension related deferred outflows of resources	<u>15,138.43</u>

The accompanying notes are an integral part of
 these financial statements.

	<u>Enterprise Fund</u> <u>Food Service</u> <u>Fund</u>
Liabilities:	
Current liabilities:	
Accounts payable	<u>\$ 43.10</u>
Deferred Inflows of Resources:	
Pension related deferred inflows	<u>19,737.77</u>
Net Position:	
Net investment in capital assets	29,655.09
Other purposes-SDRS Pension	12,442.87
Unrestricted net position	<u>12,593.78</u>
Total Net Position	<u>\$ 54,691.74</u>

EXHIBIT VI - STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUND

KADOKA AREA SCHOOL DISTRICT NO. 35-2

EXHIBIT VI - STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUND

For the Year Ended June 30, 2015

	<u>Enterprise Fund</u> <u>Food Service</u> <u>Fund</u>
Operating Revenue:	
Sales:	
To pupils	\$ 52,727.92
To adults	3,889.43
A la carte sales	5,115.06
Other	2,303.74
Pension revenue	<u>719.85</u>
Total Operating Revenue	<u>64,756.00</u>
Operating Expenses:	
Food service:	
Salaries	52,853.06
Employee benefits	19,378.11
Purchased services	15,702.21
Supplies	4,958.53
Cost of sales - purchased food	79,577.05
Cost of sales - donated food	11,794.89
Depreciation - local funds	<u>4,137.36</u>
Total Operating Expenses	<u>188,401.21</u>
Operating Income (Loss)	<u>(123,645.21)</u>

The accompanying notes are an integral part of
 these financial statements.

	<u>Enterprise Fund</u> <u>Food Service</u> <u>Fund</u>
Nonoperating Revenue (Expense):	
State sources:	
Cash reimbursements	\$ 873.33
Federal sources:	
Cash reimbursements	77,997.82
Donated food	<u>10,690.27</u>
Total Nonoperating Revenue (Expense)	<u>89,561.42</u>
Income (Loss) before Contributions and Transfers	(34,083.79)
Capital Contributions	7,151.16
Transfers in	<u>40,000.00</u>
Change in Net Position	<u>13,067.37</u>
Net Position - Beginning	32,473.12
Adjustments	
Prior Period Adjustment (See Note 10)	<u>9,151.25</u>
Adjusted Net Position - Beginning	<u>41,624.37</u>
Net Position - Ending	<u><u>\$ 54,691.74</u></u>

EXHIBIT VII - STATEMENT OF CASH FLOWS
PROPRIETARY FUND

KADOKA AREA SCHOOL DISTRICT NO. 35-2

EXHIBIT VII - STATEMENT OF CASH FLOWS
 PROPRIETARY FUND

For the Year Ended June 30, 2015

	<u>Enterprise Fund</u> Food Service Fund
Cash Flows from Operating Activities:	
Cash receipts from customers	\$ 61,732.41
Cash payments to employees for services	(72,231.17)
Cash payments to suppliers of goods or services	(99,960.67)
Other operating cash payments	<u>(268.03)</u>
Net Cash Used by Operating Activities	<u>(110,727.46)</u>
Cash Flows from Noncapital Financing Activities:	
Cash reimbursement - state sources	873.33
Cash reimbursement - federal sources	73,546.94
Transfers in from General Fund	<u>40,000.00</u>
Net Cash Provided by Noncapital Financing Activities	<u>114,420.27</u>
Net Increase in Cash and Cash Equivalents	<u>\$ 3,692.81</u>
Cash and Cash Equivalents at Beginning of Year	\$ 178.85
Cash and Cash Equivalents at End of Year	<u>3,871.66</u>
Net Increase in Cash and Cash Equivalents	<u>\$ 3,692.81</u>

The accompanying notes are an integral part of these financial statements.

Enterprise Fund
Food Service
Fund

Reconciliation of Operating Income (Loss) to Net
Cash Used by Operating Activities:

\$ (123,645.21)

Operating income (loss)

Adjustments to reconcile operating loss to
net cash used by operating activities:

Depreciation expense

4,137.36

Change in assets and liabilities

Inventories

291.23

Net pension asset

(10,372.89)

Pension related deferred outflows

(12,656.50)

Accounts and other payables

(14.11)

Pension related deferred inflows

19,737.77

Value of donated commodities used

11,794.89

Net Cash Used by Operating Activities

\$ (110,727.46)

Noncash Investing, Capital and Financing Activities:

Value of commodities received

\$ 10,690.27

Equipment purchased by capital outlay fund

\$ 7,151.16

KADOKA AREA SCHOOL DISTRICT NO. 35-2

EXHIBIT VIII - STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

June 30, 2015

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ 659.01	\$ 79,151.15
Investments	<u>14,488.52</u>	<u>-</u>
Total Assets	<u>\$ 15,147.53</u>	<u>\$ 79,151.15</u>
Liabilities:		
Accounts payable and other payable	\$ -	\$ 2,300.00
Amounts held for others	<u>-</u>	<u>76,851.15</u>
Total Liabilities	<u>-</u>	<u>\$ 79,151.15</u>
Net Position		
Held in trust for scholarships	<u>\$ 15,147.55</u>	

The accompanying notes are an integral part of
these financial statements.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

EXHIBIT IX - STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS

For the Year Ended June 30, 2015

	<u>Private-Purpose Trust Funds</u>
Additions:	
Earnings from deposits and investments	\$ 320.00
Deductions:	
Trust deductions for scholarships	-
Unrealized loss	<u>(755.53)</u>
Total deductions	<u>(755.53)</u>
Change in net position	(435.53)
Net Position - Beginning	<u>15,583.08</u>
Net Position - Ending	<u><u>\$ 15,147.55</u></u>

The accompanying note are integral part of
these financial statements.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

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

Financial Reporting Entity:

The reporting entity of Kadoka Area School District No. 35-2 (School District), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

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

Basis of Presentation:

Government-wide Financial Statements:

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

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the 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.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued):

Fund Financial Statements:

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

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

Governmental Funds:

General Fund - A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the school district, excluding capital outlay fund and special education fund expenditures. Included in the General Fund is the Impact Aid Fund, a Fund established by the SDCL 13-16-30 and 13-16-31 to account for receipt of Federal Funds under the provisions of P.L. 103-382, Title VIII for basic support. No expenditures may be directly charged to this fund. 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 who reside within the school district. This fund is financed by grants and property taxes. This is a major fund.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued):

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 not a major fund.

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit – even if that government is not expected to make any payments – is not payable solely from fees and charges of the activity.
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

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

Fiduciary Funds:

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

Private-Purpose Trust Funds - private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The School District maintains two scholarship funds. The purpose of these funds is to provide scholarships to qualifying students.

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting:

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

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

Government-wide Financial Statements:

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

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the School District is 60 days. The revenues which are accrued at June 30, 2015 are federal grants.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued):

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

Deposits and Investments:

For the purpose of financial reporting "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-ended mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist entirely of certificates of deposits whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Law (SDCL) 4-5-6.

Capital Assets:

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

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

Government-Wide Statements

All capital assets are valued at historical cost. Donated capital assets are valued at their estimated fair value on the date donated. The amount of donated assets included in the capital assets is \$81,988.80. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Capital Assets (continued):

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

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

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	All	----N/A-----	----N/A-----
Improvements	\$20,000	Straight-line	20 yrs.
Buildings	\$50,000	Straight-line	50 yrs.
Equipment (governmental)	\$5,000	Straight-line	5-15 yrs.
Equipment (proprietary)	\$1,000	Straight-line	5-7 yrs.

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.

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 compensated absences. Accounting Policies related to compensated absences payable and accrued leave payable are as follows:

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Long-Term Liabilities (continued):

Compensated Absences Payable – Compensated absences payable is sick leave earned by employees at the rate of 12 to 18 days per year cumulative to 60 days for certified employees including superintendent, principals, and business office employees, and 9 to 12 days for all other full-time employees depending on contract length. Upon termination, professional staff employees are entitled to receive compensation for their accrued sick leave balance on the basis of \$40 per day up to a maximum of 60 days.

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

Program Revenues:

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

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

Proprietary Funds Revenue and Expense Classifications:

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

Cash and Cash Equivalents:

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

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

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.

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.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Fund Balance Classification Policies and Procedures (continued):

Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the School Board or Business Manager.

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

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

The 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	Property taxes, contributions and donations, other local
Special Revenue Fund	Property taxes, investment earnings, charges for service, grants from state and federal government

Pensions:

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension 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 asset are recognized on an accrual basis of accounting

Subsequent Events:

In preparing the financial statements, the School District has evaluated potential recognition on disclosure through March 30, 2016, the date the financial statements were available to be issued.

Note 2. Deposits and Investments, Credit Risk, Concentrations of Credit Risk and Interest Rate Risk

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments, Credit Risk, Concentrations of Credit Risk and Interest Rate Risk (continued):

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

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

Credit Risk – State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices. The corporate stocks consist of shares in First Energy Corporation and Exelon. The outside investment pool consists of investment with a foundation. These investments are for the Private Purpose Trust Fund which is maintained for two scholarships.

As of June 30, 2015, the School District had the following investments.

Investment	Credit Rating	Maturities	Fair Value
Corporate Stocks	N/A	N/A	\$ 7,965.00
Outside Investment Pool	Unrated	N/A	6,523.55
Total Investments			\$ 14,488.55

The amount held in investments was donated to the District with the requirement to hold these investments in trust with the earnings to be used for scholarships given to graduating seniors wishing to further their education.

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

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments, Credit Risk, Concentrations of Credit Risk and Interest Rate Risk (continued):

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District’s policy is to credit all income from investments to the fund making the investment.

Note 3. Receivables and Payables

The School District aggregates receivables and payables in the financial statements. Detail of the significant components is as follows:

Receivables at June 30, 2015, were as follows:

	<u>Taxes</u>	<u>Accounts</u>	<u>Due from Other Governments</u>	<u>Total Receivables</u>
Governmental Activities:				
General Fund	\$ 342,261.32	\$ -	\$ 246,126.08	\$ 588,387.40
Capital Outlay Fund	122,248.52	-	-	122,248.52
Special Education Fund	176,778.59	-	34,899.00	211,677.59
Pension Fund	<u>36,009.02</u>	<u>-</u>	<u>-</u>	<u>36,009.02</u>
Total - Governmental Activities	<u>\$ 677,297.45</u>	<u>\$ -</u>	<u>\$ 281,025.08</u>	<u>\$ 958,322.53</u>
Business-type Activities:				
Food Service Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,450.88</u>	<u>\$ 4,450.88</u>

Payables at June 30, 2015 were as follows:

	<u>Accounts</u>	<u>Accrued Wages</u>	<u>Other Payables</u>	<u>Total Payables</u>
Governmental Activities:				
General Fund	\$ 8,087.39	\$ 261,822.31	\$ 72,845.68	\$ 342,755.38
Capital Outlay Fund	655.21	-	-	655.21
Special Education Fund	1,948.00	36,414.53	10,567.52	48,930.05
Pension Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total - Governmental Activities	<u>\$ 10,690.60</u>	<u>\$ 298,236.84</u>	<u>\$ 83,413.20</u>	<u>\$ 392,340.64</u>
Business-Type Activities:				
Food Service Fund	<u>\$ 43.10</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43.10</u>

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 4. Inventory

Inventory for Resale is stated at the lower of cost or market. The cost valuation method is first-in first-out for enterprise fund inventories. Donated commodities are valued at estimated market value based on the USDA price list at 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, inventory consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. 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. No material inventory of supplies existed at June 30, 2015.

Note 5. Property Taxes

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, and become due and payable as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the School District's taxes and remits them to the School District.

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 6. Changes in Capital Assets

A summary of changes in capital assets for the year ended June 30, 2015 is as follows:

Primary Government

	<u>Balance 7/1/2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/2015</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 24,740.00	\$ 6,070.76	\$ -	\$ 30,810.76
Total, not being depreciated	<u>24,740.00</u>	<u>6,070.76</u>	<u>-</u>	<u>30,810.76</u>
Capital assets, being depreciated:				
Buildings	3,411,621.23	120,668.69	-	3,532,289.92
Improvements	402,040.06	-	-	402,040.06
Equipment	<u>1,327,446.30</u>	<u>171,856.23</u>	<u>(190,344.00)</u>	<u>1,308,958.53</u>
Totals, being depreciated	<u>5,141,107.59</u>	<u>292,524.92</u>	<u>(190,344.00)</u>	<u>5,243,288.51</u>
Less accumulated depreciation for:				
Buildings	(1,557,115.38)	(53,430.93)	-	(1,610,546.31)
Improvements	(132,181.18)	(15,332.35)	-	(147,513.53)
Equipment	<u>(978,330.24)</u>	<u>(125,061.68)</u>	<u>190,344.00</u>	<u>(913,047.92)</u>
Total accumulated depreciation	<u>(2,667,626.80)</u>	<u>(193,824.96)</u>	<u>190,344.00</u>	<u>(2,671,107.76)</u>
Total capital assets, being depreciated, net	<u>2,473,480.79</u>	<u>98,699.96</u>	<u>-</u>	<u>2,572,180.75</u>
Governmental activities capital assets, net	<u>\$ 2,498,220.79</u>	<u>\$104,770.72</u>	<u>\$ -</u>	<u>\$ 2,602,991.51</u>

**Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	\$ 91,783.00
Support Services	93,517.17
Co-curricular Activities	<u>8,524.79</u>
Total depreciation expense-governmental activities	<u>\$ 193,824.96</u>

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 6. Changes in Capital Assets (continued)

	<u>Balance 7/1/2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/2015</u>
Business-type activities:				
Equipment	\$ 75,091.33	\$ 7,151.16	\$ -	\$ 82,242.49
Less accumulated depreciation	<u>(48,449.47)</u>	<u>(4,137.93)</u>	<u>-</u>	<u>(52,587.40)</u>
Business-type activities capital assets, net	<u>\$ 26,641.86</u>	<u>\$ 3,013.23</u>	<u>\$ -</u>	<u>\$ 29,655.09</u>

** Depreciation expense was charged to functions as follows:

 Business-type activities:

 Food Services

\$ 4,137.93

Note 7. Long-Term Liabilities

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

Primary Government:

	<u>Balance 7/1/2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2015</u>	<u>Due Within One Year</u>
Governmental activities:					
Accrued Compensated Absences	\$ 66,732.26	\$ 26,115.89	\$ (27,655.31)	\$ 65,192.84	\$13,038.57
Total Governmental Activities	<u>66,732.26</u>	<u>26,115.89</u>	<u>(27,655.31)</u>	<u>65,192.84</u>	<u>13,038.57</u>
Total Primary Government	<u>\$ 66,732.26</u>	<u>\$ 26,115.89</u>	<u>\$ (27,655.31)</u>	<u>\$ 65,192.84</u>	<u>\$13,038.57</u>

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

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

Primary Government

Governmental Activities:

Compensated Absences:

 Sick leave payable

 Payable out of General Fund and Special Education Fund

\$ 65,192.84

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 8. Restricted Net Position

Restricted Net Position for the fiscal year ended June 30, 2015 were as follows:

<u>Purpose</u>	<u>Restricted By</u>	<u>Amount</u>
Governmental activities:		
Major Funds:		
Capital Outlay Purposes	Law	\$ 791,998.05
Special Education Purposes	Law	194,635.43
Non-Major Funds:		
Pension Fund	Law	387.29
Other Purposes:		
SDRS Pension Purposes	Law	<u>715,908.47</u>
Total Governmental Activities Restricted Net Position		<u>\$ 1,702,929.24</u>
Business-type activities		
Other Purposes:		
SDRS Pension Purposes	Law	<u>\$ 12,442.87</u>
Total Business-type Activities Restricted Net Position		<u>\$ 12,442.87</u>

Note 9. Interfund Transfers

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

<u>Transfer From:</u>	<u>Transfer to:</u>		
	<u>Capital Outlay Fund</u>	<u>Food Service Fund</u>	<u>Total</u>
Major Funds:			
General Fund	<u>\$ 300,000.00</u>	<u>\$ 40,000.00</u>	<u>\$ 340,000.00</u>

The School District typically uses transfers to move federal monies from the Impact Aid Fund, which is blended in the General Fund, to help with the operations of the school lunch program, which is in the Food Service Fund, and to other funds, as permissible under SDCL 13-15-26.2, which includes Capital Outlay Fund, for operations and maintenance of the facilities.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 10. Prior Period Adjustments

The School District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. As a result, beginning net position has been restated to reflect the related net pension asset and deferred outflows of resources as of July 1, 2015 as follows:

Primary Government

Government activities:

Net Postion July 1, 2014, as previously reported	\$ 5,443,315.34
Restatement for pension accounting:	
Net Pension Asset	385,906.07
Pension related Deferred Outflows of Resources	<u>143,611.57</u>

Governmental Activities Net Postion July 1, 2014, as restated	<u>\$ 5,972,832.98</u>
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Business-type activities:

Net Postion July 1, 2014, as previously reported	\$ 32,473.12
Restatement for pension accounting:	
Net Pension Asset	6,669.32
Pension related Deferred Outflows of Resources	<u>2,481.93</u>

Business-type Activities Net Postion July 1, 2014, as restated	<u>\$ 41,624.37</u>
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Note 11. Pension Plan

Plan Information:

All employees, working more than 20 hours a week during the school year, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://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.

NOTES TO FINANCIAL STATEMENTS

Note 11. Pension Plan (continued)

Benefits Provided:

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

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

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2015, 2014, and 2013 were \$147,309.63, \$146,093.50, and \$141,522.21, respectively, equal to the required contributions each year.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 11. Pension Plan (continued)

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

At June 30, 2014, SDRS is 107% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the School District as of June 30, 2014 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 14,769,757.33
Less proportionate share of total pension liability	<u>13,766,603.77</u>
Proportionate share of net pension liability (asset)	<u>\$ (1,003,153.56)</u>

At June 30, 2015, the School District reported an asset of \$1,003,153.56 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014 and the total pension asset used to calculate the net pension asset was based on a projection of the School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2014 the School District's proportion was .1392381%, which is an increase of 0% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the School District recognized pension revenue of \$42,372.82. At June 30, 2015 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 84,880.36	\$ -
Changes in assumption	654,828.74	-
Net difference between projected and actual earnings on pension plan Investments	-	1,161,820.95
Changes in proportion and difference between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	<u>147,309.63</u>	<u>-</u>
Total	<u>\$ 887,018.73</u>	<u>\$ 1,161,820.95</u>

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 11. Pension Plan (continued)

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

\$147,309.63 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension revenue as follows:

Year ended June 30:	
2016	\$ 79,711.90
2017	79,711.90
2018	79,711.90
2019	182,976.15
2020	-
Thereafter	-
Total	<u>\$ 422,111.85</u>

Actuarial Assumptions:

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

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

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

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

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 11. Pension Plan (continued)

Actuarial Assumptions (continued):

asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	64.0%	4.7%
Fixed Income	26.0%	1.8%
Real Estate	8.0%	5.5%
Cash	2.0%	0.8%
Total	<u>100.0%</u>	

Discount Rate:

The discount rate used to measure the total pension asset was 7.25 percent through 2016 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of liability (asset) to changes in the discount rate:

The following presents the School District's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2016 and 7.50 percent thereafter, as well as what the School's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net pension asset	\$ 991,304.41	\$ (1,003,153.56)	\$ (2,629,842.22)

Pension Plan Fiduciary Net Position:

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 12. Joint Ventures

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

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

Jones County School District No. 37-3	9%
Kadoka Area School District No. 35-2	20%
Lyman School District No. 42-1	20%
White River School District No. 47-1	22%
Bennett County School District No. 3-1	29%

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

The school district retains no equity interest in the Net Position of the joint venture, but does have a responsibility to fund deficits of the joint venture in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from Three Rivers Cooperative.

At June 30, 2015, this joint venture had total assets of \$1,113,762.91, deferred pension outflows of \$141,288.59, total liabilities of \$39,892.92, deferred pension inflows of \$186,201.79, and net position of \$1,028,956.79.

Note 13. Operating Lease

The District entered into a five year operating lease with the City of Kadoka in July 2014 for the use of a City Auditorium. The annual lease payments run from August 1st through July 31st of the following year. The annual lease payments change every year. Rent expense for the year ended June 30, 2015 was \$49,100.00.

The School District entered into an operating lease agreement with Oien Implement and Supply, Inc. to rent a building located at 200 12th Avenue, Kadoka, South Dakota. The School District has the option during the term of this lease or renewal thereof, to purchase the demised premises including the entire building located on the property and the real estate there under, for the sum of \$112,000.00. The lease expired on May 31, 2011 and the School District is operating under the old contract until a new lease is negotiated. However, the School District may not exercise its option until and unless the lessor's other buildings on the other property has been sold. Rent expense for the lease was \$7,200.00 for the year ended June 30, 2015.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 13. Operating Lease (continued)

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

Year	Capital Outlay Fund	
	City Lease	Total
2016	50,300.00	\$ 50,300.00
2017	51,500.00	\$ 51,500.00
2018	52,700.00	\$ 52,700.00
2019	54,000.00	\$ 54,000.00
2020	4,500.00	\$ 4,500.00

Note 14. 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 fiscal year ended June 30, 2015, the School District managed its risks as follows:

Employee Health Insurance

The School District joined the South Dakota School District Health Benefits Fund. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The School District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members.

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

Liability Insurance

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 14. Risk Management (continued)

Liability Insurance (continued)

The School District pays an annual premium to ASBSD-PLF to provide coverage for property and boiler and machinery, general liability, automobile, crime, employee benefits and school board errors and omissions.

The agreement with the ASBSD-PLF provides that the above coverage's will be provided to a \$14,669,859 limit for property, and a \$2,000,000 aggregate limit for general liability, \$2,000,000 limit for automobile, \$2,000,000 limit for employee benefits liability, \$2,000,000 limit for school board errors, and various limits for crime, \$250,000,000 limit for property coverage, and \$50,000,000 boiler and machine coverage and a deductible of \$500 for property and \$1,000 for boiler and machinery. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$100,000 to the upper limit for general liability, automobile, and employee benefits liability, school board errors and \$10,000 for crime. The School District carries a \$5,000 deductible for the school board errors and \$1,000 deductible for crime coverage and employee benefits liability.

The ASBSD-PLF also provides an excess aggregate property coverage which will provide an additional \$235,330,141 in excess of the \$14,669,859 primary limit for property.

Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Workmen's Compensation

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

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO FINANCIAL STATEMENTS

Note 14. Risk Management (continued)

Unemployment Benefits

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

During the year ended June 30, 2015, no claims for unemployment benefits were paid. At June 30, 2015, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

Note 15. Related Party Transactions

The District went out for bid for providing services for Midland Lunch Program. There was only one bid received from the spouse of a board member. The board member abstained from voting on the acceptance of the bid. Total paid for these services was \$13,824.50.

Note 16. Contingencies

The Associated School Boards Health Benefits Fund has a deficit Net Position. As a member of Associated School Districts Health Benefits Fund, the School District has a potential liability. As of June 30, 2015 the School District's estimated share of the liability was \$219,958.

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - GENERAL FUND

KADOKA AREA SCHOOL DISTRICT NO. 35-2

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - GENERAL FUND

For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Revenue from local sources:				
Taxes:				
Ad valorem taxes	\$ 657,840.00	\$ 657,840.00	\$ 643,388.15	\$ (14,451.85)
Prior years' ad valorem taxes	3,500.00	3,500.00	6,747.14	3,247.14
Utility taxes	155,000.00	155,000.00	161,212.15	6,212.15
Penalties and interest on taxes	2,600.00	2,600.00	3,340.26	740.26
Earnings on investments and deposits	1,800.00	1,800.00	2,795.12	995.12
Cocurricular activities:				
Admissions	12,000.00	12,000.00	11,915.89	(84.11)
Rentals	1,000.00	1,000.00	2,479.35	1,479.35
Other pupil activity income	3,900.00	3,900.00	3,357.17	(542.83)
Other revenue from local sources:				
Rentals	1,000.00	1,000.00	4,057.00	3,057.00
Services provided other LEAs	5,000.00	5,000.00	6,180.00	1,180.00
Refund of prior year expenditures	-	-	6,497.53	6,497.53
Charges for services	25,000.00	25,000.00	2,701.23	(22,298.77)
Other local sources	166,000.00	166,000.00	5,450.78	(160,549.22)
Revenue from intermediate sources:				
County sources:				
County apportionment	48,000.00	48,000.00	36,192.56	(11,807.44)

Revenue from State sources:				
Grants-in-aid:				
Unrestricted grants-in-aid	1,396,343.00	1,396,343.00	1,437,765.37	41,422.37
Restricted grants-in-aid	-	-	8,125.00	8,125.00
Revenue from Federal sources:				
Grants-in-aid:				
Unrestricted grants-in-aid				
Received from Federal Government through State	60,050.00	60,050.00	71,061.00	11,011.00
Received from Federal Government through an intermediate source	1,000.00	1,000.00	7,606.52	6,606.52
Restricted grants-in-aid				
Received directly from Federal Government	36,121.00	36,121.00	36,301.00	180.00
Received from Federal through the State	<u>766,833.00</u>	<u>770,170.00</u>	<u>749,947.88</u>	<u>(20,222.12)</u>
Total Revenue	<u>3,342,987.00</u>	<u>3,346,324.00</u>	<u>3,207,121.10</u>	<u>(139,202.90)</u>
Expenditures:				
Instruction:				
Regular programs:				
Elementary	1,058,612.00	1,058,612.00	1,018,721.14	39,890.86
High School	530,867.00	530,867.00	491,833.25	39,033.75
Preschool	24,686.00	28,201.00	28,197.61	3.39
Special programs:				
Educationally deprived	537,911.00	541,248.00	513,186.10	28,061.90
Support Services:				
Pupils				
Guidance	101,695.00	101,695.00	99,054.80	2,640.20
Health	1,600.00	2,140.00	2,138.00	2.00
Psychological	-	1,620.00	1,620.00	-
Student therapy services	800.00	800.00	442.31	357.69

See the accompanying notes to the required supplementary information.

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - GENERAL FUND (CONTINUED)

KADOKA AREA SCHOOL DISTRICT NO. 35-2

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - GENERAL FUND (CONTINUED)

For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Final Budget - Positive (Negative)
	Original	Final		
Expenditures (Continued):				
Support Services (continued):				
Support services - instructional staff:				
Improvement of instruction	\$ 87,468.00	\$ 95,593.00	\$ 96,646.78	\$ (1,053.78)
Educational media	115,797.00	115,797.00	105,932.40	9,864.60
Support services - general administration:				
Board of education	70,877.00	71,677.00	50,144.43	21,532.57
Executive administration	105,676.00	105,676.00	102,017.88	3,658.12
Support Services - school administration:				
Office of the principal	220,835.00	220,835.00	218,655.49	2,179.51
Other	1,200.00	1,200.00	59.80	1,140.20
Support services - business:				
Fiscal services	135,831.00	135,891.00	130,738.95	5,152.05
Operation and maintenance of plant	287,735.00	521,735.00	524,269.49	(2,534.49)
Pupil transportation	167,914.00	168,239.00	167,400.37	838.63
Food services	15,300.00	15,300.00	11,566.16	3,733.84
Support services - central:				
Staff	1,000.00	1,000.00	821.75	178.25
Other	2,918.00	2,918.00	-	2,918.00
Nonprogrammed charges:				
Payments to state-unemployment	2,000.00	2,000.00	-	2,000.00

Cocurricular activities:						
Male activities	38,810.00	38,810.00	39,002.98	(192.98)		
Female activities	29,015.00	29,015.00	29,765.32	(750.32)		
Transportation	18,142.00	18,142.00	10,354.03	7,787.97		
Combined activities	77,284.00	77,284.00	62,235.35	15,048.65		
Contingencies	70,000.00	70,000.00	-	-		
Amount transferred	-	(35,745.00)	-	34,255.00		
Total Expenditures	<u>3,703,973.00</u>	<u>3,920,550.00</u>	<u>3,704,804.39</u>	<u>215,745.61</u>		
Excess of Revenue Over (Under) Expenditures	<u>(360,986.00)</u>	<u>(574,226.00)</u>	<u>(497,683.29)</u>	<u>76,542.71</u>		
Other Financing Sources (Uses):						
Transfers in	360,486.00	360,486.00	360,000.00	(486.00)		
Sale of surplus property	500.00	500.00	-	(500.00)		
Compensation for loss of general capital assets	-	-	152,094.22	152,094.22		
Total Other Financing Sources (Uses)	<u>360,986.00</u>	<u>360,986.00</u>	<u>512,094.22</u>	<u>151,108.22</u>		
Net Change in Fund Balances	-	(213,240.00)	14,410.93	227,650.93		
Fund Balance - Beginning	628,495.03	628,495.03	628,495.03	-		
Fund Balance - Ending	<u>\$ 628,495.03</u>	<u>\$ 415,255.03</u>	<u>\$ 642,905.96</u>	<u>\$ 227,650.93</u>		

See the accompanying notes to the required supplementary information.

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS- CAPITAL OUTLAY FUND

KADOKA AREA SCHOOL DISTRICT NO. 35-2

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - CAPITAL OUTLAY FUND

For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Revenue from local sources:				
Taxes:				
Ad valorem taxes	\$ 245,530.00	\$245,530.00	\$ 238,976.30	\$ (6,553.70)
Prior years' ad valorem taxes	1,000.00	1,000.00	1,841.74	841.74
Penalties and interest on taxes	1,300.00	1,300.00	1,096.92	(203.08)
Earnings on investments and deposits	2,000.00	2,000.00	2,777.30	777.30
Other revenue from local sources				
Contributions and donations	-	-	1,550.00	1,550.00
Other	4,200.00	4,200.00	6,518.18	2,318.18
Total Revenue	<u>254,030.00</u>	<u>254,030.00</u>	<u>252,760.44</u>	<u>(1,269.56)</u>
Expenditures:				
Instruction:				
Regular programs:				
Elementary	188,380.00	188,380.00	185,470.63	2,909.37
High School	28,000.00	28,000.00	13,466.94	14,533.06
Support services:				
Support services - instructional staff:				
Educational media	27,400.00	27,400.00	13,163.20	14,236.80

Support services - business:				
Facilities acquisition and construction	200,000.00	200,000.00	6,070.76	193,929.24
Operation and maintenance of plant	359,050.00	414,050.00	295,638.89	118,411.11
Pupil transportation	34,500.00	34,500.00	28,400.00	6,100.00
Food services	<u>5,700.00</u>	<u>5,700.00</u>	<u>7,151.16</u>	<u>(1,451.16)</u>
Total Expenditures	<u>843,030.00</u>	<u>898,030.00</u>	<u>549,361.58</u>	<u>348,668.42</u>
Excess of Revenue Over (Under) Expenditures	<u>(589,000.00)</u>	<u>(644,000.00)</u>	<u>(296,601.14)</u>	<u>347,398.86</u>
Other Financing Sources (Uses):				
Transfers in	<u>370,000.00</u>	<u>370,000.00</u>	<u>300,000.00</u>	<u>(70,000.00)</u>
Total Other Financing Sources (Uses)	<u>370,000.00</u>	<u>370,000.00</u>	<u>300,000.00</u>	<u>(70,000.00)</u>
Net Change in Fund Balance	(219,000.00)	(274,000.00)	3,398.86	277,398.86
Fund Balance - Beginning	<u>787,077.27</u>	<u>787,077.27</u>	<u>787,077.27</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 568,077.27</u>	<u>\$513,077.27</u>	<u>\$ 790,476.13</u>	<u>\$ 277,398.86</u>

See the accompanying notes to the
required supplementary information.

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - SPECIAL EDUCATION FUND

KADOKA AREA SCHOOL DISTRICT NO. 35-2
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - SPECIAL EDUCATION FUND
 For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Revenue from local sources:				
Taxes:				
Ad valorem taxes	\$ 352,834.00	\$ 352,834.00	\$346,415.12	\$ (6,418.88)
Prior years' ad valorem taxes	900.00	900.00	2,029.85	1,129.85
Penalties and interest on taxes	900.00	900.00	1,434.99	534.99
Earnings on investments and deposits	500.00	500.00	853.32	353.32
Other revenue from local sources:				
Charges for services	2,200.00	2,200.00	280.00	(1,920.00)
Revenue from Federal sources:				
Grants-in-aid:				
Unrestricted grants-in-aid				
Received from directly from				
Federal government	22,000.00	22,000.00	31,379.21	9,379.21
Restricted grants-in-aid				
Received from Federal Government				
through the State	<u>130,168.00</u>	<u>130,168.00</u>	<u>129,646.00</u>	<u>(522.00)</u>
Total Revenue	<u>509,502.00</u>	<u>509,502.00</u>	<u>512,038.49</u>	<u>2,536.49</u>

Expenditures:				
Instruction:				
Special programs:				
Programs for special education	381,602.00	390,877.00	372,304.62	18,572.38
Support Services:				
Pupils:				
Health	600.00	600.00	-	600.00
Psychological	21,499.00	35,099.00	36,991.58	(1,892.58)
Speech pathology	61,195.00	61,195.00	61,115.19	79.81
Audiology	500.00	500.00	-	500.00
Student therapy services	3,800.00	9,700.00	9,151.06	548.94
Support services - instructional staff:				
Improvement of instruction	1,000.00	1,280.00	1,276.99	3.01
Support services - special education:				
Administrative cost	35,656.00	38,256.00	33,088.71	5,167.29
Transportation costs	3,650.00	6,250.00	5,530.76	719.24
Contingencies	-	-	-	-
Amount transferred	-	(34,255.00)	-	(34,255.00)
Total Expenditures	<u>509,502.00</u>	<u>509,502.00</u>	<u>519,458.91</u>	<u>(9,956.91)</u>
Excess of Revenue Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>(7,420.42)</u>	<u>(7,420.42)</u>
Net Change in Fund Balance	-	-	(7,420.42)	(7,420.42)
Fund Balance - Beginning	<u>205,545.55</u>	<u>205,545.55</u>	<u>205,545.55</u>	<u>-</u>
Fund Balance - Ending	<u>\$205,545.55</u>	<u>\$205,545.55</u>	<u>\$198,125.13</u>	<u>\$ (7,420.42)</u>

See the accompanying notes to the
required supplementary information.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with a legally required budget.

Note 1. Budgets and Budgetary Accounting

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

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

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with a legally required budget.

Note 2. GAAP/Budgetary Accounting Basis Differences

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

Note 3. USGAAP/Budgetary Accounting Basis Difference

The financial statements prepared in conformity with USGAAP presents the Impact Aid Fund, which is a special revenue fund established by South Dakota State Law, SDCL 13-16-30 and 13-16-31, blended with the General Fund. Per South Dakota State Law SDLC 13-11-2, all funds are required to be budgeted, such as General, Impact Aid, and Capital Outlay. GASB requires budgetary RSI for General and major special revenue funds. Impact Aid is not a GASB recognized major special revenue fund so it is not reported as budgetary RSI. General Fund budgetary RSI only includes the budgetary General Fund and not any blended Impact Aid amounts.

The following reconciles the USGAAP Basis fund balance to the Budgetary Basis fund balance:

	Year Ended 6/30/2015
General Fund:	
USGAAP Basis Fund Balance	\$ 1,881,939.66
(Deduct) Impact Aid Revenue	(560,506.90)
Impact Aid Beginning Balance	(1,378,526.80)
Impact Aid Transfer Out	700,000.00
Net Adjustment to GAAP Basis Fund Balance	<u>(1,239,033.70)</u>
Budgetary Basis Fund Balance	<u>\$ 642,905.96</u>

KADOKA AREA SCHOOL DISTRICT NO. 35-2

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY (ASSET)

South Dakota Retirement System

	<u>2015</u>
District's proportion of the net pension liability (asset)	0.1392381%
District's proportionate share of net pension liability (asset)	1,003,153.56
District's covered-employee payroll	2,434,900.00
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	41.20%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107%

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30 of previous fiscal year.

See the accompanying notes to the required supplementary information.

KADOKA AREA SCHOOL DISTRICT NO. 35-2
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DISTRICT CONTRIBUTIONS

South Dakota Retirement System

	<u>2015</u>
Contractually required contribution	\$ 146,094.00
Contributions in relation to the contractually required contribution	<u>146,094.00</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
District's covered-employee payroll	\$ 2,434,900.00
Contributions as a percentage of covered-employee payroll	6.00%

See the accompanying notes to the
required supplementary information.

KADOKA AREA SCHOOL DISTRICT NO. 35-2

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Proportionate Share of the Net Pension
Liability (Asset) and Schedule of Contributions.

Changes of benefit terms:

No changes were made.

Changes of assumptions:

No changes were made.

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

KADOKA AREA SCHOOL DISTRICT NO. 35-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2015

	<u>CFDA Number</u>	<u>Amount</u>
U.S. Department of Agriculture:		
Indirect Federal Funding:		
SD Department of Education:		
Children Nutrition Cluster:		
Non-Cash Assistance (Commodities):		
National School Lunch Program	10.555	\$ 10,690.27
Cash Assistance:		
School Breakfast Program (Note 2)	10.553	17,829.31
National School Lunch Program (Note 2)	10.555	58,824.62
Special Milk Program for Children (Note 2)	10.556	<u>1,343.89</u>
Total for Children Nutrition Cluster		<u>88,688.09</u>
Other Programs:		
Fresh Fruit and Vegetable Program	10.582	<u>12,743.95</u>
Total U.S. Department of Agriculture		<u>101,432.04</u>
U.S. Department of Defense:		
Indirect Federal Funding:		
Jackson County:		
Bank Head Jones	10.901	<u>7,606.52</u>
Total U.S. Department of Defense		<u>7,606.52</u>
U.S. Department of Interior:		
Indirect Federal Funding:		
SD Department of Education:		
Taylor Grazing (Note 2)	15.206	36.00
National Mineral Leasing (Note 2)	15.207	<u>71,025.00</u>
Total U.S. Department of Interior		<u>71,061.00</u>
U.S. Department of Education:		
Direct Federal Funding:		
Impact Aid - (Title VIII) (Note 1) (Note 3)	84.041	583,745.02
Indian Education - Grants to Local Educational Agencies	84.060	36,301.00

	<u>CFDA Number</u>	<u>Amount</u>
Indirect Federal Funding:		
SD Department of Education:		
Title I Program for Grants and Local Educational Agencies (Note 3)	84.010	\$ 597,002.00
Improving Teacher Quality State Grant	84.367	127,344.00
College Access Grant	84.378A	2,585.21
Special Education Cluster:		
Special Education - Grants to States (IDEA , Part B, P.L. 102-119)	84.027	127,904.00
Special Education - Preschool Grants (IDEA , Part B, Section 619, P.L. 102-119)	84.173	<u>9,242.00</u>
Total U.S. Department of Education		<u>1,484,123.23</u>
Grand Total		<u>\$ 1,664,222.79</u>

Note 1: Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received rather than federal expenditures.

Note 2: These amounts reflect cash received. Federal reimbursements are based on approved rates for services provided rather than reimbursements for specific expenditures.

Note 3: This represents a major federal financial assistance program.

Note 4: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the school and is presented on the modified accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some accounts presented in this schedule may differ from amounts present in, or used in the preparation of, the basic financial statements.