



Financial Statements
June 30, 2015

Lemmon School District No. 52-4

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School Board Chairman	Kevin Benson
School Board Vice-Chairman	Ryan Beer
School Board Members	Art Pederson Steve O'Donnell Danni Beer Matt Barnes Marion BlueArm
Superintendent	Rick Herbel
Business Manager	Anita Stugelmeyer



Independent Auditor's Report

Members of the School Board
Lemmon School District No. 52-4
Perkins County, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lemmon School District No. 52-4, Perkins County, South Dakota, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lemmon School District No. 52-4, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As described in Note 1 and 9 to the financial statements, the School District adopted the provisions of Government 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*, which has resulted in a restatement of the net position as of June 30, 2014. 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 on pages 5 through 17, budgetary comparisons on pages 48 through 52, other postemployment benefit schedule on page 53, and schedule of District's share of net pension asset and contributions on page 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lemmon School District No. 52-4's financial statements. The School District Officials listing is presented for purposes of additional analysis and is not a required part of the financial statements. The School District Officials listing has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2016 on our consideration of Lemmon School District No. 52-4's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Lemmon School District No. 52-4's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Sallee LLP".

Bismarck, North Dakota
February 3, 2016

This section of the Lemmon School District #52-4'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.

Financial Highlights

- During the year, the School's revenues generated from taxes and other revenues of the governmental program was \$779,048 more than the \$2,946,987 in governmental expenditures. The district received \$329,995 of Section 8002 Impact Aid funds in fiscal year 2015. \$263,996 of Section 8002 Impact Aid funds were received in July 2014 and included payment for funds due the Lemmon School from 2009 forward.
- The district Capital Outlay fund made the final payment to the Impact Aid Fund on the \$127,000 borrowed from the Impact Aid Fund for the purchase of laptop computers. As this is an interfund loan, only the interest portion of the loan is posted as revenue to the Capital Outlay fund, the principal portion is a balance sheet posting. However, the expense when the computers were purchased was included in the governmental expenditures.
- The total cost of the School's programs decreased \$284,063 with most of the decrease in the instruction area. District expenditures were held at a minimum when possible.
- The general fund reported a gain of \$549,374 for fiscal year ending 2015. The gain in the general fund is due to the receipt of the \$329,995 of Impact Aid Funds due the district as well as payment of fuel out of the Capital Outlay fund. The property tax opt out of \$100,000 as previously approved was included in the consolidation plan and came due with the taxes levied in 2013 and payable in the year 2014. The new opt out of \$150,000 was approved beginning with taxes levied in 2014 and payable in 2015. This does help sustain the revenue for the district.
- The School does not have any outstanding capital outlay certificates or bonds however; the Capital Outlay fund has borrowed from the Impact Aid fund for the construction of the concession stand and bathroom at the football field as well as the laptop computers. These interfund loans have been or will be paid back at an interest rate of 8%. The district also has an interest free loan to the State of South Dakota in the amount of \$130,850 with the first payment in fiscal year 2015.
- The school board approved at the June 2015 meeting the district borrowing \$300,000 from the Impact Aid fund for the purchase of the new laptop computers as well as for the unexpected boiler expenses. The district will pay an interest rate of 8% to the Impact Aid fund for the money borrowed. In June 2015 \$115,500 of the \$300,000 was loaned to the Capital Outlay fund to assist in paying the unexpected boiler repairs in fiscal year 2015. The remainder of the \$300,000 will be borrowed in July 2015 for the purchase of the laptop computers.

Overview of the Financial Statements

This annual 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 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.
 - 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 sections.

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 Lemmon School District’s Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire School government (except fiduciary funds)	Activities of the School that are not fiduciary, such as elementary and high school education programs.	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	*Statement of Fiduciary Net Position *Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.
Type of Asset/Deferred Outflow of Resources/Liability/Deferred Inflow of Resources Information	All assets, deferred outflows, liabilities, and deferred inflows, 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, deferred outflows, liabilities, and deferred inflows, 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.

Government-wide Statements

The government-wide statements report information about the School as a whole using accounting methods similar to those used by the private-sector companies. The Statement of Net Position includes all of the government’s assets, deferred outflows, liabilities, and deferred inflows. 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 it has changed. Net position – the difference between the School’s assets, deferred outflows, liabilities, and deferred inflows – is one way to measure the School’s financial health or position.

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

The government-wide financial statements of the School report all activities of the district as Governmental Activities. This includes not only 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.), capital equipment purchases but also the food service area. Property taxes, state grants, federal grants, interest earnings and charges for services finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Lemmon School District'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 (i.e. Scholarship Trust)

The School has two kinds of funds:

- Governmental Funds – Most of the School District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at the year-end that are available for spending. Consequently, the governmental fund 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.
- Fiduciary Funds – The school district 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 position and a statement of changes in fiduciary net position. We exclude these activities from the School District's government-wide financial statements because the school district cannot use these assets to finance its operations.

Financial Analysis of the School as a Whole

Net Position

The Lemmon School District's net position is as follows:

**Table A-1
Lemmon School
Statement of Net Position**

	Governmental Activities 2015	Governmental Activities 2014
Assets		
Current and Other Assets	\$ 2,989,340	\$ 1,644,958
Capital Assets	2,087,079	2,066,064
Total assets	5,076,419	3,711,022
Deferred Outflows of Resources	580,940	-
Long-Term Debt Outstanding	238,251	277,827
Other Liabilities	269,918	276,909
Total Liabilities	508,169	554,736
Deferred Inflows of Resources	1,598,653	744,284
Net Position		
Net investment in capital assets	1,969,314	1,935,214
Restricted	1,047,529	259,488
Unrestricted	533,694	217,300
Total Net Position	\$ 3,550,537	\$ 2,412,002

* Due to the implementation of GASB 68 in the current year, figures may not be comparable to the prior year for some areas of the financial statements.

The net position of the district has increased \$1,138,535 for fiscal year 2015. \$669,466 of the increase is the posting of the Net Pension Asset which had not been previously reported. The district capital assets show a slight net increase due to the addition of the repairs of the boilers and other equipment as well as the surplus and removal of equipment. The old technology equipment that is no longer in working order was removed from the inventory. However much of the new technology equipment does not always meet the criteria for a capital asset.

The total liabilities have decreased \$46,567 from the 2014 fiscal year. This decrease is from the payments made on the loans to the State of South Dakota for the lighting project and the payment on the funds the district borrowed from the Impact Aid Fund. A slight change in leave payable was noted and this is the fourth year for the posting of the net OPEB obligation for the district.

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

Figure A-2 - Revenues

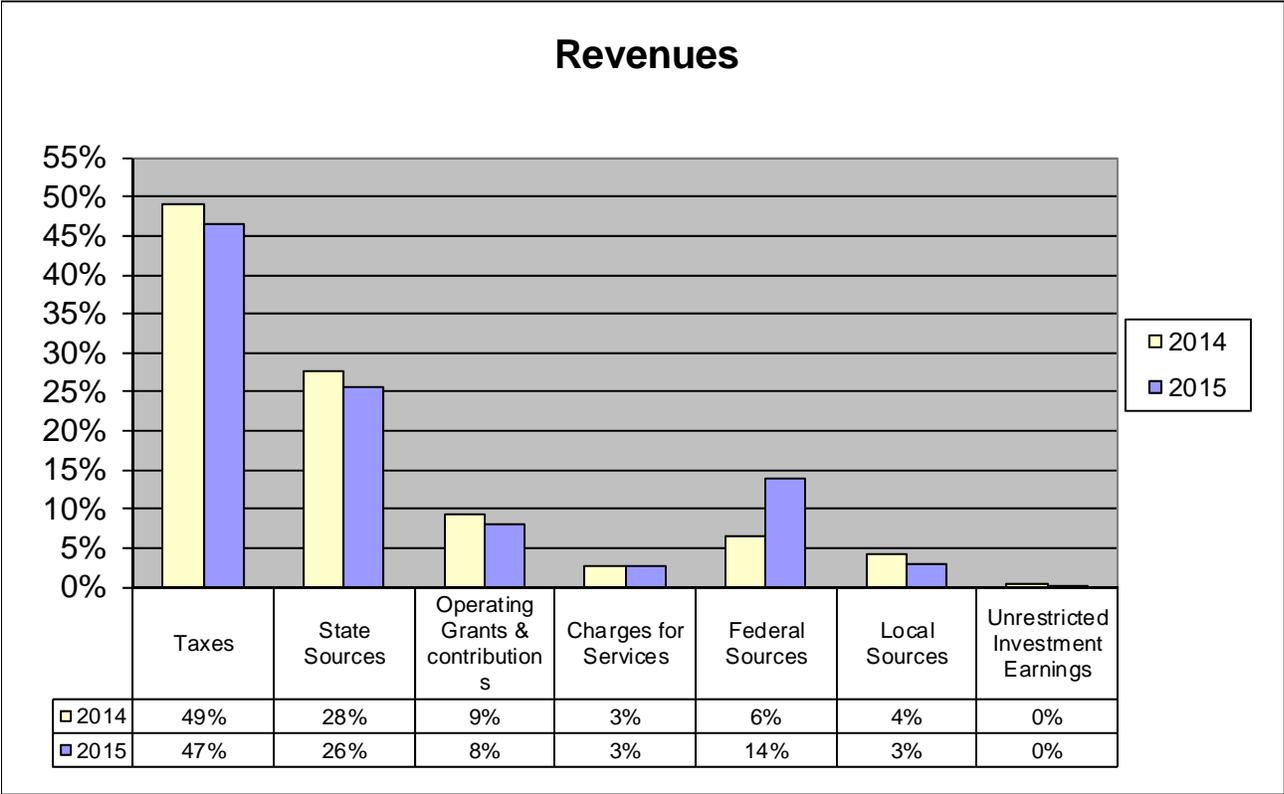
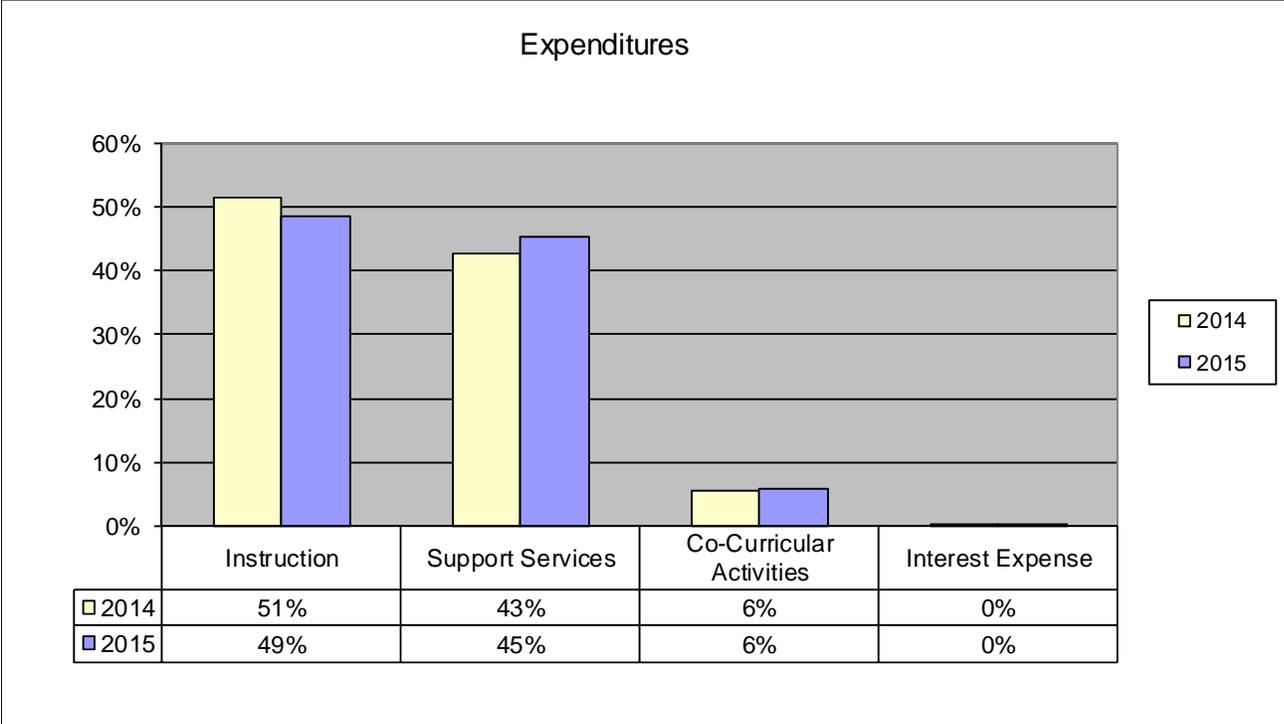


Figure A-3 – Expenditures



Governmental Activities

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

**Table A-2
Changes in Net Position**

	<u>Total Governmental Activities 2015</u>	<u>Total Governmental Activities 2014</u>
Revenues		
Program Revenues		
Charges for Services	\$ 98,439	\$ 88,597
Operating Grants and Contributions	303,170	293,654
General Revenues		
Taxes	1,736,695	1,545,483
Revenue State Sources	957,151	873,082
Revenue Federal Sources	515,977	202,289
Revenue Intermediate Sources	110,861	108,588
Compensation for Loss of General Capital Assets	-	26,266
Unrestricted Investment Earnings	6,280	10,522
Total Revenues	<u>3,728,573</u>	<u>3,148,481</u>
Expenses		
Instruction	1,429,609	1,662,559
Support Services	1,337,550	1,376,872
Cocurricular Activities	173,982	180,613
Interest Expense - Unallocated	5,080	10,160
Nonprogrammed Charges	766	846
Total Expenses	<u>2,946,987</u>	<u>3,231,050</u>
Total Revenues Over (Under) Expenses	781,586	(82,569)
Loss on disposal of capital assets, net of insurance recoveries	<u>(2,538)</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>779,048</u>	<u>(82,569)</u>
Net Position, Beginning of Year, as restated for 2015	<u>2,771,489</u>	<u>2,494,571</u>
Net Position, End of Year	<u>\$ 3,550,537</u>	<u>\$ 2,412,002</u>

* Due to the implementation of GASB 68 in the current year, figures may not be comparable to the prior year for some areas of the financial statements.

The Lemmon School District's total revenues (including special items) totaled \$3,728,573 for fiscal year ending June 30, 2015, which is an increase from fiscal year 2014. The district received \$329,995 of Section 8002 Impact Aid funds which included catch up funds from the year 2009 and forward. The PILT funds received in July 2015 in the amount were reflected in fiscal year 2015. The small increase is net of increased property tax revenue and decreased state and federal revenues.

The total cost of all programs and services was \$2,946,987 for fiscal year 2015. The expenditures decreased due to budget reductions are made where possible and the staff is also very conscious of the district financial situation when making purchases.

Approximately 47% of the school district's revenue came from property taxes with approximately 26% from state sources. A slight shift in funding is occurring with an increase in the property tax values and a small increase in the per pupil amount for state aid. The percentages of revenue from local and state sources are lower than fiscal year 2014 due to the large Impact Aid payment. The district continues to have declining enrollment and this also has an effect on the amount received in state aid.

Fiscal year 2015 shows an increase in state funding. This is a net result of the school districts receiving a small increase in the state aid to education, an increase in the property tax values and declining enrollment. The federal funding shows an increase which is due to the receipt of the large Impact Aid payment. The district however, continues to utilize the Title funding where possible. (See Figure A-2)

Even with the salary increases, the expenses remained stable. This is a net result of salary raises for fiscal year 2015 less any one time expenditures. (See Table A-2) The School's expenses cover a range of services, encompassing instruction, support services, capital outlay expenditures and food services. (See Figure A-3)

Financial Analysis of the School's Funds

The General Fund had an increase of \$540,203 in the fund balance at the end of the year. The School Board approved a transfer of \$150,000 from the Impact Aid Fund to the General Fund at the end fiscal year 2014 to cover the budget deficit. This assisted in the positive fund balance increase for fiscal year 2015 as well as the receipt of \$329,995 in federal funds from the Impact Aid Program. The slight increase the state aid to education, salary increase, the declining enrollment, and high fuel costs expenditures outweighed the revenue received. The district continues to monitor the expenditures and the staff is aware of the district financial status. If needs for transfers to the General Fund continue, the resources of the Impact Aid Fund are anticipated to reduce in the future. The district has received word that the consolidated district #52-4 will qualify for Impact Aid Section 8002 funding.

The Capital Outlay Fund showed a decrease in the fund balance; however this is due to the borrowing of \$115,500 from the Impact Aid fund for unexpected boiler expenses in fiscal year 2015. As the interfund loan cannot be reported as revenue but only on the balance sheet it reflects negatively on the fund balance. However, as this is paid off, the amount will balance out. The Pension Fund shows a slight decrease in the fund balance for the year as the district spends the balance of the Pension Fund on a yearly basis.

The Special Education Fund reflects an increase in the fund balance due to additional tax revenue due to the consolidation and lower special education costs. However, due to the additional tax revenue and current fund balance, the district did not receive any state aid for special education in fiscal year 2014.

Budgetary Highlights

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

Capital Asset Management (Note 3)

By the end of fiscal year 2015, the Lemmon School District had invested \$2,087,079, 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
 Lemmon School District 52-4 – Capital Assets
 (Net of depreciation)**

	Governmental Activities 2015	Governmental Activities 2014
Land	\$ 10,580	\$ 10,580
Improvements (net)	155,040	101,029
Buildings (net)	1,652,804	1,603,605
Machinery and equipment (net)	268,655	350,850
Total capital assets (net)	\$ 2,087,079	\$ 2,066,064

The net increase in assets is due to the addition of the boiler repairs and other equipment, the surplusing of equipment and the posting of the depreciation.

Long Term Debt (Note 4)

The district replaced the lights in the high school and the armory gym with an interest free loan from in the amount of \$130,850 from the State of South Dakota. This loan must be paid back in 10 years. It was posted in fiscal year 2014 with the first payment due in July 2014.

Table A-4

	Governmental Activities		Change	Change
	2015	2014	2015-2014	2015-2014
Compensated absences	\$ 26,143	\$ 27,568	\$ (1,425)	-5.17%
Energy Loan	117,765	130,850	(13,085)	-10.00%
Total outstanding debt and obligations	\$ 143,908	\$ 158,418	\$ (14,510)	-9.16%

The Lemmon School District is liable for accrued sick leave and vacation leave payable for both the certified staff and the support staff as per school handbooks and the Negotiated Agreement.

Economic Factors and Next Year's Budgets and Rates

The Lemmon School District's economic position has been deteriorating. The district continues to use cash reserves to help fund the General Fund budget. The school district's property valuation fluctuates very little and the maximum that can be levied is set during the State of South Dakota legislative session every year.

One of the primary sources of revenue to the school is based on the per student allocation received from the State of South Dakota. The state aid formula for the current year ensures that General Fund property taxes plus state aid will equal \$4,781 per pupil for fiscal year 2015. The per pupil allocation for the general state aid to education for fiscal year 2016 is \$4,876.76. However, the SD legislature is looking at changing the formula which includes a student – teacher ratio as well as putting the Pension fund in the General Fund beginning with fiscal year 2017. At this time, we are unable to predict the approximate increase in state aid to education for fiscal year 2017 because of a possible different formula.

The Revenue Chart (Figure A-2) on page 10 shows a small shift in the primary source of revenue to the property taxes received. This is due to the consolidation with the Northwest School District in 2009 and the increase in the Capital Outlay levy. The current state aid formula is a combination of property tax and state funding. What is not received in property tax is paid as general state aid to the district.

Over the years, the Lemmon School District has made substantial cuts to the budget due to declining revenues and declining enrollment. However during the 2009 – 2010 school year, the district was able to bring back a full time Business Education instructor. Also, with the sharing of staff with the McIntosh District, the FACS program was added back to the curriculum as a ½ time program and a ½ time Spanish teacher was added. Previously, the students were instructed the Spanish through the use of the DDN.

For fiscal year 2014 the district continued to share an Industrial Arts instructor, the Spanish instructor and the Family & Consumer Science instructor with the McIntosh School district. The sharing of instructors allowed both districts to offer additional programs to the students. However, beginning with fiscal year 2015, the shared agreement will be for the Family & Consumer Science program only.

The district will continue with a four-day school week. The change has provided a savings to the district. The administration will continue to review the budget for further cuts as necessary. The district reduced the full time Business Education instructor to half time teacher and half time high school office secretary. This assisted in reducing expenses for the district.

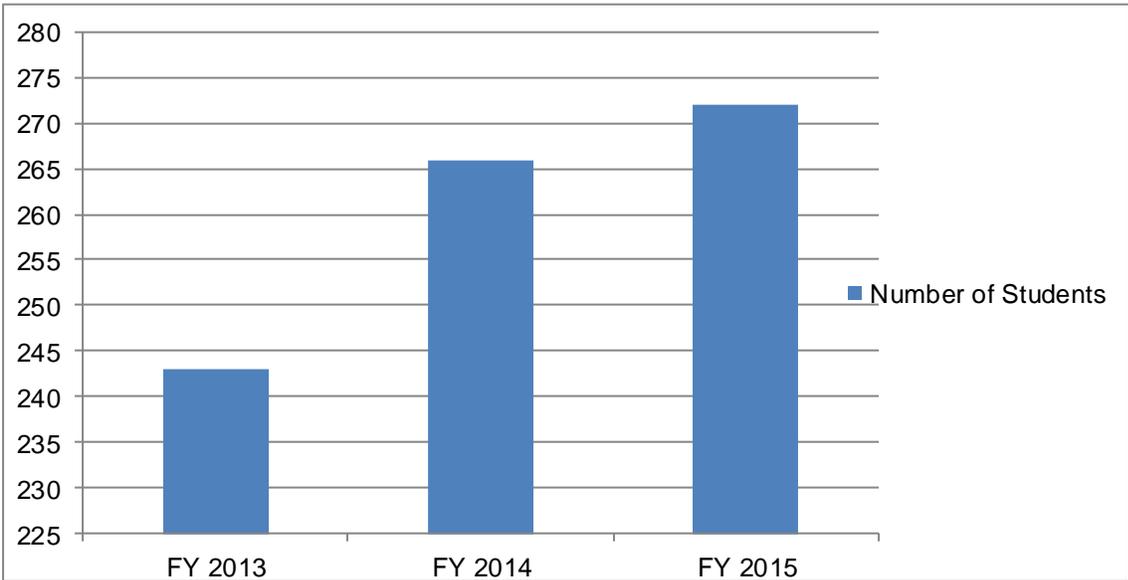
Effective July 1, 2009, the Lemmon School District #52-2 and the Northwest School District #52-3 consolidated and formed the Lemmon School District #52-4. The consolidation provided an additional 407 square miles and \$36,085,325 in taxable valuations. The additional tax base will reduce the state share of the general state aid that the district will receives as the per pupil student allocation is a combination of the general fund taxes and funds from the state. As the \$100,000 opt out was included in the consolidation plan it was extended to include the taxes levied in 2013 and payable in the year 2014. This will help sustain the revenue for the district.

The board approved the continuation of the opt out however increased the amount to \$150,000 effective with the taxes levied in 2014 payable in 2015. Even with the increase in the opt out and the fact that enrollment in the district has remained steady the last two years, the Board, administration, and staff need to be aware of the possibility of further budget cuts.

All comparisons to the fiscal year 2009 and prior in the Management's Discussion and Analysis refer to the Lemmon School District #52-2. Because there was not a change in student enrollment, staffing or building costs due to the consolidation it is appropriate to make the financial comparison between the two districts.

Student Enrollment

The enrollment has been declining for a number of years. In the school year 2001 – 2002 the Lemmon School District 52-2 had an enrollment of 428. The fall enrollment for the 2012 – 2013 school year at 243 students, increased to 266 students for fiscal year 2014 and the fall enrollment for fiscal year 2015 was 272. It is estimated that the fall enrollment for fiscal year 2016 will remain stable. The student enrollment did not increase with the consolidation as all of the students that reside in the previous Northwest School District 52-3 area open enroll to the Hettinger School District in Hettinger, North Dakota.



Contacting the School's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers as well as 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 Lemmon School District 52-4 Business Office, 209 Third Street West, Lemmon, South Dakota 57638.

Lemmon School District No. 52-4
Statement of Net Position – Exhibit I
June 30, 2015

	Governmental Activities
Assets	
Cash	\$ 1,234,379
Taxes receivable	777,085
Inventories	5,956
Other receivables	302,454
Net pension asset	669,466
Capital assets	
Land	10,580
Other capital assets, net of depreciation	2,076,499
Total Assets	5,076,419
Deferred Outflows of Resources	
Pension Plans	580,940
Liabilities	
Accounts payable	64,064
Other current liabilities	205,854
Noncurrent liabilities	
Due within one year	
Compensated absences	15,500
Energy loan	13,085
Due in more than one year	
Compensated absences	10,643
Energy loan	104,680
Net OPEB obligation	94,343
Total Liabilities	508,169
Deferred Inflow of Resources	
Taxes levied for future period	823,299
Pension plans	775,354
Total Deferred Inflows of Resources	1,598,653
Net Position	
Net investment in capital assets	1,969,314
Restricted for	
Special education	378,063
SDRS net pension asset	669,466
Unrestricted	533,694
Total Net Position	\$ 3,550,537

Lemmon School District No. 52-4
Statement of Activities – Exhibit II
Year Ended June 30, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Total Governmental Activities</u>
Primary Government				
Governmental activities				
Instruction	\$ 1,429,609	\$ -	\$ 246,091	\$ (1,183,518)
Support services	1,337,550	66,718	57,079	(1,213,753)
Cocurricular activities	173,982	31,721	-	(142,261)
Interest expense - unallocated	5,080	-	-	(5,080)
Nonprogrammed charges	766	-	-	(766)
Total governmental activities	<u>2,946,987</u>	<u>98,439</u>	<u>303,170</u>	<u>(2,545,378)</u>
Total Primary Government	<u>\$ 2,946,987</u>	<u>\$ 98,439</u>	<u>\$ 303,170</u>	<u>(2,545,378)</u>
		General Revenues		
		Taxes		
				1,577,143
				159,552
		Revenue from state sources		
				957,151
				515,977
				6,280
				110,861
		Total general revenues		<u>3,326,964</u>
		Loss on disposal of capital assets, net of insurance recoveries		<u>(2,538)</u>
		Change in net position		<u>779,048</u>
		Net position - June 30, 2014, as restated (Note 9)		<u>2,771,489</u>
		Net position - June 30, 2015		<u>\$ 3,550,537</u>

Lemmon School District No. 52-4
Balance Sheet – Governmental Funds – Exhibit III
June 30, 2015

	General	Special Revenue Funds		Other	Total
	Fund	Capital Outlay	Special Education	Governmental Funds	Governmental Funds
Assets					
101 Cash	\$ 739,178	\$ 66,683	\$ 421,095	\$ 7,423	\$ 1,234,379
110 Taxes receivable--current	379,003	193,336	164,470	29,785	766,594
112 Taxes receivable--delinquent	5,861	2,197	2,042	391	10,491
120 Accounts receivable, net	-	-	-	1,091	1,091
140 Due from other governments	292,983	-	2,380	-	295,363
150 Advance to capital outlay fund	115,500	-	-	-	115,500
150 Imprest account	6,000	-	-	-	6,000
170 Inventory	-	-	-	5,956	5,956
Total Assets	\$ 1,538,525	\$ 262,216	\$ 589,987	\$ 44,646	\$ 2,435,374
Liabilities, Deferred inflows of Resources and Fund Balances					
Liabilities					
402 Accounts payable	\$ 22,199	\$ 29,287	\$ 8,139	\$ 4,439	\$ 64,064
404 Contracts payable	155,010	-	22,950	-	177,960
430 Advance from general fund	-	115,500	-	-	115,500
450 Payroll deductions and withholdings and employer matching payable	23,665	-	899	3,330	27,894
Total Liabilities	200,874	144,787	31,988	7,769	385,418
Deferred Inflows of Resources:					
474 Unavailable revenue-property taxes	5,861	2,197	2,042	391	10,491
474 Taxes levied for future periods	404,071	209,118	177,894	32,216	823,299
Total deferred inflows of resources	409,932	211,315	179,936	32,607	833,790
Fund Balances (Deficit)					
703 Nonspendable	115,500	-	-	5,956	121,456
720 Restricted for Special Education	-	-	378,063	-	378,063
704 Unassigned	812,219	(93,886)	-	(1,686)	716,647
Total Fund Balances (Deficit)	927,719	(93,886)	378,063	4,270	1,216,166
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,538,525	\$ 262,216	\$ 589,987	\$ 44,646	\$ 2,435,374

Lemmon School District No. 52-4
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position – Exhibit IV
 June 30, 2015

Total Fund Balances - Governmental Funds		\$ 1,216,166
Amounts reported for governmental activities in the statement of net position are different because		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,087,079
Assets, such as taxes receivable that are not available to pay for current period expenditures, are unearned in the fund level statements.		10,491
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds		(194,414)
The net pension asset is not available in the current period and therefore is not reported in the funds		669,466
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences	\$ (26,143)	
Energy Loan	(117,765)	
OPEB Obligation	(94,343)	(238,251)
Net Position - Governmental Activities		\$ 3,550,537

Lemmon School District No. 52-4

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Exhibit V

Year Ended June 30, 2015

	General Fund	Special Revenue Funds		Other Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Education		
Revenues					
1000 Revenue from local sources					
1100 Taxes					
1110 Ad Valorem taxes	\$ 774,447	\$ 377,493	\$ 352,124	\$ 63,748	\$ 1,567,812
1120 Prior years' Ad Valorem taxes	4,529	1,491	1,222	241	7,483
1130 Tax deed revenue	237	-	-	-	237
1140 Gross receipts taxes	159,552	-	-	-	159,552
1190 Penalties and interest on taxes	3,256	1,465	1,438	276	6,435
1500 Earnings on investments and deposits	5,803	65	412	-	6,280
1600 Sales	-	-	-	66,718	66,718
1700 Cocurricular activities					
1790 Other pupil activity income	31,721	-	-	-	31,721
1900 Other revenue from local sources					
1920 Contributions and donations	-	1,800	-	-	1,800
1970 Charges for services	4,272	-	427	-	4,699
1990 Other	44,731	-	-	15,959	60,690
2000 Revenue from intermediate sources					
2100 County sources					
2110 County apportionment	37,237	-	-	-	37,237
3000 Revenue from state sources					
3110 Unrestricted grants-in-aid	957,151	-	-	-	957,151
3810 State Reimbursements	-	-	-	613	613
4000 Revenue from federal sources					
4100 Grants-in-aid					
4110 Unrestricted grants-in-aid received directly from Federal Government	329,995	-	-	-	329,995
4120 Unrestricted grants-in-aid received from Federal Government through State	67,148	-	-	-	67,148
4150-4199 Restricted grants-in- aid received from Federal Government through State	168,901	-	77,190	-	246,091
4200 Revenue in Lieu of Taxes (PILT)	114,382	-	-	-	114,382
4810 Federal Reimbursements	-	-	-	44,279	44,279
4820 Donated Food	-	-	-	12,187	12,187
4900 Other federal revenue	4,452	-	-	-	4,452
Total Revenue	2,707,814	382,314	432,813	204,021	3,726,962

Lemmon School District No. 52-4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Exhibit V
Year Ended June 30, 2015

Expenditures	General	Special Revenue Funds		Other	Total
	Fund	Capital Outlay	Special Education	Governmental Funds	Governmental Funds
Current					
1000 Instruction					
1100 Regular programs					
1110 Elementary	422,534	32,215	-	-	454,749
1120 Middle School	64,901	-	-	-	64,901
1130 High School	404,681	26,547	-	-	431,228
1190 Other regular programs	88,700	-	-	-	88,700
1200 Special programs					
1220 Programs for Special Education	-	-	228,649	-	228,649
1270 Educationally deprived	83,194	-	-	-	83,194
2000 Support services					
2120 Guidance	54,438	-	-	-	54,438
2130 Health	1,833	-	-	-	1,833
2140 Psychological	-	-	12,860	-	12,860
2150 Speech Pathology	-	-	60,336	-	60,336
2170 Student therapy services	-	-	1,062	-	1,062
2200 Instructional staff					
2210 Improvement of instruction	2,038	-	-	-	2,038
2220 Educational media	60,684	-	-	-	60,684
2300 General administration					
2310 Board of Education	46,886	-	-	-	46,886
2320 Executive administration	80,686	-	-	-	80,686
2400 School administration					
2410 Office of the Principal	137,065	-	-	-	137,065
2490 Other	3,359	-	-	-	3,359
2500 Support services - business					
2520 Fiscal services	109,484	-	-	-	109,484
2540 Operation and maintenance of plant	316,186	147,169	-	-	463,355
2550 Pupil transportation	133,121	-	-	-	133,121
2560 Food service	-	-	-	140,214	140,214
2700 Support services - Special Education					
2710 Administrative costs	-	-	10,880	-	10,880
2730 Transportation costs	-	-	39	-	39
3000 Community services					
3900 Other community service costs	91	-	-	-	91
4000 Nonprogrammed charges					
4500 Early retirement payment	-	-	-	76,361	76,361
4900 Other nonprogrammed costs	675	-	-	-	675
5000 Debt services	-	18,165	-	-	18,165
6000 Cocurricular activities					
6100 Male activities	55,925	-	-	-	55,925
6200 Female activities	36,391	-	-	-	36,391
6500 Transportation	1,036	-	-	-	1,036
6900 Combined activities	54,532	-	-	-	54,532
Capital outlay	-	215,754	-	-	215,754
Total expenditures	2,158,440	439,850	313,826	216,575	3,128,691

Lemmon School District No. 52-4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Exhibit V
Year Ended June 30, 2015

	General Fund	Special Revenue Funds		Other Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Education		
Excess (Deficiency) of Revenues Over (Under) Expenditures	549,374	(57,536)	118,987	(12,554)	598,271
Other Financing Sources (Uses)					
8110 Transfers out	(10,000)	(65)	(412)	-	(10,477)
5110 Transfers in	477	-	-	10,000	10,477
5140 Compensation for loss of general capital assets - insurance recoveries	352	2,658	-	-	3,010
Total Other Financing Sources (Uses)	(9,171)	2,593	(412)	10,000	3,010
Net Change in Fund Balance	540,203	(54,943)	118,575	(2,554)	601,281
Fund Balance (Deficit) - June 30, 2014	387,516	(38,943)	259,488	6,824	614,885
Fund Balance (Deficit) - June 30, 2015	<u>\$ 927,719</u>	<u>\$ (93,886)</u>	<u>\$ 378,063</u>	<u>\$ 4,270</u>	<u>\$ 1,216,166</u>

Lemmon School District No. 52-4

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities – Exhibit VI
Year Ended June 30, 2015

Net Change in Fund Balances - Total Governmental Funds	\$ 601,281
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	215,754
Depreciation expense.	(189,191)
In the statement of activities gains on disposal of capital assets are reported, whereas, in the governmental funds, no gain or loss is realized.	(5,548)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,611
Principal payments on long-term liabilities are an expenditure in the governmental funds, but the payments decrease long-term liabilities in the statement of net position.	13,085
In the statement of activities the cost of pension benefits earned net of employee contributions is reported in pension expense. In the governmental funds, however, the contributions are reported as expense.	115,565
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	26,491
Change in Net Position of Governmental Activities	<u>\$ 779,048</u>

Lemmon School District No. 52-4
Statement of Fiduciary Net Position – Fiduciary Funds – Exhibit VII
June 30, 2015

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and certificates of deposit	<u>\$ 140,841</u>	<u>\$ 57,111</u>
Liabilities		
Amounts held for others	<u>-</u>	<u>57,111</u>
Net Position		
Restricted for Medical Fund	<u>\$ 140,841</u>	<u>\$ -</u>

Lemmon School District No. 52-4
Statement of Changes in Fiduciary Net Position – Exhibit VIII
Year Ended June 30, 2015

	<u>Private-Purpose Trust Funds</u>
Additions	
Other additions	<u>\$ 30,845</u>
Deductions	
Other deductions	<u>37,376</u>
Change in Net Position	<u>(6,531)</u>
Net Position - Beginning	<u>147,372</u>
Net Position - Ending	<u><u>\$ 140,841</u></u>

Note 1 - Summary of Significant Accounting Policies

The following is a summary of the District's significant accounting policies:

Reporting Entity

The reporting entity of the Lemmon School District No. 52-4 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.

Basis of Presentation

The financial statements of the School District have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard setting body for governmental accounting and financial reporting.

Government-Wide Statements

The Statement of Net Position and the Statement of Activities display information about the School District. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. As a general rule, the effect of interfund activity has been eliminated from the government wide financial statements.

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

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

Fund Financial Statements

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

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental 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 fund are at least 5 percent of the corresponding total for all governmental funds combined or

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

Governmental Funds

	Description
General Fund	The General Fund is the general operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund. The general fund is always a major fund.
Special Education Fund	A fund established by South Dakota Codified (SDCL) 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the district. This fund is financed by grants and property taxes.
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. This fund is financed by property taxes.

Fiduciary Funds

Private-Purpose Trust Fund Types – Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. These funds are used for the purpose of providing scholarships to students.

The Medical Fund is a private-purpose trust fund. The Medical Fund is funded through private funding sources and is used to pay medical expenses of needy students with medication needs of Lemmon School District 52-4.

Agency Fund Types – 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.

Interfund Eliminations

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated. In order to eliminate the grossing-up effect on the assets and liabilities within the governmental funds the advances between funds have been eliminated.

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, governmental 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 similar fiduciary funds.

Basis of Accounting

Government-Wide Financial Statements

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

Fund Financial Statements

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Lemmon School District No. 52-4, the length of that cycle is 60 days. The revenues which are accrued at June 30, 2015 are revenues from federal sources.

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

Deposits and Investments

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

Deposits – the school deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 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 110 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

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

Custodial and Concentration Credit Risk

For deposits and investments, the custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the School District will not be able to recover collateral securities that are in the possession of an outside party. The School District's deposits are insured and collateralized by the South Dakota Public Deposit Protection Collateral Program. All deposits are held at Dacotah Bank Lemmon.

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. All certificates mature within one year.

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.

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

Investments are stated at fair value.

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 deposits and investments to the General Fund, except the income from investments of the Food Service Fund and the Private Purpose Trust Funds are credited to those funds. United States generally accepted accounting principles, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, they have been eliminated.

Inventory

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list (average for the year).

In the government-wide financial statements and in the 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, the “consumption method” of recording inventory is used.

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.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Interest costs incurred during construction of capital assets are not capitalized along with other capital asset costs.

The total June 30, 2015 balance of capital assets for governmental activities includes estimates of the original costs. These estimated original costs were established by deflated current replacement cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with net capital assets reflected in the Statement of Net Position. Capitalization thresholds (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 are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	All	N/A	N/A
Improvements	\$ 1,000	Straight-line	30 years
Buildings	1,000	Straight-line	50 years
Machinery/equipment	1,000	Straight-line	5-20 years

Land is not depreciated.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition.

Long-Term Liabilities

The accounting treatment of long-term liabilities used in governmental fund operations is reported in the government-wide statements.

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of compensated absences, an energy loan, and the net OPEB obligation.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenues and payments of principal and interest are reported as expenditures.

Annual leave is earned by the administrative and support staff employees at the rate of two to three weeks per year. Upon termination, employees are entitled to receive compensation for their accrued annual leave balance up to one year of earned annual leave on the basis of the current pay.

Sick leave is earned by the employees at the rate of 5 to 10 days per year for teachers and 9 to 10 days per year for support staff. After an employee has five consecutive years of service, upon termination, certified employees are entitled to receive compensation for their accrued sick leave balance on the basis of \$15.00 per day up to a maximum of 125 days for teachers and 45 days for support staff.

As of June 30, 2015, a liability of \$26,143 existed for accumulated unpaid leave balance (annual and sick) calculated at the employee's June 30, 2015 pay rates.

Implementation of GASB Statement No. 68 and GASB Statement No. 71

As of July 1, 2014, the School District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension liability/asset, deferred outflows of resources, deferred inflows of resources, and pension expense (revenue). The effect of the implementation of these standards on beginning net position is disclosed in Note 9 and the additional disclosures required by these standards are included in Note 8.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The District has two items that qualify for reporting in this category. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end, and changes in the net pension liability not included in pension expense (revenue) reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two types of items that qualify for reporting in this category. The District reports unavailable revenues from property taxes on the government-wide statement of net position and the government funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item is changes in the net pension liability (asset) not included in pension expense (revenue) reported in the government-wide statement of net position.

Receivables, such as taxes receivable, may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported unearned revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met. According to SDCL 10-33, deferred inflows or resources would also be recognized for gross receipts tax if they are received after their 60 day period of availability after the current period (September 1st).

Pensions

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

Program Revenues

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

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.

Equity Classifications

Government-wide Statements

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

Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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.

Unrestricted net position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Restricted and Unrestricted Resources

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.
- 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 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 School District 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
Special Education Fund	Property Taxes

Note 2 - Property Tax

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year. Approximately 50% is considered to be applied to finance the budget of the current fiscal year, and the remaining percentage (50%) is considered to be applied to finance the budget for the subsequent year. The county bills and collects the school's taxes and remits them to the school. School district property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Current year property taxes receivable which are not available as a resource that can be used to finance the current year's appropriations and therefore are not susceptible to accrual have been reported as deferred inflows of resources in both fund financial statements and the government-wide financial statements.

Note 3 - Changes in Capital Assets

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

Governmental Activities

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets, not being depreciated				
Land	\$ 10,580	\$ -	\$ -	\$ 10,580
Capital assets, being depreciated				
Improvements	396,616	76,570	-	473,186
Buildings	3,255,505	125,919	(6,164)	3,375,260
Machinery/equipment	1,730,208	13,265	(113,967)	1,629,506
Total capital assets being depreciated	<u>5,382,329</u>	<u>215,754</u>	<u>(120,131)</u>	<u>5,477,952</u>
Less accumulated depreciation for				
Improvements	(295,587)	(22,559)	-	(318,146)
Buildings	(1,651,900)	(71,172)	616	(1,722,456)
Machinery/equipment	(1,379,358)	(95,460)	113,967	(1,360,851)
Total accumulated depreciation	<u>(3,326,845)</u>	<u>(189,191)</u>	<u>114,583</u>	<u>(3,401,453)</u>
Total capital assets being depreciated, net	<u>2,055,484</u>	<u>26,563</u>	<u>(5,548)</u>	<u>2,076,499</u>
Governmental type activity capital assets, net	<u>\$ 2,066,064</u>	<u>\$ 26,563</u>	<u>\$ (5,548)</u>	<u>\$ 2,087,079</u>

Depreciation expense was charged to functions as follows:

Governmental activities		
Instruction	\$	143,883
Support services		19,210
Co-curricular activities		<u>26,098</u>
Total depreciation expense- governmental	\$	<u><u>189,191</u></u>

Note 4 - Non-Current Liabilities

A summary of the changes in long-term liabilities follows:

Governmental Activities

	Compensated Absences	Energy Loan	Total
Noncurrent liabilities payable, June 30, 2014	\$ 27,568	\$ 130,850	\$ 158,418
Payment of debt obligations	-	(13,085)	(13,085)
Accrual of compensated absences	9,408	-	9,408
Payment of compensated absences	<u>(10,833)</u>	<u>-</u>	<u>(10,833)</u>
Noncurrent liabilities payable, June 30, 2015	<u>26,143</u>	<u>117,765</u>	<u>143,908</u>
Current liabilities, due within one year	<u>15,500</u>	<u>13,085</u>	<u>28,585</u>
Noncurrent liabilities, due in more than one year	<u><u>\$ 10,643</u></u>	<u><u>\$ 104,680</u></u>	<u><u>\$ 115,323</u></u>

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

The Energy Loan is a non-interest bearing loan and must be paid off in 10 years. The District will make annual payments from the Capital Outlay fund from the savings they will receive in their electrical bill after completing the lighting project. Payments first started in July 2014. The annual payments to maturity as of June 30, 2015 are as follows:

<u>Year Ending</u>	<u>Energy Loan</u>
2016	\$ 13,085
2017	13,085
2018	13,085
2019	13,085
2020	13,085
2021-2024	<u>52,340</u>
Total	<u><u>\$ 117,765</u></u>

Note 5 - Individual Fund Interfund Balances and Transactions

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

	Transfer to Other Governmental	Transfer to General Fund
Transfer from		
General fund	\$ 10,000	
Capital outlay fund		\$ 65
Special education fund		412

The School District transferred monies from the general fund to the food service fund to subsidize the operations of those funds. South Dakota state law 13-16-18 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 deposits and investments to the general fund, except the income from investments of the Food Service Fund and the Private Purpose Trust Funds are credited to those funds. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. These interfund transfers are not violations of the statutory regulations on interfund transfers.

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

<u>Advance to</u>	<u>Advance from General Fund</u>
Capital Outlay Fund	\$ 115,500

The District advanced impact aid monies from the General Fund to the Capital Outlay Fund to pay for emergency boiler repairs. The advance is to be repaid in full no later than 24 months from the date of the transfer and bears interest at 8% annually.

Note 6 - Restricted Net Position

The following details the net position restricted for other purposes as shown on the statement of net position:

<u>Fund</u>	<u>Restricted by</u>	<u>Amount</u>
Special Education	Law	\$ 378,063
SDRS Net Pension Asset	Law	669,466
Total restricted net position		\$ 1,047,529

Note 7 - Retirement Plan

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in the 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, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

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

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% 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 \$87,287, \$97,497, and \$101,112, respectively, equal to the required contributions each year.

Pension Assets, Pension Revenue, and Deferred Outflows of 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	\$ (9,856,763)
Less proportionate share of total pension liability	<u>9,187,297</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (669,466)</u></u>

At June 30 2015, the School District reported an (asset) of \$669,466 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014 and the total pension liability 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 .0929221%.

For the year ended June 30, 2015, the School District recognized pension revenue of \$28,278. At June 30, 2015 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 56,646	\$ -
Changes in assumption	437,007	-
Net difference between projected and actual earnings on pension plan investments	-	775,354
District contributions subsequent to the measurement date	<u>87,287</u>	<u>-</u>
Total	<u><u>\$ 580,940</u></u>	<u><u>\$ 775,354</u></u>

\$87,287 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as an addition of the net pension asset 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:

<u>Year Ending</u>		
2015	\$	53,197
2016		53,197
2017		53,197
2018		122,111
		122,111
Totals	\$	281,702

Actuarial Assumptions

The total pension 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 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	64.0%	4.7%
Fixed Income	26.0%	1.8%
Real Estate	8.0%	5.5%
Cash	2.0%	8.0%
Total	100%	

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 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 liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
School District's proportionate share of the net pension liability (asset)	\$ 661,558	\$ (669,466)	\$ (1,755,055)

Pension Plan Fiduciary Net Position

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

Note 8 - Adoption of New Standard

The School District implemented GASB Statement No. 68 *Accounting and Financial Reporting 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 June 30, 2014 as follows:

	Governmental Activities
Net Position - June 30, 2014, as previously reported	\$ 2,412,002
Restatement for pension accounting	
Net Pension Asset	261,990
Pension related Deferred Outflows of Resources	97,497
Net Position - July 1, 2014, as restated	\$ 2,771,489

Note 9 - Other Post-Employment Benefits

Plan Description

The post-employment benefit plan is a single-employer defined benefit healthcare plan administered by the Lemmon School District No. 52-4. The post-employment benefit plan provides medical insurance benefits to eligible retirees and their spouses as permitted by South Dakota Codified Law 6-1-16. Benefit provisions were established and may be amended during the negotiated agreement process between district certified staff and the governing board. The health plan does not issue separately stated stand-alone financial statements.

Funding Policy

The contribution requirements of plan members and the School District are established and may be amended during the negotiated agreement process between district certified staff and the governing board. Any professional staff member, who retires from the District with at least 15 years of consecutive service with the District, may be eligible for retiree health insurance coverage. Effective July 1, 2015, the professional staff members retiring from the School District may select the COBRA group medical insurance coverage upon retirement. The Board will contribute up to \$700 per month towards the COBRA family, 2-party or single group medical insurance COBRA premium for a period of up to 18 months. The professional staff member must contribute the remaining premium balance.

Annual OPEB Cost and Net OPEB Obligation

The entity's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers with plans that have fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the financial components of the plan:

Annual required contributions	\$ 54,846
Interest on OPEB obligation	1,194
Adjustment to annual required contributions	<u>(60,002)</u>
Annual OPEB costs	(3,962)
Contributions made	<u>(21,104)</u>
Decrease in net OPEB obligation	(25,066)
Net OPEB obligations, beginning of year	<u>119,409</u>
Net OPEB obligations, end of year	<u><u>\$ 94,343</u></u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ (3,962)	532.66% *	\$ 94,343
2014	27,862	94.68%	119,409
2013	32,343	48.94%	117,927

*Due to change in funding policy effective July 1, 2015.

The professional staff members that are currently participating in the Retirement Benefit will retain their current retirement benefit of participation in the group medical insurance for up to a period of (5) years with the Board contributing \$5,250 per year towards the single, 2-party or family group medical insurance Retiree premium for the balance of their retirement benefit period. The professional staff member must contribute the remaining premium balance.

Funded Status and Funding Progress

As of June 30, 2015, the most recent valuation date, the plan’s statistics were as follows:

Actuarial accrued liability	\$ 97,386
Actuarial value of benefit assets	-
Unfunded actuarial accrued liability	\$ 97,386

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

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the post-employment benefit plan valuation, the alternative measurement method was used. This included a 1% rate of return. An annual healthcare cost trend rate was not used in the actuarial calculation because the employer’s contribution is fixed, regardless of healthcare cost trends. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2015 was 1½ years.

Note 10 - Risk Management

The School District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 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 to its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage provides a deductible of \$500 per person up to \$1,000 per family or \$1000 per person up to \$2,000 per family or \$1,500 per person or \$3,000 per family or \$2500 per person up to \$5000 per family depending on the plan elected. The plan also provides for coinsurance of 80 percent up to \$2,500 per individual or \$5,000 per family. The coverage also includes a \$2,000,000 lifetime maximum per person.

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 never exceeded the liability coverage

At June 30, 2015, the South Dakota School District Health Benefits Fund had a deficit net position. The Fund is changing its third party administrator to gain network efficiencies and increasing premiums to recover this deficit. They currently do not plan to assess participants. The School District would have a liability for their share of the deficit should they decide to leave the plan.

Liability Insurance

The School District joined the Associated School Boards of South Dakota Property Liability Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota school districts. The School District pays an annual premium to provide coverage for property, general liability, crime and auto.

The agreement with the Associated School Boards of South Dakota Property Liability Fund provides that the above coverage's will be provided to a \$22,000,000 limit for property, \$250,000,000 occurrence, \$2,000,000 limit for general, \$2,000,000 limit for auto liability, \$2,000,000 limit for employee benefits liability and a \$200,000 limit for crime. Member premiums are used by the pool for payment of claims and to pay for re-insurance for claims in excess of \$100,000 to the upper limit for property, general liability, auto and employee benefits liability. The School District carries a \$500 deductible for the property, and a \$1,000 deductible for crime coverage.

The Associated School Boards of South Dakota also provides an excess aggregate property coverage which will provide an additional \$228,000,000 in excess of the \$22,000,000 primary limit for property.

The School District does not carry insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

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 fiscal year ended June 30, 2015, the School District didn't pay any unemployment benefits. At June 30, 2015, no other claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

Note 11 - Cost-Sharing Arrangement

The School District participates in a cost-sharing arrangement for vocational education funds. The School Districts included in this arrangement includes Newell, Bison, and Lemmon. The grant application includes the amounts each school is requesting for the Carl Perkins Vocational Funds. The funds are sent directly to each school: therefore, Lemmon School District records only their share of the revenue and expenditures in the General Fund. Lemmon School District is listed as the fiscal agent on the application but provides no fiscal accounting to the schools. Any pooled expenditures are billed to and reimbursed by the schools involved.



Required Supplementary Information
June 30, 2015

Lemmon School District No. 52-4

Lemmon School District No. 52-4
Budgetary Comparison Schedule – General Fund
Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1100 Ad valorem taxes	\$ 706,264	\$ 706,264	\$ 774,447	\$ 68,183
1120 Prior years' ad valorem taxes	-	-	4,529	4,529
1130 Tax deed revenue	-	-	237	237
1140 Gross receipts taxes	136,000	136,000	159,552	23,552
1190 Penalties and interest on taxes	3,000	3,000	3,256	256
1500 Earnings on investments and deposits	2,000	2,000	5,803	3,803
1700 Cocurricular activities				
1790 Other pupil activity income	22,050	22,050	31,721	9,671
1900 Other revenue from local sources				
1970 Charges for services	12,000	12,000	4,272	(7,728)
1990 Other	29,000	29,000	44,731	15,731
2000 Revenue from intermediate sources				
2100 County source				
2110 County apportionment	22,000	22,000	37,237	15,237
2200 Revenue in lieu of taxes	4,000	4,000	-	(4,000)
3000 Revenue from state source				
3100 Grant-in-aid				
3110 Unrestricted grants-in-aid	847,000	847,000	957,151	110,151
3220 Burlington Northern RR taxes	7,000	7,000	-	(7,000)
4000 Revenue from federal sources				
4100 Grants-in-aid				
4110 received directly from federal government	-	-	329,995	329,995
4120 Unrestricted grants-in-aid received from Federal Government through state	50,000	50,000	67,148	17,148
4150-4199 Restricted grants-in-aid received from Federal Government through the state	201,604	201,604	168,901	(32,703)
4200 Revenue in lieu of taxes (PILT)	90,000	90,000	114,382	24,382
4900 Other federal revenue	5,100	5,100	4,452	(648)
Total revenue	<u>2,137,018</u>	<u>2,137,018</u>	<u>2,707,814</u>	<u>570,796</u>

Lemmon School District No. 52-4
 Budgetary Comparison Schedule – General Fund
 Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
1000 Instruction				
1100 Regular Program				
1110 Elementary	448,452	445,060	422,534	22,526
1120 Middle school	69,475	69,475	64,901	4,574
1130 High School	440,579	442,499	404,681	37,818
1190 Other regular programs	95,824	95,824	88,700	7,124
1200 Special programs				
1270 Educationally deprived	96,815	85,700	83,194	2,506
2000 Support services				
2100 Pupils				
2120 Guidance	60,035	58,523	54,438	4,085
2130 Health	3,310	3,310	1,833	1,477
2200 Instructional staff				
2210 Improvement of instruction	3,500	7,900	2,038	5,862
2220 Educational media	72,355	72,355	60,684	11,671
2300 General administration				
2310 Board of Education	63,712	65,437	46,886	18,551
2320 Executive administration	55,450	55,450	80,686	(25,236)
2400 School administration				
2410 Office of the principal	161,250	164,750	137,065	27,685
2490 Other	1,000	1,000	3,359	(2,359)
2500 Business				
2520 Fiscal services	113,025	113,025	109,484	3,541
2540 Operation and maintenance of plant	429,130	430,440	316,186	114,254
2550 Pupil transportation	127,998	153,998	133,121	20,877
3000 Community services				
3900 Other	1,000	1,000	91	909
4000 Nonprogrammed charges				
4900 Other nonprogrammed costs	1,500	1,500	675	825
6000 Cocurricular activities				
6100 Male activities	77,520	81,089	55,925	25,164
6200 Female activities	41,360	43,690	36,391	7,299
6500 Transportation	2,220	2,220	1,036	1,184
6900 Combined activities	61,016	67,496	54,532	12,964
7000 Contingencies	115,000	115,000	-	115,000
Total expenditures	<u>2,541,526</u>	<u>2,576,741</u>	<u>2,158,440</u>	<u>418,301</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(404,508)</u>	<u>(439,723)</u>	<u>549,374</u>	<u>989,097</u>

Lemmon School District No. 52-4
 Budgetary Comparison Schedule – General Fund
 Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Other financing sources (uses)				
8110 Transfers out	(15,000)	(15,000)	(10,000)	5,000
5110 Transfers in	150,000	150,000	477	(149,523)
5130 Sale of surplus property	500	500	-	(500)
5140 Compensation for loss of general capital asset	1,000	1,000	352	(648)
Total other financing sources (uses)	<u>136,500</u>	<u>136,500</u>	<u>(9,171)</u>	<u>(145,671)</u>
Net change in fund balance	(268,008)	(303,223)	540,203	843,426
Fund balance - June 30, 2014	<u>387,516</u>	<u>387,516</u>	<u>387,516</u>	<u>-</u>
Fund balance - June 30, 2015	<u>\$ 119,508</u>	<u>\$ 84,293</u>	<u>\$ 927,719</u>	<u>\$ 843,426</u>

Lemmon School District No. 52-4
 Budgetary Comparison Schedule – Capital Outlay Fund
 Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1110 Ad valorem taxes	\$ 383,000	\$ 383,000	\$ 377,493	\$ (5,507)
1120 Prior years' ad valorem taxes	-	-	1,491	1,491
1130 Tax deed revenue	-	-	-	-
1190 Penalties and interest on taxes	1,000	1,000	1,465	465
1500 Earnings on investments and deposits	-	-	65	65
1900 Other revenue from local sources				
1920 Contributions and donations	-	-	1,800	1,800
Total revenue	<u>384,000</u>	<u>384,000</u>	<u>382,314</u>	<u>(1,686)</u>
Expenditures				
1000 Instruction				
1100 Regular program				
1110 Elementary	36,000	36,000	32,215	3,785
1130 High School	44,000	44,000	26,547	17,453
2500 Support services - business				
2540 Operation and maintenance of plant	229,000	357,400	362,923	(5,523)
2550 Pupil transportation	8,000	8,000	-	8,000
4900 Mileage Paid to parents	2,500	-	-	-
5000 Debt services	81,680	81,680	18,165	63,515
Total expenditures	<u>401,180</u>	<u>527,080</u>	<u>439,850</u>	<u>87,230</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(17,180)</u>	<u>(143,080)</u>	<u>(57,536)</u>	<u>85,544</u>
Other financing sources (uses)				
8110 Transfers out	-	-	(65)	(65)
5140 Compensation for loss of general capital assets	-	-	2,658	2,658
Total other financing sources	<u>-</u>	<u>-</u>	<u>2,593</u>	<u>2,593</u>
Net change in fund balance	(17,180)	(143,080)	(54,943)	88,137
Fund (deficit) - June 30, 2014	<u>(38,943)</u>	<u>(38,943)</u>	<u>(38,943)</u>	<u>-</u>
Fund (deficit) - June 30, 2015	<u>\$ (56,123)</u>	<u>\$ (182,023)</u>	<u>\$ (93,886)</u>	<u>\$ 88,137</u>

Lemmon School District No. 52-4
 Budgetary Comparison Schedule – Special Education Fund
 Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1100 Ad valorem taxes	\$ 248,600	\$ 248,600	\$ 352,124	\$ 103,524
1120 Prior years' ad valorem taxes	-	-	1,222	1,222
1130 Tax deed revenue	-	-	-	-
1190 Penalties and interest on taxes	500	500	1,438	938
1500 Earnings on investments and deposits	-	-	412	412
1900 Other revenue from local sources				
1970 Charges for services	1,100	1,100	427	(673)
3000 Revenue from state sources				
3100 Grants-in-aid				
3120 Restricted grants-in-aid	1,000	1,000	-	(1,000)
4000 Revenue from federal sources				
4100 Grants-in-aid				
4150-4199 Restricted grants-in-aid received from Federal Government through the state	78,113	78,113	77,190	(923)
Total revenue	<u>329,313</u>	<u>329,313</u>	<u>432,813</u>	<u>103,500</u>
Expenditures				
1200 Special program				
1220 Programs for special education	223,850	270,550	228,649	41,901
2000 Support services				
2100 Pupils				
2140 Psychological	14,000	14,000	12,860	1,140
2150 Speech pathology	59,800	59,800	60,336	(536)
2170 Student therapy services	5,000	5,000	1,062	3,938
2700 Support services - special education				
2710 Administrative costs	11,200	11,200	10,880	320
2740 Transportation costs	8,463	8,463	39	8,424
2760 Autism program	7,000	7,000	-	7,000
Total expenditures	<u>329,313</u>	<u>376,013</u>	<u>313,826</u>	<u>62,187</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(46,700)</u>	<u>118,987</u>	<u>165,687</u>
Other financing uses				
8110 Transfers out	-	-	(412)	412
Net change in fund balance	-	(46,700)	118,575	165,275
Fund balance - June 30, 2014	<u>259,488</u>	<u>259,488</u>	<u>259,488</u>	<u>-</u>
Fund balance - June 30, 2015	<u>\$ 259,488</u>	<u>\$ 212,788</u>	<u>\$ 378,063</u>	<u>\$ 165,275</u>

Lemmon School District No. 52-4
 Other Postemployment Benefit Schedules – Schedule of Funding Progress
 Year Ended June 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2015	\$ -	\$ 97,386	\$ 97,386	0%	\$ 1,039,300	9%
6/30/2014	-	186,473	186,473	0%	887,228	21%
6/30/2013	-	210,977	210,977	0%	738,614	29%

Lemmon School District No. 52-4
 Schedule of Employer's Share of Net Pension Asset and Schedule of Employer's Contributions
 June 30, 2015

**Schedule of Employer's Share of Net Pension Asset
 Last 10 Fiscal Years***

Pension Plan	Measurement Date	Employer's Proportion (Percentage) of the Net Pension Asset	Employer's Proportionate Share (Amount) of the Net Pension Asset (a)	Employer's Covered Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Asset as a Percentage of its Covered Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Asset
SDRS	6/30/2014	<u>0.0929221%</u>	<u>\$ 669,466</u>	<u>\$ 1,625,033</u>	<u>41.20%</u>	<u>107.00%</u>

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

**Notes to Require Supplementary Information
 for the Year Ended June 30, 2015
 Schedule of Employer's Contributions
 Last 10 Fiscal Years***

Pension Plan	Fiscal Year Ending	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Employee Payroll (d)	Contributions as a Percentage of Covered Employee Payroll (b/d)
SDRS	6/30/2015	<u>\$ 87,287</u>	<u>\$ 87,287</u>	<u>\$ -</u>	<u>\$ 1,454,787</u>	<u>6.00%</u>

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Notes to Required Supplementary Information

There are no factors that affect trends in the amounts reported, such as change of benefit terms or assumptions. With only one year reported in the RSI, there is no additional information to include in notes. Details, if necessary, can be obtained from SDRS CAFR.

Note 1 - Basis of Presentation

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

Note 2 - Budgetary Legal Requirements

South Dakota Codified Law prescribes the budgetary procedures to be followed by the School District as follows:

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 trust and agency funds.
6. After adoption by the school board, the operating budget is legally binding at the fund level and actual expenditures of each fund cannot exceed the amounts budgeted for that fund, 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.
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, capital project funds, and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Generally accepted accounting principles prescribe that budgetary information is presented for the General Fund and special revenue funds of the School District only.

Note 3 - Note to the Schedule of Funding Progress

The standard requires a schedule of funding progress for the three most recent valuations and accompanying notes to describe factors that significantly affect the trends in the amounts reported.

The June 30, 2015 actuarial valuation reflected changes in benefit provisions which resulted in a lower Actuarial Accrued Liability. The primary change in benefit provisions was discussed under Funding Policy in Note 10 of the Financial Statements.



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

To the School Board
Lemmon School District No. 52-4
Perkins 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, each major fund, and the aggregate remaining fund information of Lemmon School District No. 52-4, Perkins County, South Dakota, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Lemmon School District No. 52-4's basic financial statements, and have issued our report thereon dated February 3, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lemmon School District No. 52-4'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 Lemmon School District No. 52-4's internal control. Accordingly, we do not express an opinion on the effectiveness of Lemmon School District No. 52-4's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 2015-A, 2015-B and 2015-C to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lemmon School District No. 52-4's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. There were no instances of noncompliance that are required to be reported.

Lemmon School District No. 52-4's Responses to Findings

Lemmon School District No. 52-4's responses to the findings identified in our audit are described in the accompanying schedule of findings. Lemmon School District No. 52-4's responses were 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance and as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
February 3, 2016

Findings - Financial Statement Audit

2014-A Segregation of Duties – Material Weakness

Condition: The District has a lack of segregation of duties in certain areas due to a limited staff.

Criteria: A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause: The control deficiency could result in the improper recording of a transaction.

Effect: Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned function.

Recommendation: While we recognize that your office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the District.

Management's Response: The Lemmon School District is a small school district and has limited office staff which does not permit the complete segregation of duties. The district has in place an internal control procedure to fit our office size. To have proper segregation of duties per audit standards, the District would need to high additional office staff. This is not feasible or economically possible for a district of our size.

Status: This is a continuing condition.

2014-B Recording of Transactions – Material Weakness

Condition: We identified misstatements in the District's financial statements causing us to propose material audit adjustments. The misstatements identified included the understatement of amounts previously reported for receivables due from other governments and revenues as of and for the year ended June 30, 2013 which resulted in a restatement to amounts previously reported for fund balance and net position as of June 30, 2013.

Criteria: A good system of internal accounting control contemplates proper reconciliations of all general ledger accounts and adjustments of those accounts to the reconciled balances.

Cause: The District has limited staff available to research and obtain training when transactions outside of the typical day to day activities of the District occur.

Effect: Inadequate internal controls over recording of transactions affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements.

Recommendation: While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the District.

Management's Response: The Lemmon School District's procedure in preparing financial statements has not changed, however, due to the auditing standards the auditors are required to post these comments if any audit adjustments are made.

Status: This is a continuing condition.

2014-C Preparation of Financial Statements – Material Weakness

Condition: The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Criteria: Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Cause: The control deficiency could result in a misstatement to the presentation of the financial statements.

Effect: Inadequate controls over financial reporting of the District result in the more than remote likelihood that the District would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation: While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the District and changes in reporting requirements.

Management's Response: The Lemmon School District's procedure in preparing financial statements has not changed, however the auditing standards require the auditors to post these comments if any audit adjustments are made. It is my understanding that this audit finding is in audit reports for both large and small districts.

Status: This is a continuing condition.

Findings - Financial Statement Audit

2015-A Segregation of Duties – Material Weakness

Condition: The District has a lack of segregation of duties in certain areas due to a limited staff.

Criteria: A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause: The control deficiency could result in the improper recording of a transaction.

Effect: Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned function.

Recommendation: While we recognize that your office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the District.

Management's Response: The Lemmon School District is a small school district and has limited office staff which does not permit the complete segregation of duties. The district has in place an internal control procedure to fit our office size. To have proper segregation of duties per audit standards, the District would need to high additional office staff. This is not feasible or economically possible for a district of our size.

2015-B Recording of Transactions – Material Weakness

Condition: We identified misstatements in the District's financial statements causing us to propose material audit adjustments.

Criteria: A good system of internal accounting control contemplates proper reconciliations of all general ledger accounts and adjustments of those accounts to the reconciled balances.

Cause: The District has limited staff available to research and obtain training when transactions outside of the typical day to day activities of the District occur.

Effect: Inadequate internal controls over recording of transactions affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements.

Recommendation: While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the District.

Management's Response: The Lemmon School District's procedure in preparing financial statements has not changed, however, due to the auditing standards the auditors are required to post these comments if any audit adjustments are made.

2015-C Preparation of Financial Statements – Material Weakness

Condition: The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Criteria: Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Cause: The control deficiency could result in a misstatement to the presentation of the financial statements.

Effect: Inadequate controls over financial reporting of the District result in the more than remote likelihood that the District would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation: While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the District and changes in reporting requirements.

Management's Response: The Lemmon School District's procedure in preparing financial statements has not changed, however the auditing standards require the auditors to post these comments if any audit adjustments are made. It is my understanding that this audit finding is in audit reports for both large and small districts.