



Financial Statements
June 30, 2017

Lemmon School District No. 52-4

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School Board Chairman	Ryan Beer
School Board Vice-Chairman	Matt Barnes
School Board Members	Danni Beer Marion BlueArm Linda O'Donnell Brady Ham Art Pederson
Superintendent	Craig Johnson
Business Manager	Anita Stugelmeyer



Independent Auditor's Report

To the 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 (the "School District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, other postemployment benefit schedules, and the schedule of employer's share of net pension liability (asset) and employer's contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 April 23, 2018 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 solely 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 effectiveness of Lemmon School District No. 52-4's 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.



Bismarck, North Dakota
April 23, 2018

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, 2017. 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 \$730,860 more than the \$3,609,332 in governmental expenditures. The district received \$65,999 of Section 8002 Impact Aid funds in fiscal year 2016.
- The district Capital Outlay Fund borrowed \$300,000 from the Impact Aid Fund for boiler repairs and the purchase of laptop computers. This loan was approved in June 2015 with \$155,500 disbursed in June 2015 and the remainder in July 2016. The final payment of \$92,250 plus interest is due in July 2017. 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 expenditures for the boilers and computers were included in the governmental expenditures.
- The total cost of the School's programs increased by \$218,090 with the increase spread over all areas of the budget. No one particular area of the budget represents a large portion of the increase. District expenditures were held at a minimum when possible.
- The general fund reported a gain of \$121,271 for fiscal year 2017. The district also posted a gain in the fund balance for the general fund at the end of fiscal year 2016 in the amount of \$157,265. The property tax opt out of \$150,000 was approved beginning with taxes levied in 2014 and payable in 2015. The property tax opt out concludes with the 2019 taxes payable in 2020.
- 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 bathrooms at the Lions field, laptop computers and boiler repairs. These interfund loans carry an interest rate of 8% and will be paid in full in fiscal year 2018.
- The district also has an interest free loan to the State of South Dakota with an initial principal amount of \$130,850 payable over 10 years with the first payment in fiscal year 2015. This loan has a balance of \$91,595 with the final payment due in July 2024. The district posted in fiscal year 2017 a debt to South Dakota School District Benefit Fund of \$84,759 which will be paid in four payments beginning in October 2017. A capital lease for the new activity bus in the amount of \$220,000 was posted in 2017. The balance on the lease is \$178,139 which will be paid in full in fiscal year 2019.

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 2017	Governmental Activities 2016
Assets		
Current and Other Assets	\$ 3,873,810	\$ 3,345,493
Capital Assets	2,498,725	2,200,893
Total assets	6,372,535	5,546,386
Deferred Outflows of Resources	687,776	676,008
Long-Term Debt Outstanding	724,419	304,251
Other Liabilities	340,087	263,425
Total Liabilities	1,064,506	567,676
Deferred Inflows of Resources	1,254,667	1,644,440
Net Position		
Net investment in capital assets	2,228,991	2,096,213
Restricted	1,036,820	1,016,333
Unrestricted	1,475,327	897,732
Total Net Position	\$ 4,741,138	\$ 4,010,278

The net position of the district has increased \$730,860 for fiscal year 2017 and the district also posted an increase in the net position of \$459,741 for fiscal year 2016. Of the increase in the net position for the 2017 fiscal year, \$674,296 is from a net change in the district fund balance for all funds. This increase is net of increase in fund balance, addition of capital assets, as well as consideration for long term debt and depreciation expense.

The total liabilities have increased \$496,830 from the 2016 fiscal year. This increase is largely due to the posting of the SD SDBF assessment of \$84,759 and the capital lease for the bus in the amount of \$178,139 which are new liabilities to 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 and the South Dakota School District Benefits Fund 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

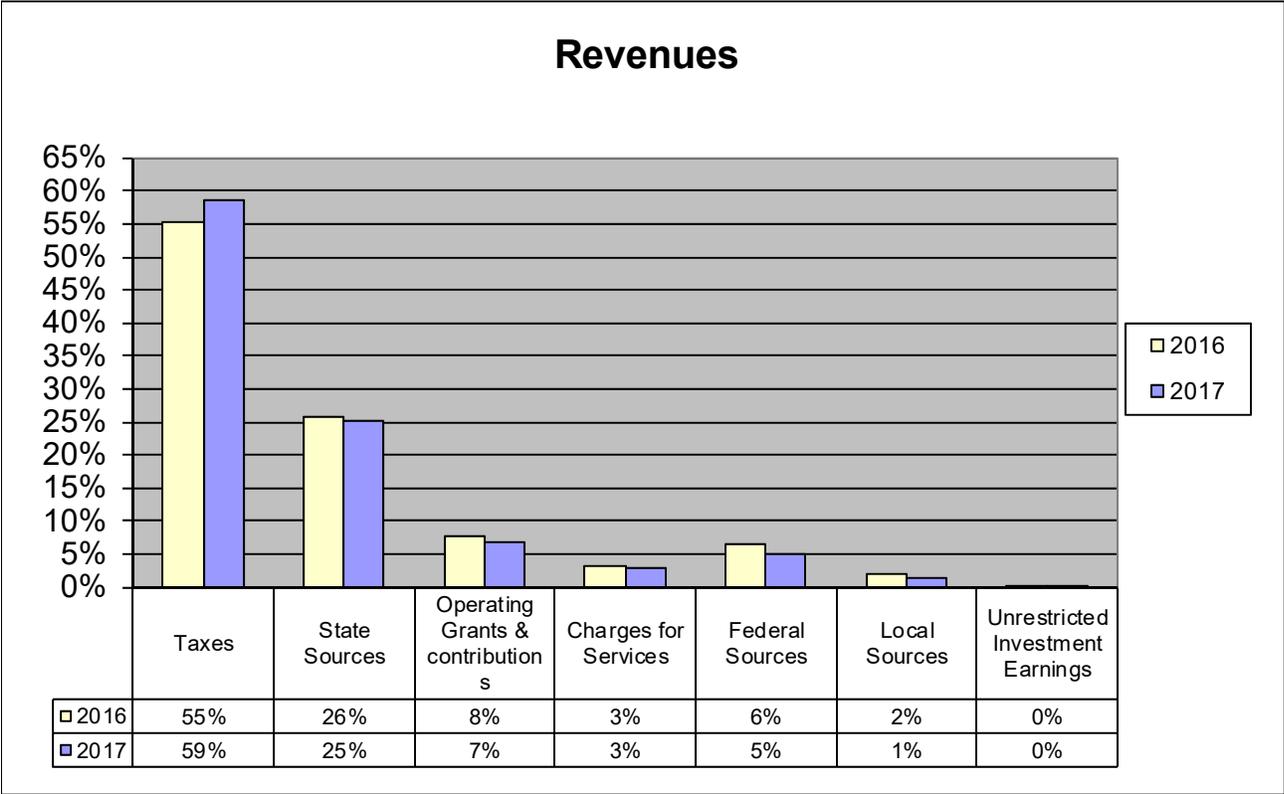
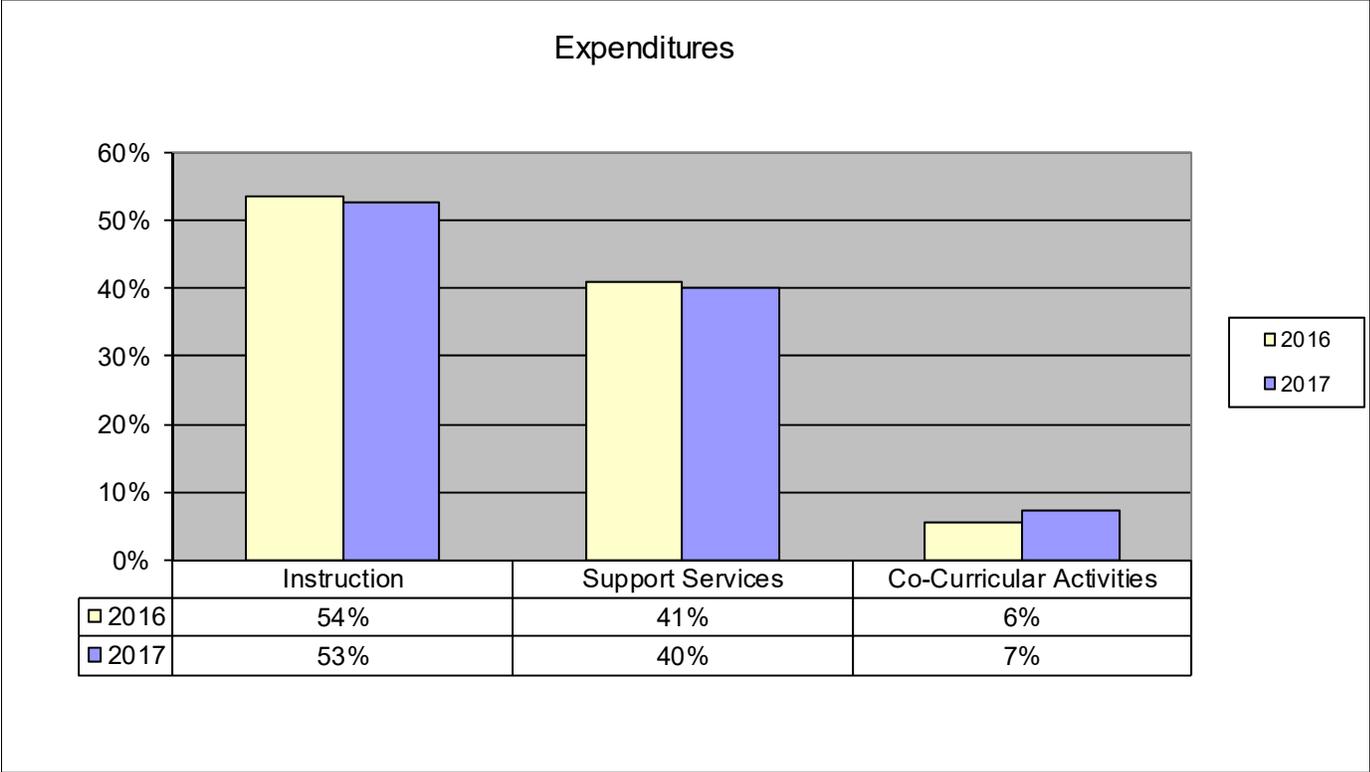


Figure A-3 – Expenditures



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 2017</u>	<u>Total Governmental Activities 2016</u>
Revenues		
Program Revenues		
Charges for Services	\$ 129,622	\$ 120,766
Operating Grants and Contributions	294,846	293,879
General Revenues		
Taxes	2,532,632	2,124,263
Revenue State Sources	1,087,065	990,332
Revenue Federal Sources	210,831	244,292
Revenue Intermediate Sources	60,899	75,401
Unrestricted Investment Earnings	2,399	1,356
Total Revenues	<u>4,318,294</u>	<u>3,850,289</u>
Expenses		
Instruction	1,900,285	1,816,302
Support Services	1,449,380	1,384,935
Cocurricular Activities	259,536	189,078
Nonprogrammed Charges	131	927
Total Expenses	<u>3,609,332</u>	<u>3,391,242</u>
Total Revenues Over Expenses	708,962	459,047
Gain on disposal of capital assets, net of insurance recoveries	<u>21,898</u>	<u>694</u>
Increase in Net Position	<u>730,860</u>	<u>459,741</u>
Net Position, Beginning of Year	<u>4,010,278</u>	<u>3,550,537</u>
Net Position, End of Year	<u>\$ 4,741,138</u>	<u>\$ 4,010,278</u>

The Lemmon School District's total revenues (including special items) totaled \$4,318,294 for fiscal year ending June 30, 2017, which is an increase of \$468,005 from fiscal year 2016. This is the net result of the district showing an increase in the charges for services from the food service fund as well as an increase in property tax and state revenues. The federal and other revenues showed a slight decrease.

The total cost of all programs and services was \$3,609,332 for fiscal year ending June 30, 2017. The increase is spread over the budget with no one area showing a large increase in expenditures.

Approximately 59% of the school district's revenue came from property taxes with approximately 25% from state sources. A shift in funding between the local and state revenues is dependent on the per pupil amount for state aid, any increase in property tax values and change in property tax levies as set by the state legislative bodies. For general fund, the per pupil state aid amount is a combination of property taxes and state funds. The district's enrollment has held steady the last couple of years however a drop in enrollment is predicted for fiscal year 2018.

Fiscal year 2017 shows the state revenue holding steady. The federal funding shows a decrease which is due to the catch up payment of Impact Aid Funds received in fiscal year 2016. The district continues to utilize the Title funding where possible. (See Figure A-2)

Fiscal year 2017 shows an increase in 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 \$121,271 in the fund balance at the end of the year. The district continues to monitor the budget to stay abreast of the district financial status. If there is need for a transfer to the General Fund in the future, the new state aid formula effective in fiscal year 2017 allows for a transfer from the Capital Outlay fund.

The Capital Outlay Fund showed an increase in the fund balance largely due to the increase in tax revenues. This is due to the board requesting the maximum tax request in the Capital Outlay fund. The previous negative fund balance was due to the interfund loans as the payments cannot be reported as revenue but only on the balance sheet. However, as this is paid off, the amount will balance out.

The Special Education Fund reflects an increase in the fund balance due to lower special education costs. However, due to the Special Education Fund balance, the district does not receive any state aid for special education.

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 2017, the Lemmon School District had invested \$2,498,725, 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 2017	Governmental Activities 2016
Land	\$ 10,580	\$ 10,580
Improvements (net)	228,255	132,481
Buildings (net)	1,745,494	1,642,224
Machinery and equipment (net)	514,396	415,608
Total capital assets (net)	\$ 2,498,725	\$ 2,200,893

The net increase in assets is due to the addition of the new activity bus and other equipment, the surplus of equipment and the posting of the depreciation.

Long Term Debt (Note 4)

The long term debt of the Lemmon School District consists of the following:

- 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. The loan for the computers must be paid back in two years and the loan for the lighting project paid back in 10 years. The district has made two payments with the balance due at the end of fiscal year 2017 of \$91,595.
- The district has a capital lease for the new activity bus which had a balance of \$178,139 at the end of the 2017 fiscal year. The lease will be paid in full in fiscal year 2019.
- The South Dakota School District Benefit Fund balance was \$84,759 at the end of the 2017 fiscal year. The district has elected to pay this in four payments beginning in October 2017.
- The remainder of the long term debt is compensated absences for which the district is liable for accrued sick leave and vacation leave payable for both the certified staff and support staff as per school district handbooks and the Negotiated Agreement.

Table A-4

	Governmental Activities		Change	Change
	2017	2016	2017-2016	2017-2016
Compensated absences	\$ 24,918	\$ 25,489	\$ (571)	-2.24%
Energy Loan	91,595	104,680	(13,085)	-12.50%
SD SDBF Assessment	84,759	84,759	-	0.00%
Capital Lease	178,139	-	178,139	
Total outstanding debt and obligations	\$ 379,411	\$ 214,928	\$ 164,483	76.53%

Economic Factors and Next Year's Budgets and Rates

The Lemmon School District's economic position continues to improve. 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 General Fund 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 be equivalent to \$5,464.01 per pupil for fiscal year 2017. The SD state aid formula changed and now includes a target average teacher salary, a student – teacher ratio as well as putting the Pension fund in the General Fund beginning with fiscal year 2017. Raising the teacher's salary was a large consideration in the new funding formula. All school districts are required to meet their accountability as defined by the South Dakota Department of Education.

In calculating the total need for fiscal year 2017, the SD Department of Education determined it to be \$1,747,841 of which \$959,999 will come in the form of state aid to education. The remainder the district will receive as tax revenue. With the change in the state aid formula fiscal year 2017, the teaching staff were given a raise in salary of \$6,019 each or prorated if they are a part time teacher.

The Revenue Chart (Figure A-2) on page 9 shows a small shift in the primary source of revenue to the property taxes received. The current General Fund 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. With the change in the state aid to education formula for the General Fund, fiscal year 2017 was the last year that the district can levy for the Pension Fund.

In fiscal year 2017 the district continued to share an Industrial Arts instructor and the Spanish instructor with the McIntosh School district. The sharing of instructors allowed both districts to offer additional programs to the students. The McIntosh School District holds the contract for the Industrial Arts instructor and the Spanish instructor has a contract with each district for their share of time.

Fiscal year 2017 is the first year that the Food Service Fund has shown an increase in the fund balance. The district only transferred \$3,000 from the General Fund compared to \$25,000 in fiscal year 2016. The change was due to the staff instructed to keep the menu cost down while still preparing good meals. The district also began offering breakfast to the students 7 – 12 for the first time. This provided additional revenue with very little additional expense.

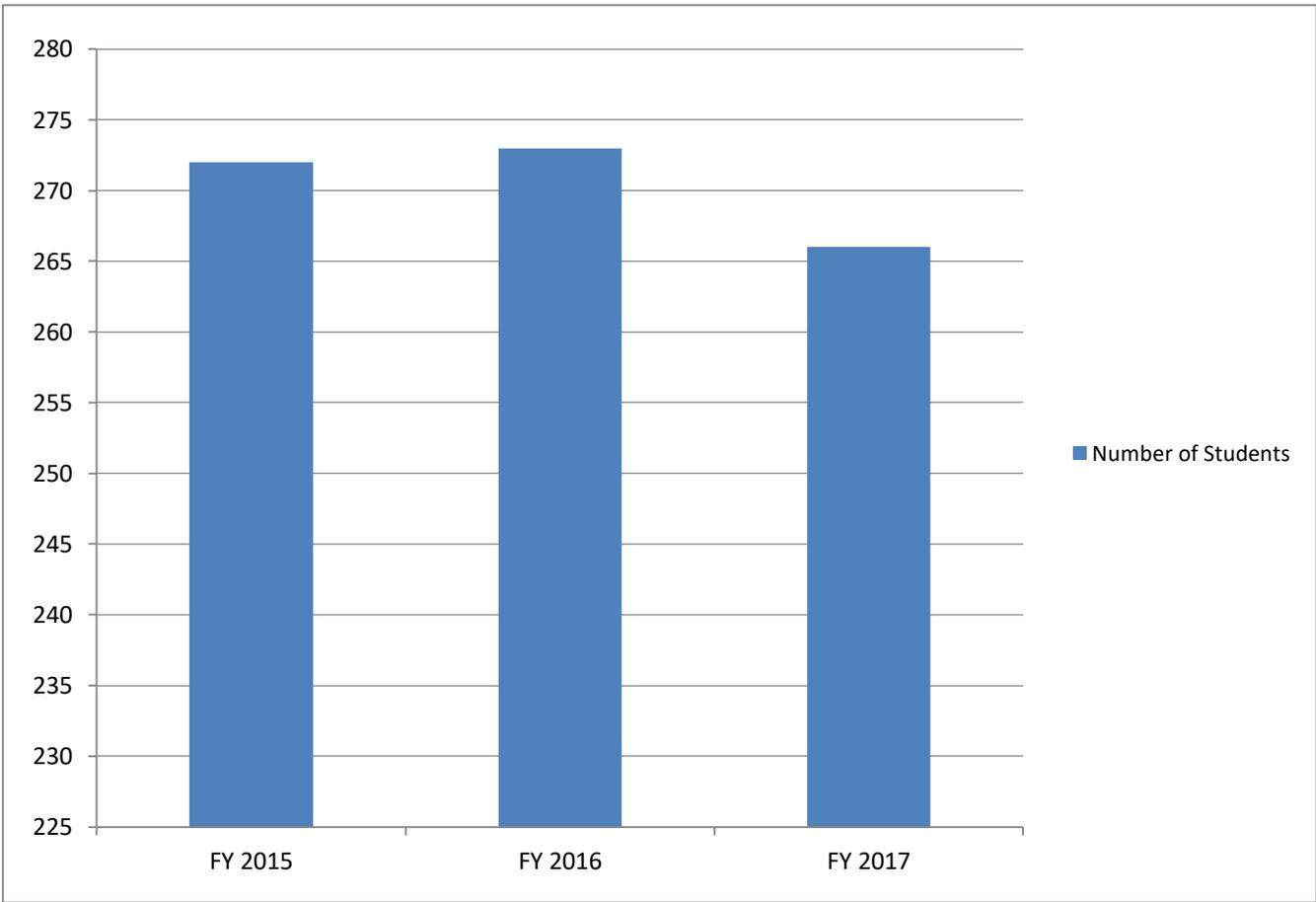
The board approved the continuation of the opt out however increased the amount to \$150,000 effective with the taxes levied in 2014 payable in 2015. The administration will continue to monitor the budget.

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. 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.

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 leveled off the last few years. The fall enrollment was 266 students for fiscal year 2014, 272 students for fiscal year 2015 and 273 students for fiscal year 2016. The enrollment for fiscal year 2017 as taken in September 2016 enrollment was 266 students. A slight decrease is projected at this time for the fall 2017 enrollment. 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, 2017

	Governmental Activities
Assets	
Cash	\$ 2,409,285
Taxes receivable	1,171,059
Inventories	2,404
Other receivables	291,062
Capital assets, not being depreciated	
Land	10,580
Capital assets, net of accumulated depreciation	
Improvements	228,255
Buildings	1,745,494
Machinery/equipment	514,396
Total Assets	6,372,535
Deferred Outflows of Resources	
Pension Plans	687,776
Liabilities	
Accounts payable	102,760
Other current liabilities	237,327
Noncurrent liabilities	
Due within one year	
Compensated absences	6,000
Energy loan	13,085
SD SDBF assessment	20,720
Capital lease	41,861
Due in more than one year	
Compensated absences	18,918
Energy loan	78,510
SD SDBF assessment	64,039
Capital lease	136,278
Net pension liability	267,299
Net OPEB obligation	77,709
Total Liabilities	1,064,506
Deferred Inflow of Resources	
Taxes levied for future period	1,254,667
Total Deferred Inflows of Resources	1,254,667
Net Position	
Net investment in capital assets	2,228,991
Restricted for	
Special education	524,708
Capital outlay	496,941
Pension	15,171
Unrestricted	1,475,327
Total Net Position	\$ 4,741,138

Lemmon School District No. 52-4
Statement of Activities – Exhibit II
Year Ended June 30, 2017

<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	\$ 1,900,285	\$ 16,500	\$ 241,242	\$ (1,642,543)
Support services	1,449,380	81,473	53,604	(1,314,303)
Cocurricular activities	259,536	31,649	-	(227,887)
Nonprogrammed charges	131	-	-	(131)
Total governmental activities	<u>3,609,332</u>	<u>129,622</u>	<u>294,846</u>	<u>(3,184,864)</u>
Total Primary Government	<u>\$ 3,609,332</u>	<u>\$ 129,622</u>	<u>\$ 294,846</u>	<u>(3,184,864)</u>
		General Revenues		
		Taxes		
				2,385,945
				146,687
		Revenue from state sources		
				1,087,065
				210,831
				2,399
				60,899
		Total general revenues		<u>3,893,826</u>
		Gain on disposal of capital assets, net of insurance recoveries		<u>21,898</u>
		Change in net position		<u>730,860</u>
		Net position - June 30, 2016		<u>4,010,278</u>
		Net position - June 30, 2017		<u>\$ 4,741,138</u>

Lemmon School District No. 52-4
Balance Sheet – Governmental Funds – Exhibit III
June 30, 2017

	General Fund	Special Revenue Funds		Other Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Education		
Assets					
101 Cash	\$ 1,124,709	\$ 661,558	\$ 588,747	\$ 34,271	\$ 2,409,285
110 Taxes receivable--current	442,832	449,961	259,123	-	1,151,916
112 Taxes receivable--delinquent	10,696	5,196	2,622	629	19,143
120 Accounts receivable	-	-	-	134	134
140 Due from other governments	284,928	-	-	-	284,928
150 Advance to capital outlay fund	92,500	-	-	-	92,500
150 Imprest account	6,000	-	-	-	6,000
170 Inventory	-	-	-	2,404	2,404
Total Assets	\$ 1,961,665	\$ 1,116,715	\$ 850,492	\$ 37,438	\$ 3,966,310
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities					
402 Accounts payable	\$ 59,178	\$ 32,242	\$ 10,052	\$ 1,288	\$ 102,760
404 Contracts payable	181,061	-	27,619	-	208,680
430 Advance from general fund	-	92,500	-	-	92,500
450 Payroll deductions and withholdings and employer matching payable	21,730	-	3,405	3,512	28,647
Total Liabilities	261,969	124,742	41,076	4,800	432,587
Deferred Inflows of Resources:					
474 Unavailable revenue-property taxes	10,696	5,196	2,622	629	19,143
474 Taxes levied for future periods	482,745	489,836	282,086	-	1,254,667
Total deferred inflows of resources	493,441	495,032	284,708	629	1,273,810
Fund Balances					
703 Nonspendable	92,500	-	-	2,404	94,904
720 Restricted for					
Special Education	-	-	524,708	-	524,708
Capital Outlay	-	496,941	-	-	496,941
Pension	-	-	-	15,171	15,171
750 Assigned for					
Food Service	-	-	-	14,434	14,434
704 Unassigned	1,113,755	-	-	-	1,113,755
Total Fund Balances	1,206,255	496,941	524,708	32,009	2,259,913
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,961,665	\$ 1,116,715	\$ 850,492	\$ 37,438	\$ 3,966,310

Lemmon School District No. 52-4
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position – Exhibit IV
 June 30, 2017

Total Fund Balances - Governmental Funds		\$ 2,259,913
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.		2,498,725
Assets, such as taxes receivable that are not available to pay for current period expenditures, are deferred inflows in the fund level statements.		19,143
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		687,776
The net pension liability is not payable in the current period and therefore is not reported in the funds.		(267,299)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences	\$ (24,918)	
Energy Loan	(91,595)	
SD SDBF Assessment	(84,759)	
Capital Lease	(178,139)	
OPEB Obligation	(77,709)	
		(457,120)
Net Position - Governmental Activities		\$ 4,741,138

Lemmon School District No. 52-4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Exhibit V
Year Ended June 30, 2017

	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	\$ 920,429	\$ 960,711	\$ 437,968	\$ 47,510	\$ 2,366,618
1120 Prior years' Ad Valorem taxes	5,900	4,323	1,806	474	12,503
1140 Gross receipts taxes	146,687	-	-	-	146,687
1190 Penalties and interest on taxes	3,229	3,429	1,232	340	8,230
1300 Tuition and fees					
1310 Out of state tuition	16,500	-	-	-	16,500
1500 Earnings on investments and deposits	21,779	-	-	-	21,779
1600 Sales	-	-	-	81,473	81,473
1700 Cocurricular activities					
1790 Other pupil activity income	31,649	-	-	-	31,649
1900 Other revenue from local sources					
1970 Charges for services	1,693	-	170	-	1,863
1990 Other	30,750	-	-	629	31,379
2000 Revenue from intermediate sources					
2100 County sources					
2110 County apportionment	16,384	-	-	-	16,384
2200 Revenue in lieu of taxes	3,043	-	-	-	3,043
3000 Revenue from state sources					
3110 Unrestricted grants-in-aid	1,087,065	-	-	-	1,087,065
3810 State Reimbursements	-	-	-	533	533
4000 Revenue from federal sources					
4100 Grants-in-aid					
4110 Unrestricted grants-in-aid received directly from Federal Government	65,999	-	-	-	65,999
4120 Unrestricted grants-in-aid received from Federal Government through State	14,317	-	-	-	14,317
4150-4199 Restricted grants-in- aid received from Federal Government through State	154,705	-	86,537	-	241,242
4200 Revenue in Lieu of Taxes (PILT)	126,422	-	-	-	126,422
4810 Federal Reimbursements	-	-	-	48,541	48,541
4820 Donated Food	-	-	-	4,530	4,530
4900 Other federal revenue	4,093	-	-	-	4,093
Total Revenue	2,650,644	968,463	527,713	184,030	4,330,850

Lemmon School District No. 52-4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Exhibit V
Year Ended June 30, 2017

Expenditures	General Fund	Special Revenue Funds		Other Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Education		
Current					
1000 Instruction					
1100 Regular programs					
1110 Elementary	542,608	13,402	-	17,090	573,100
1120 Middle School	91,041	-	-	-	91,041
1130 High School	488,173	34,598	-	-	522,771
1190 Other regular programs	94,986	-	-	-	94,986
1200 Special programs					
1220 Programs for Special Education	-	-	314,342	-	314,342
1270 Educationally deprived	83,280	-	-	-	83,280
1300 Adult continuing education programs					
2000 Support services					
2120 Guidance	62,190	-	-	-	62,190
2130 Health	2,483	-	-	-	2,483
2140 Psychological	-	-	18,142	-	18,142
2150 Speech Pathology	-	-	62,031	-	62,031
2170 Student therapy services	-	-	1,350	-	1,350
2200 Instructional staff					
2210 Improvement of instruction	4,763	-	-	-	4,763
2220 Educational media	49,458	-	-	-	49,458
2300 General administration					
2310 Board of Education	49,441	-	-	-	49,441
2320 Executive administration	141,398	-	-	-	141,398
2400 School administration					
2410 Office of the Principal	134,057	-	-	-	134,057
2490 Other	94	-	-	-	94
2500 Support services - business					
2520 Fiscal services	112,448	-	-	-	112,448
2540 Operation and maintenance of plant	364,443	54,066	-	-	418,509
2550 Pupil transportation	123,911	-	-	-	123,911
2560 Food service	4,918	-	-	137,223	142,141
2700 Support services - Special Education					
2710 Administrative costs	-	-	40,166	-	40,166
2730 Transportation costs	-	-	2,041	-	2,041
2760 Autism program	-	-	143	-	143
3000 Community services					
3900 Other community service costs	131	-	-	-	131
4000 Nonprogrammed charges					
4500 Early retirement payment	-	-	-	31,708	31,708
5000 Debt services	-	74,326	-	-	74,326
6000 Cocurricular activities					
6100 Male activities	73,095	-	-	-	73,095
6200 Female activities	37,528	-	-	-	37,528
6900 Combined activities	68,668	-	-	-	68,668
Capital outlay	-	568,710	-	-	568,710
Total expenditures	<u>2,529,114</u>	<u>745,102</u>	<u>438,215</u>	<u>186,021</u>	<u>3,898,452</u>

Lemmon School District No. 52-4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Exhibit V
Year Ended June 30, 2017

	General Fund	Special Revenue Funds		Other Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Education		
Excess (Deficiency) of Revenues Over (Under) Expenditures	121,530	223,361	89,498	(1,991)	432,398
Other Financing Sources (Uses)					
5110 Transfers in	-	-	-	3,000	3,000
8110 Transfers out	(3,000)	-	-	-	(3,000)
5120 Long-term debt issued	-	220,000	-	-	220,000
5130 Sale of surplus property	2,741	2,667	-	-	5,408
5140 Compensation for loss of general capital assets - insurance recoveries	-	16,490	-	-	16,490
Total Other Financing Sources (Uses)	(259)	239,157	-	3,000	241,898
Net Change in Fund Balance	121,271	462,518	89,498	1,009	674,296
Fund Balance - June 30, 2016	1,084,984	34,423	435,210	31,000	1,585,617
Fund Balance - June 30, 2017	<u>\$ 1,206,255</u>	<u>\$ 496,941</u>	<u>\$ 524,708</u>	<u>\$ 32,009</u>	<u>\$ 2,259,913</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, 2017

Net Change in Fund Balances - Total Governmental Funds	\$ 674,296
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.	568,710
Depreciation expense.	(270,878)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	6,824
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.	54,946
The issuance of long-term debt is an other financing source in the fund statements but an increase in long-term liabilities on the government wide statements.	(220,000)
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.	(95,223)
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.	12,185
Change in Net Position of Governmental Activities	<u>\$ 730,860</u>

Lemmon School District No. 52-4
Statement of Fiduciary Net Position – Fiduciary Funds – Exhibit VII
June 30, 2017

	Private-Purpose Trust Funds	Agency Funds
Assets		
Cash and certificates of deposit	\$ 122,355	\$ 72,541
Liabilities		
Amounts held for others	\$ -	\$ 72,541
Net Position		
Restricted for Medical Fund	\$ 122,355	\$ -

Lemmon School District No. 52-4
Statement of Changes in Fiduciary Net Position – Exhibit VIII
Year Ended June 30, 2017

	<u>Private-Purpose Trust Funds</u>
Additions	
Other additions	<u>\$ 17,841</u>
Deductions	
Other deductions	<u>29,318</u>
Change in Net Position	<u>(11,477)</u>
Net Position - Beginning	<u>133,832</u>
Net Position - Ending	<u><u>\$ 122,355</u></u>

Note 1 - Summary of Significant Accounting Policies

The following is a summary of the School 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 and deferred outflows, liabilities and deferred inflows, 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 and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

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, 2017 are revenues from federal, state, and local 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 District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – the school 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, 2017 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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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, the SD SDBF assessment, a capital lease payable 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 other financing sources 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, 2017, a liability of \$24,918 existed for accumulated unpaid leave balance (annual and sick) calculated at the employee's June 30, 2017 pay rates.

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 School 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 School District has two types of items that qualify for reporting in this category. The School 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 School District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

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

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 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, 2017 is as follows:

Governmental Activities

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets, not being depreciated				
Land	\$ 10,580	\$ -	\$ -	\$ 10,580
Capital assets, being depreciated				
Improvements	473,186	115,196	(2,000)	586,382
Buildings	3,440,400	183,515	-	3,623,915
Machinery/equipment	1,914,785	269,999	(24,069)	2,160,715
Total capital assets being depreciated	<u>5,828,371</u>	<u>568,710</u>	<u>(26,069)</u>	<u>6,371,012</u>
Less accumulated depreciation for				
Improvements	(340,705)	(19,422)	2,000	(358,127)
Buildings	(1,798,176)	(80,245)	-	(1,878,421)
Machinery/equipment	(1,499,177)	(171,211)	24,069	(1,646,319)
Total accumulated depreciation	<u>(3,638,058)</u>	<u>(270,878)</u>	<u>26,069</u>	<u>(3,882,867)</u>
Total capital assets being depreciated, net	<u>2,190,313</u>	<u>297,832</u>	<u>-</u>	<u>2,488,145</u>
Governmental type activity capital assets, net	<u>\$ 2,200,893</u>	<u>\$ 297,832</u>	<u>\$ -</u>	<u>\$ 2,498,725</u>

Depreciation expense was charged to functions as follows:

Governmental activities	
Instruction	\$ 106,019
Support services	84,614
Co-curricular activities	<u>80,245</u>
Total depreciation expense- governmental	<u><u>\$ 270,878</u></u>

Note 4 - Non-Current Liabilities

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

Governmental Activities

	Compensated Absences	Energy Loan	SD SDBF Assessment	Capital Lease - Note 5	Total
Noncurrent liabilities payable, June 30, 2016	\$ 25,489	\$ 104,680	\$ 84,759	\$ -	\$ 214,928
Issuance of debt	-	-	-	220,000	220,000
Payment of debt obligations	-	(13,085)	-	(41,861)	(54,946)
Accrual of compensated absences	4,620	-	-	-	4,620
Payment of compensated absences	(5,191)	-	-	-	(5,191)
Noncurrent liabilities payable, June 30, 2017	<u>24,918</u>	<u>91,595</u>	<u>84,759</u>	<u>178,139</u>	<u>379,411</u>
Current liabilities, due within one year	<u>6,000</u>	<u>13,085</u>	<u>20,720</u>	<u>41,861</u>	<u>81,666</u>
Noncurrent liabilities, due in more than one year	<u>\$ 18,918</u>	<u>\$ 78,510</u>	<u>\$ 64,039</u>	<u>\$ 136,278</u>	<u>\$ 297,745</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 makes annual payments from the Capital Outlay fund from the savings they 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, 2017 are as follows:

Year Ending	Energy Loan
2018	\$ 13,085
2019	13,085
2020	13,085
2021	13,085
2022	13,085
2023-2024	<u>26,170</u>
Total	<u>\$ 91,595</u>

The South Dakota School District Benefit Fund (SD SDBF) assessment is due October 1, 2020. Annual payments of principal and interest at 1.5% are due on the assessment. The annual payment requirements to maturity for the SD SDBF assessment outstanding as of June 30, 2017 are as follows:

<u>Year Ending</u>	<u>SD SDBF Assessment</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 20,720	\$ 1,270	\$ 21,990
2019	21,030	960	21,990
2020	21,350	650	22,000
2021	21,659	320	21,979
Total	<u>\$ 84,759</u>	<u>\$ 3,200</u>	<u>\$ 87,959</u>

Note 5 - Capital Lease

The School District leases a coach bus under a long-term lease agreement. The lease expires in fiscal year 2019.

Future minimum lease payments are as follows:

<u>Year Ending</u>	<u>Capital Lease</u>
2018	\$ 41,861
2019	148,484
Total minimum lease payments	190,345
Less portion representing interest	12,206
Present value of minimum lease payments - Note 4	<u>\$ 178,139</u>

Leased property under capital leases at June 30, 2017 include:

	<u>2017</u>
Vehicles	\$ 220,000
Less accumulated depreciation	27,500
	<u>\$ 192,500</u>

Note 6 - Individual Fund/Interfund Balances and Transactions

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

	Transfer to Other Governmental
Transfer from General fund	\$ 3,000

The School District transferred monies from the general fund to the food service fund to subsidize the operations of those funds.

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

Advance to	Advance from General Fund
Capital Outlay Fund	\$ 92,500

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 7 - Restricted Net Position

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

Fund	Restricted by	Amount
Special Education	Law	\$ 524,708
Capital Outlay	Law	496,941
Pension	Law	15,171
Total restricted net position		\$ 1,036,820

Note 8 - 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, 2017 and 2016, and 2015 were \$104,009, \$90,282, and \$87,287, respectively, equal to the required contributions each year.

Pension Liability (Asset), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

At June 30, 2016, SDRS is 96.9% funded and accordingly has a net pension liability. The proportionate shares of the components of the net pension liability of South Dakota Retirement System, for the School District as of June 30, 2017 are as follows:

Proportionate share of total pension liability	\$ 8,586,792
Less proportionate share of net position restricted for pension benefits	<u>(8,319,493)</u>
Proportionate share of net pension liability	<u><u>\$ 267,299</u></u>

At June 30, 2017, the School District reported a liability of \$267,299 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was based on a projection of the School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2016, the School District's proportion was 0.0791318% which was a decrease of 0.0003539% from its proportion measured as of June 30, 2015 of 0.0794857%.

For the year ended June 30, 2017, the School District recognized pension expense of \$187,378. At June 30, 2017 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	\$ 93,053	\$ -
Changes in assumption	160,099	-
Net difference between projected and actual earnings on pension plan investments	297,327	-
Changes in proportion and difference between District contributions and proportionate share of contributions	33,288	-
District contributions subsequent to the measurement date	<u>104,009</u>	<u>-</u>
Total	<u><u>\$ 687,776</u></u>	<u><u>\$ -</u></u>

\$104,009 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending</u>		
2018	\$	161,904
2019		103,217
2020		194,548
2021		<u>124,098</u>
Totals	\$	<u><u>583,767</u></u>

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.75 percent after 30 years of service
Investment Rate of Return	7.25 percent through 2017 and 7.50 percent thereafter, net of pension plan investment expense

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

The actuarial assumptions used in the SDRS June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (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	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent through 2017 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

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

The following presents the School District's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2017 and 7.50 percent thereafter, as well as what the School District'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)	\$ 1,495,804	\$ 267,299	\$ (734,678)

Pension Plan Fiduciary Net Position

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

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	\$ 44,776
Interest on OPEB obligation	893
Adjustment to annual required contributions	<u>(44,884)</u>
Annual OPEB costs	785
Contributions made	<u>(12,399)</u>
Decrease in net OPEB obligation	(11,614)
Net OPEB obligations, beginning of year	<u>89,323</u>
Net OPEB obligations, end of year	<u><u>\$ 77,709</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
2017	\$ 785	1579.49%	\$ 77,709
2016	8,698	157.71%	89,323
2015	(3,962)	532.66% *	94,343

*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, 2017, the most recent valuation date, the plan's statistics were as follows:

Actuarial accrued liability	\$ 79,323
Actuarial value of benefit assets	<u>-</u>
Unfunded actuarial accrued liability	<u>\$ 79,323</u>

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, 2017 was 1 ½ 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, 2017, 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 portion of the monthly medical insurance premium, with the remainder coming from the employee, 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 \$1,000 per person up to \$2,000 per family or \$1,500 per person up to \$3,000 per family or \$2,500 per person up to \$5,000 per family or \$3,000 per person up to \$6,000 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 \$3,000 per person up to \$6,000 per family plan is considered a high-deductible health plan qualifying for a health savings account. 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, 2016, the South Dakota School District Health Benefits Fund had a deficit net position. During 2017, the Fund issued a fund-wide assessment to all of the districts participating in the Fund to make up this deficit net position. The amount assessed to the School District was \$84,759 which the School District chose to pay in four annual installments maturing October 1, 2020. At June 30, 2017, the South Dakota School District Health Benefits Fund had a positive net position.

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, and 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, 2017, the School District didn't pay any unemployment benefits. At June 30, 2017, no other claims had been filed for unemployment benefits, however, a claim of \$3,510 was anticipated for the next fiscal year ending June 30, 2018.

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.

Note 12 - Issued But Non-effecting Accounting Pronouncement

The Governmental Accounting Standards Board (GASB) has issued a statement not yet implemented by the School District. The statement is statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement replaces the requirements of Statements No. 45 and No. 57. This statement addresses accounting and financial reporting for OPEB that is provided to employees of state and local governmental employers, and establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This statement will be implemented at the School District in the year ended June 30, 2018. Management has not yet determined the effect this pronouncement will have on the School District's financial statements.



Required Supplementary Information
June 30, 2017

Lemmon School District No. 52-4

Lemmon School District No. 52-4
Budgetary Comparison Schedule – General Fund
Year Ended June 30, 2017

	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	\$ 1,006,086	\$ 1,047,118	\$ 920,429	\$ (126,689)
1120 Prior years' ad valorem taxes	-	-	5,900	5,900
1140 Gross receipts taxes	136,000	136,000	146,687	10,687
1190 Penalties and interest on taxes	3,000	3,000	3,229	229
1300 Tuition and fees				
1310 Out of state tuition	14,700	16,500	16,500	-
1500 Earnings on investments and deposits	2,000	2,400	21,779	19,379
1700 Cocurricular activities				
1790 Other pupil activity income	22,050	32,050	31,649	(401)
1900 Other revenue from local sources				
1970 Charges for services	3,000	3,000	1,693	(1,307)
1990 Other	29,000	31,800	30,750	(1,050)
2000 Revenue from intermediate sources				
2100 County source				
2110 County apportionment	22,000	22,000	16,384	(5,616)
2200 Revenue in lieu of taxes	4,000	4,000	3,043	(957)
3000 Revenue from state source				
3100 Grant-in-aid				
3110 Unrestricted grants-in-aid	1,134,433	1,092,659	1,087,065	(5,594)
3220 Burlington Northern RR taxes	7,000	-	-	-
4000 Revenue from federal sources				
4100 Grants-in-aid				
4110 received directly from federal government	-	-	65,999	65,999
4120 Unrestricted grants-in-aid received from Federal Government through state	50,000	20,000	14,317	(5,683)
4150-4199 Restricted grants-in-aid received from Federal Government through the state	144,906	155,517	154,705	(812)
4200 Revenue in lieu of taxes (PILT)	120,000	126,400	126,422	22
4900 Other federal revenue	4,500	-	4,093	4,093
Total revenue	<u>2,702,675</u>	<u>2,692,444</u>	<u>2,650,644</u>	<u>(41,800)</u>

Lemmon School District No. 52-4
 Budgetary Comparison Schedule – General Fund
 Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
1000 Instruction				
1100 Regular Program				
1110 Elementary	533,292	562,223	542,608	19,615
1120 Middle school	82,976	92,781	91,041	1,740
1130 High School	516,823	509,843	488,173	21,670
1190 Other regular programs	108,731	109,001	94,986	14,015
1200 Special programs				
1270 Educationally deprived	78,934	83,500	83,280	220
2000 Support services				
2100 Pupils				
2120 Guidance	64,876	64,788	62,190	2,598
2130 Health	5,790	5,790	2,483	3,307
2200 Instructional staff				
2210 Improvement of instruction	1,500	5,500	4,763	737
2220 Educational media	83,893	62,353	49,458	12,895
2300 General administration				
2310 Board of Education	74,100	72,100	49,441	22,659
2320 Executive administration	148,415	149,515	141,398	8,117
2400 School administration				
2410 Office of the principal	137,000	138,000	134,057	3,943
2490 Other	-	100	94	6
2500 Business				
2520 Fiscal services	127,080	124,980	112,448	12,532
2540 Operation and maintenance of plant	562,575	520,076	364,443	155,633
2550 Pupil transportation	185,605	189,608	123,911	65,697
2560 Food service	-	5,000	4,918	82
3000 Community services				
3900 Other	1,000	1,000	131	869
4000 Nonprogrammed charges				
4900 Other nonprogrammed costs	1,500	1,500	-	1,500
6000 Cocurricular activities				
6100 Male activities	91,710	95,251	73,095	22,156
6200 Female activities	49,395	50,305	37,528	12,777
6500 Transportation	-	-	-	-
6900 Combined activities	68,980	78,920	68,668	10,252
7000 Contingencies	115,000	115,000	-	115,000
Total expenditures	<u>3,039,175</u>	<u>3,037,134</u>	<u>2,529,114</u>	<u>508,020</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(336,500)</u>	<u>(344,690)</u>	<u>121,530</u>	<u>466,220</u>

Lemmon School District No. 52-4
 Budgetary Comparison Schedule – General Fund
 Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Other financing sources (uses)				
5110 Transfers in	360,000	333,090	-	(333,090)
8110 Transfers out	(25,000)	(25,000)	(3,000)	22,000
5130 Sale of surplus property	500	2,700	2,741	41
5140 Compensation for loss of general capital asset	1,000	1,000	-	(1,000)
Total other financing sources (uses)	<u>336,500</u>	<u>311,790</u>	<u>(259)</u>	<u>(312,049)</u>
Net change in fund balance	-	(32,900)	121,271	154,171
Fund balance - June 30, 2016	<u>1,084,984</u>	<u>1,084,984</u>	<u>1,084,984</u>	<u>-</u>
Fund balance - June 30, 2017	<u>\$ 1,084,984</u>	<u>\$ 1,052,084</u>	<u>\$ 1,206,255</u>	<u>\$ 154,171</u>

Lemmon School District No. 52-4
Budgetary Comparison Schedule – Capital Outlay Fund
Year Ended June 30, 2017

	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	\$ 948,706	\$ 962,206	\$ 960,711	\$ (1,495)
1120 Prior years' ad valorem taxes	-	-	4,323	4,323
1190 Penalties and interest on taxes	1,000	1,000	3,429	2,429
Total revenue	<u>949,706</u>	<u>963,206</u>	<u>968,463</u>	<u>5,257</u>
Expenditures				
1000 Instruction				
1100 Regular program				
1110 Elementary	63,000	54,000	13,402	40,598
1130 High School	50,000	60,000	34,598	25,402
2500 Support services - business				
2540 Operation and maintenance of plant	259,226	369,226	572,777	(203,551)
2550 Pupil transportation	95,000	106,055	49,999	56,056
5000 Debt services	182,480	182,480	74,326	108,154
Total expenditures	<u>649,706</u>	<u>771,761</u>	<u>745,102</u>	<u>26,659</u>
Excess (deficiency) of revenues over (under) expenditures	<u>300,000</u>	<u>191,445</u>	<u>223,361</u>	<u>31,916</u>
Other financing sources (uses)				
8110 Transfers out	(300,000)	(226,590)	-	226,590
5120 Long-term debt issued	-	-	220,000	220,000
5130 Sale of surplus property	-	2,600	2,667	67
5140 Compensation for loss of general capital assets - insurance recoveries	-	16,490	16,490	-
Total other financing sources (uses)	<u>(300,000)</u>	<u>(207,500)</u>	<u>239,157</u>	<u>446,657</u>
Net change in fund balance	-	(16,055)	462,518	478,573
Fund balance - June 30, 2016	<u>34,423</u>	<u>34,423</u>	<u>34,423</u>	<u>-</u>
Fund balance - June 30, 2017	<u>\$ 34,423</u>	<u>\$ 18,368</u>	<u>\$ 496,941</u>	<u>\$ 478,573</u>

Lemmon School District No. 52-4
 Budgetary Comparison Schedule – Special Education Fund
 Year Ended June 30, 2017

	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	\$ 399,033	\$ 444,623	\$ 437,968	\$ (6,655)
1120 Prior years' ad valorem taxes	-	-	1,806	1,806
1190 Penalties and interest on taxes	500	500	1,232	732
1900 Other revenue from local sources				
1970 Charges for services	1,100	1,100	170	(930)
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	82,103	82,103	86,537	4,434
Total revenue	<u>483,736</u>	<u>529,326</u>	<u>527,713</u>	<u>(1,613)</u>
Expenditures				
1200 Special program				
1220 Programs for special education	272,823	304,263	314,342	(10,079)
2000 Support services				
2100 Pupils				
2140 Psychological	17,000	18,150	18,142	8
2150 Speech pathology	65,200	65,200	62,031	3,169
2170 Student therapy services	10,000	10,000	1,350	8,650
2700 Support services - special education				
2710 Administrative costs	40,250	40,250	40,166	84
2740 Transportation costs	9,463	9,463	2,041	7,422
2750 Residential program	60,000	73,000	-	73,000
2760 Autism program	9,000	9,000	143	8,857
Total expenditures	<u>483,736</u>	<u>529,326</u>	<u>438,215</u>	<u>91,111</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>89,498</u>	<u>89,498</u>
Net change in fund balance	-	-	89,498	89,498
Fund balance - June 30, 2016	<u>435,210</u>	<u>435,210</u>	<u>435,210</u>	<u>-</u>
Fund balance - June 30, 2017	<u>\$ 435,210</u>	<u>\$ 435,210</u>	<u>\$ 524,708</u>	<u>\$ 89,498</u>

Lemmon School District No. 52-4
 Other Postemployment Benefit Schedules – Schedule of Funding Progress
 Year Ended June 30, 2017

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
6/30/2017	\$ -	\$ 79,323	\$ 79,323	0%	\$ 801,811	10%
6/30/2016	-	97,700	97,700	0%	909,211	11%
6/30/2015	-	97,386	97,386	0%	1,039,300	9%

Lemmon School District No. 52-4
 Schedule of Employer's Share of Net Pension Liability (Asset) and Schedule of Employer's Contributions
 June 30, 2017

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

Pension Plan	Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Employer's Covered Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
SDRS	6/30/2014	0.0929221%	\$ (669,466)	\$ 1,625,033	-41.20%	107.00%
SDRS	6/30/2015	0.0794857%	\$ (337,121)	\$ 1,454,787	-23.17%	104.10%
SDRS	6/30/2016	0.0791318%	\$ 267,299	\$ 1,504,689	17.76%	96.90%

*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
 for the Year Ended June 30, 2017
 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	\$ 87,287	\$ 87,287	\$ -	\$ 1,454,787	6.00%
SDRS	6/30/2016	\$ 90,282	\$ 90,282	\$ -	\$ 1,504,689	6.00%
SDRS	6/30/2017	\$ 104,009	\$ 104,009	\$ -	\$ 1,733,482	6.00%

*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 three years reported in the RSI, there is no additional information to include in the 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.



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 Members of 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, 2017, 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 April 23, 2018.

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 2017-A, 2017-B and 2017-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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.



Bismarck, North Dakota
April 23, 2018

Financial Statement Findings

**2017-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 hire additional office staff. This is not feasible or economically possible for a district of our size.

**2017-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. This also includes accounting for transactions in accordance with generally accepted accounting principles.

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: Misstatements to the financial statements could result from inadequate controls over recording of transactions and it affects the District's ability to detect misstatements 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.

2017-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. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

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.

2016-A Segregation of Duties
Material Weakness

Initial Fiscal Year Finding Occurred: 2008

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

Status: This is a repeat finding in the current year shown as 2017-A.

2016-B Recording of Transactions
Material Weakness

Initial Fiscal Year Finding Occurred: 2008

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

Status: This is a repeat finding in the current year shown as 2017-B.

2016-C Preparation of Financial Statements
Material Weakness

Initial Fiscal Year Finding Occurred: 2008

Finding Summary: 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.

Status: This is a repeat finding in the current year shown as 2017-C.