

**MADISON CENTRAL
SCHOOL DISTRICT NO. 39-2**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2015

MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2015

School Board

Steve Nelson

Ryan Hegg

Tom Farrell

Shawn Miller

Camelyn Sims

Jennie Thompson

Charlie Moore

Business Manager

Mitchell Brooks

Superintendent

Vince Schaefer

MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
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QUAM & BERGLIN, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
110 WEST MAIN – P.O. BOX 426
ELK POINT, SOUTH DAKOTA 57025

(605) 356-3374

INDEPENDENT AUDITOR'S REPORT

School Board
Madison Central School District No. 39-2
Lake County, South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of Madison Central School District No. 39-2, Lake County, South Dakota (School District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

Management has elected not to record the long-term financial obligations and commitments related to other postemployment benefits (OPEB) in the governmental activities Statement of Net Position. Accounting principles generally accepted in the United States of America require OPEB costs to be recognized and reported in a systematic, accrual-basis measurement over a period that approximates employees' years of service, which would most likely increase long-term liabilities and expenditures and decrease net position in the governmental activities Statement of Net Position. Accounting principles generally accepted in the United States of America also require information to be provided about actuarial accrued liabilities associated with OPEB and whether, and to what extent, progress is being made in funding the plan. The amount by which this departure would affect the liabilities, net position and expenditures of the governmental activities is not reasonably determinable

Qualified Opinion

In our opinion, except for the effects of not recording their long-term financial obligations and commitments related to OPEB as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Madison Central School District No. 39-2 as of June 30, 2015, 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.

Unmodified Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of Madison Central School District No. 39-2 as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Adoption of New Accounting Standard

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the SDRS Schedules, and the Budgetary Comparison Schedules 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.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2015, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Madison Central School District's internal control over financial reporting and compliance.

Quam & Berglin, P.C.

Quam and Berglin, P.C.
Elk Point, SD

November 11, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Madison Central School District 39-2's annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year ended on June 30, 2015. Please read it in conjunction with the School's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the year, the School's revenues generated from taxes and other revenues of the governmental and business-type programs were \$1,258,002 more than the \$11,301,974 governmental and business-type program expenditures.
- The School has started a bus garage facility project. It should be completed in the fall of 2015. This is a much needed project for us and we are excited about the benefits this will provide.
- The School paid \$959,694 toward the principal of our debt in this year.

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 the School government, reporting the School's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
 - Proprietary fund statements offer short and long-term financial information about the activities that the school operates like businesses. The only proprietary funds operated by the school are the Food Service Operation and Driver's Education Program.
 - Fiduciary fund statements provide information about the financial relationships - like scholarship plans for graduating students - in which the School acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

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

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

Figure A-1

Major Features of Madison Central School's Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School government (except fiduciary funds and the fiduciary component units)	The activities of the School that are not proprietary or fiduciary, such as elementary and high school education programs.	Activities the School operates similar to private businesses, the food service operation.	Instances in which the School is the trustee or agent for someone else's resources.
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Net Position *Statement of Revenues, Expenses and Changes in Net Position *Statement of Cash Flows	*Statement of Net Position *Statement of Changes in Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the School's funds do not currently contain capital assets although they can
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

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

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

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

The government-wide financial statements of the School are reported in two categories:

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

Fund Financial Statements

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

- State Law requires some of the funds.
- The School Board establishes other funds to control and manage money for particular purposes (like the Scholarship Trust).

The School has three kinds of funds:

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

proprietary fund) and Other Enterprise Funds are the proprietary funds maintained by the School.

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

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The School's combined net position increased as follows:

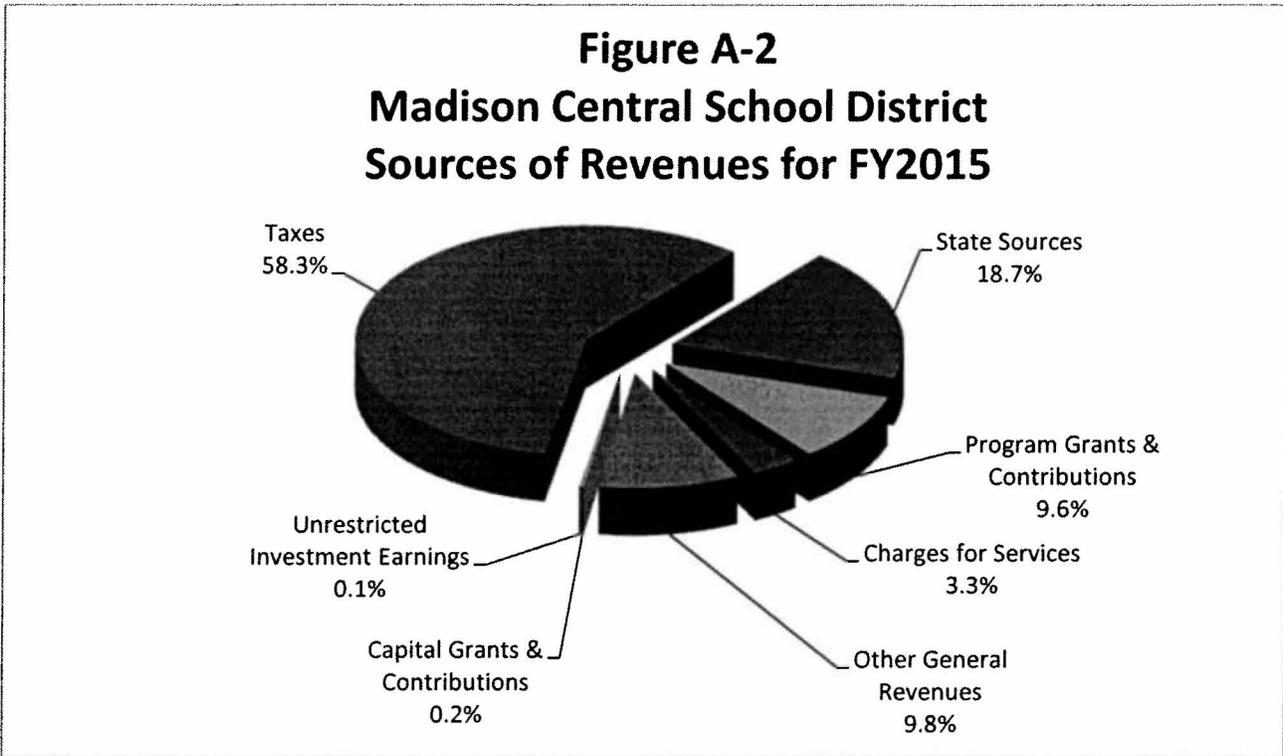
**TABLE A-1
MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
STATEMENT OF NET POSITION**

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	FY2014	FY2015	FY2014	FY2015	FY2014	FY2015
Current and Other Assets	\$ 9,522,609	\$ 11,970,349	\$ 154,286	\$ 229,648	\$ 9,676,895	\$ 12,199,997
Capital Assets	27,343,433	27,211,218	20,135	27,546	27,363,568	27,238,764
Total Assets	36,866,042	39,181,567	174,421	257,194	37,040,463	39,438,761
Deferred Outflows of Resources						
Pension Related		1,859,091				1,859,091
Total Deferred Outflows of Resources						
Current Liabilities	876,669	1,126,849	19,925	21,224	896,594	1,148,073
Long-Term Debt Outstanding	15,918,659	14,965,059			15,918,659	14,965,059
Total Liabilities	16,795,328	16,091,908	19,925	21,224	16,815,253	16,113,132
Deferred Inflows of Resources						
Taxes Levied for Future Period	3,221,394	3,364,171			3,221,394	3,364,171
Pension Related		2,431,421				2,431,421
Total Deferred Inflows of Resources	3,221,394	5,795,592			3,221,394	5,795,592
Net Position:						
Net Investment in Capital Assets	11,469,929	12,297,409	20,135	27,546	11,490,064	12,324,955
Restricted	2,050,064	3,749,008			2,050,064	3,749,008
Unrestricted	3,329,328	3,106,741	134,362	208,424	3,463,690	3,315,165
Total Net Position	\$ 16,849,321	\$ 19,153,158	\$ 154,497	\$ 235,970	\$ 17,003,818	\$ 19,389,128
Increase (Decrease) in Net Position	909,419	1,176,529	62,254	81,473	971,673	1,258,002
Beginning Net Position	15,939,902	16,849,321	92,243	154,497	16,032,145	17,003,818
Prior Period Adjustment		1,127,308				1,127,308
Adjusted Beginning Net Position	15,939,902	17,976,629	92,243	154,497	16,032,145	18,131,126
Ending Net Position	\$ 16,849,321	\$ 19,153,158	\$ 154,497	\$ 235,970	\$ 17,003,818	\$ 19,389,128
Percentage of Increase (Decrease) in Net Position	5.71%	6.54%	14.55%	52.73%	6.06%	6.94%

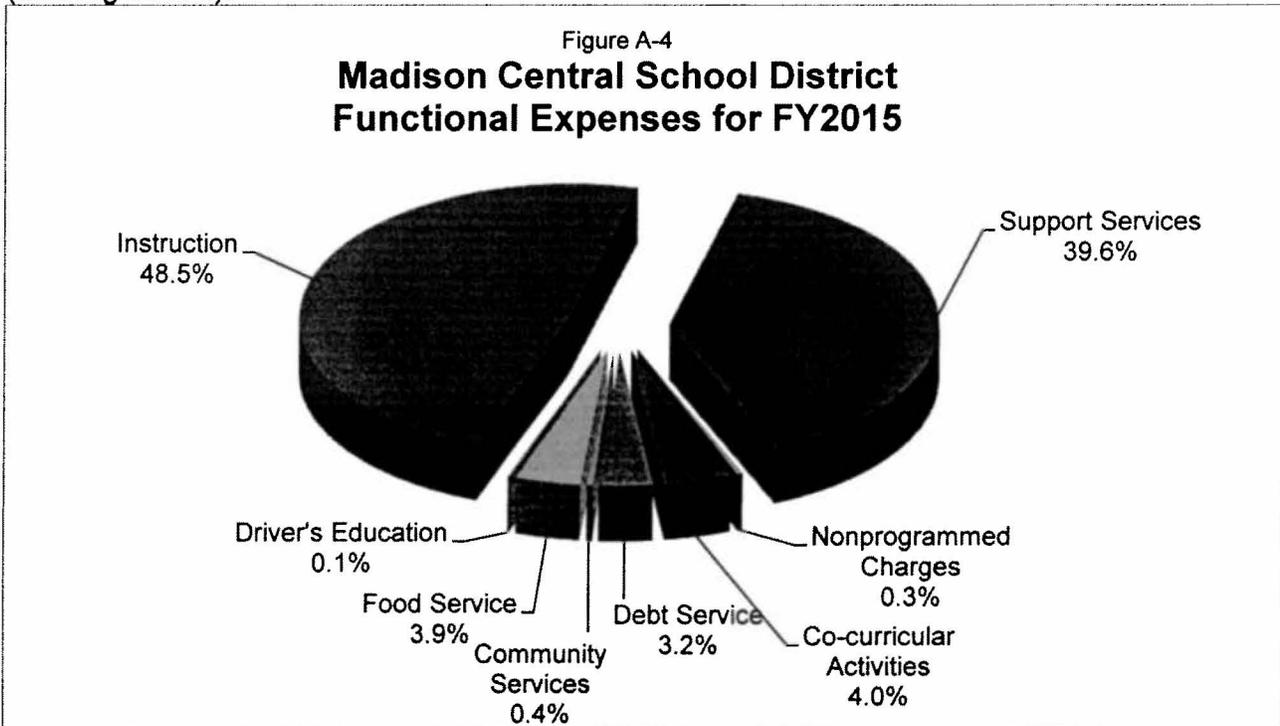
The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount

due in more than one year. The long-term liabilities of the school, consisting of capital outlay certificates, notes, capital financing leases, early retirement, and compensated absences payable, have been reported in this manner on the Statement of Net Position. The difference between the school's assets and liabilities is its net position.

The District's total revenue was \$12,559,976 (Table A-2). Approximately, 18.7% of the District's revenue comes from State Aid, with 58.3% received from local taxes. (See Figure A-2).



The District's expenses totaled \$11,301,974 (See Table A-2) and covered a range of services, including instruction, support services, debt services, co-curricular activities and food service. (See Figure A-3).



GOVERNMENTAL ACTIVITIES

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

TABLE A-2
MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
Changes in Net Position

	<u>Total Governmental Activities</u>		<u>Total Business- Type Activities</u>		<u>Total</u>	
	FY2014	FY2015	FY2014	FY2015	FY2014	FY2015
Revenues						
Program Revenues						
Charges for Services	\$ 164,126	\$ 107,685	\$ 305,140	\$ 307,970	\$ 469,266	\$ 415,655
Operating Grants and Contributions	900,755	978,873	210,082	226,733	1,110,837	1,205,606
Capital Grants and Contributions	36,274	23,707			36,274	23,707
General Revenues						
Taxes	6,765,709	7,313,507			6,765,709	7,313,507
Revenue State Sources	2,485,314	2,352,193			2,485,314	2,352,193
Other General Revenue	151,276	1,232,432			151,276	1,232,432
Unrestricted Investment Earnings	18,023	16,296	467	580	18,490	16,876
Total Revenues	10,521,477	12,024,693	515,689	535,283	11,037,166	12,559,976
Expenses						
Instruction	5,424,860	5,478,838			5,424,860	5,478,838
Support Services	3,282,643	4,472,670			3,282,643	4,472,670
Community Services	22,784	40,537			22,784	40,537
Nonprogrammed Charges	70,047	39,188			70,047	39,188
Debt Services	381,282	362,769			381,282	362,769
Cocurricular Activities	430,442	454,162			430,442	454,162
Food Service			438,177	440,340	438,177	440,340
Driver's Education			15,258	13,470	15,258	13,470
Total Expenses	9,612,058	10,848,164	453,435	453,810	10,065,493	11,301,974
Increase (Decrease) in Net Position	\$ 909,419	\$ 1,176,529	\$ 62,254	\$ 81,473	\$ 971,673	\$ 1,258,002
Prior Period Adjustment		1,127,308				1,127,308
NET POSITION - ENDING	\$ 16,849,321	\$ 19,153,158	\$ 154,497	\$ 235,970	\$ 17,003,818	\$ 19,389,128

GOVERNMENTAL ACTIVITIES

Revenues for the governmental activities increased by 14.3% during the year. There was a large increase in property tax valuations, loss of state sources, and other grant revenue contributed to the largest portions of these changes.

Expenses increased over the previous year by approximately 12.9%. Instruction and support services were the largest increases while non-programmed changes was decreased.

BUSINESS-TYPE ACTIVITIES

Revenues of the School's business-type activities increased by approximately 3.8% to \$535,283 and expenses increased by about 0.083% to \$453,810. Factors contributing to these results included:

- There was an increase in the price of meals to students serviced by the school during 2014-15. Also federal reimbursement rates for student meals increased.

- The primary reason for the slight increase in expenses was due food service costs increasing just slightly higher the driver's education expenses decreased.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The General Fund's fund balance decreased by \$22,171.37; the Capital Outlay Fund had a positive change of \$69,007.41; the Pension Fund had a positive change of \$79,855.16; and the Special Education fund had a positive change of \$8,470.68.

BUDGETARY HIGHLIGHTS

During the course of the year, the School Board revised the District budget several times. These amendments fall into three categories:

- Supplemental appropriations approved to prevent budget overruns for unanticipated but necessary expenses.
- Changes in actual federal revenue receipts versus budgeted amounts.
- Increases in appropriations, primarily by supplemental transfer, to prevent budget overruns.

CAPITAL ASSET ADMINISTRATION

By the end of 2015, the School had invested \$34,057,842 in a broad range of capital assets, including, land, buildings, various machinery and equipment. (See Table A-3.) This amount represents a net increase (including additions and deductions) of \$671,137.

Table A-3
MADISON CENTRAL SCHOOL DISTRICT 39-2 - Capital Assets

	Governmental Activities			Business-Type Activities		
	FY2014	FY2015	Increase/ (Decrease)	FY2014	FY2015	Increase/ (Decrease)
Land	\$ 117,077	\$ 117,077	\$	\$	\$	\$
Construction Work in Progress		462,321	462,321			
Buildings	23,874,496	24,029,196	154,700			
Improvements other than Building	7,259,591	7,259,591				
Machinery and Equipment	2,139,685	2,189,657	49,972	103,365	110,509	7,144
Total Capital Assets	\$ 33,390,849	\$ 34,057,842	\$ 666,993	\$ 103,365	\$ 110,509	\$ 7,144

LONG-TERM DEBT

At year-end the School had \$14,965,059 in Capital Outlay Certificates, General Obligation Bonds Payable, and other long-term obligations. This is a decrease of \$953,600 as shown on Table A-4 below. The School has no plans to issue any new debt in the next few years.

Table A-4
MADISON CENTRAL SCHOOL DISTRICT 39-2
Outstanding Debt and Obligations

	<u>Governmental Activities</u>		Total
	2014	2015	% Change
Capital Outlay Certificates	\$ 7,695,000	\$ 6,970,000	-9.42%
General Obligation Bonds Payable	6,105,000	5,885,000	-3.60%
Notes Payable	2,073,504	2,058,810	-0.71%
Capital Leases Payable		21,112	100.00%
Early Retirement Payable	35,023	19,351	-44.75%
Compensated Absences Payable	10,132	10,786	6.45%
Total Long-Term Liabilities	<u>\$ 15,918,659</u>	<u>\$ 14,965,059</u>	-5.99%

The School maintains an early retirement plan, which allows those meeting certain qualifications, to retire early and receive 75% of their last year's salary in equal payments spread over the next two years. This plan allows the school to reduce the overall program cost by hiring lower paid teachers to replace the higher paid teachers.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The School's current economic position has shown little change. At the time of creating this document we have not received our 2015 (payable 2016) property valuations. Last year the School did experience an increase in total property valuation from payable 2014 to payable 2015 of \$49,731,662 or (7.58%) from the prior year. The increase in property valuation increases the ability of the school to generate revenue from property taxes, the total amount which can be levied is limited by the State of South Dakota. New state laws from the past legislative session restricted the amount the increase in valuations were able to net.

One of the primary sources of revenue to the School is based on a per student allocation received from the State of South Dakota. The state aid formula for the current year ensures that property taxes plus state aid will equal \$4,781.14 per student. The allocation for the next year will increase to \$4,876.76 per student. The school's enrollment increased slightly from last year in the pupil fall count from FY15. This slight increase in student count will positively affect the per student funding, since in previous years we had been level at best with enrollment numbers. The net effect will result in the school receiving more overall revenue from the State of South Dakota in the future.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional information, contact the Madison Central School Business Office, 800 NE 9th Street, Madison, SD 57042.

MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
STATEMENT OF NET POSITION
JUNE 30, 2015

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
ASSETS:			
Cash and Cash Equivalents	\$ 5,309,397.10	\$ 213,462.60	\$ 5,522,859.70
Investments	801,979.78		801,979.78
Taxes Receivable	3,414,363.10		3,414,363.10
Accounts Receivable	6,099.85		6,099.85
Inventory	6,409.10	16,185.14	22,594.24
Due from Other Governments	332,733.16		332,733.16
Net Pension Asset	2,099,366.68		2,099,366.68
Capital Assets:			
Land and Construction Work in Progress	579,398.15		579,398.15
Other Capital Assets, Net of Depreciation	<u>26,631,820.47</u>	<u>27,546.15</u>	<u>26,659,366.62</u>
TOTAL ASSETS	<u>39,181,567.39</u>	<u>257,193.89</u>	<u>39,438,761.28</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Pension Related Deferred Outflows	<u>1,859,090.79</u>		<u>1,859,090.79</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,859,090.79</u>		<u>1,859,090.79</u>
LIABILITIES :			
Accounts Payable	346,456.06	505.77	346,961.83
Construction Contracts Payable-Retained Percentage	39,562.00		39,562.00
Accrued Wages and Benefits Payable	656,831.19		656,831.19
Unearned Revenues		20,718.24	20,718.24
Other Current Liabilities	84,000.00		84,000.00
Noncurrent Liabilities:			
Due Within One Year	1,252,714.55		1,252,714.55
Due in More than One Year	<u>13,712,344.15</u>		<u>13,712,344.15</u>
TOTAL LIABILITIES	<u>16,091,907.95</u>	<u>21,224.01</u>	<u>16,113,131.96</u>
DEFERRED INFLOWS OF RESOURCES:			
Taxes levied for a Future Period	3,364,171.16		3,364,171.16
Pension Related Deferred Inflows	<u>2,431,420.53</u>		<u>2,431,420.53</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>5,795,591.69</u>		<u>5,795,591.69</u>
NET POSITION:			
Net Investment in Capital Assets	12,297,408.51	27,546.15	12,324,954.66
Restricted for:			
Capital Outlay	1,327,325.84		1,327,325.84
Special Education	340,743.60		340,743.60
Pension	516,866.39		516,866.39
Debt Service	37,035.99		37,035.99
SDRS Pension Purposes	1,527,036.93		1,527,036.93
Unrestricted	<u>3,106,741.27</u>	<u>208,423.73</u>	<u>3,315,165.00</u>
TOTAL NET POSITION	<u>\$ 19,153,158.53</u>	<u>\$ 235,969.88</u>	<u>\$ 19,389,128.41</u>

The notes to the financial statements are an integral part of this statement.

**MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
Instruction	\$ 5,478,838.20	\$	\$ 978,872.82	\$	\$ (4,499,965.38)	\$	\$ (4,499,965.38)
Support Services	4,472,670.58	43,522.71		23,707.40	(4,405,440.47)		(4,405,440.47)
Community Services	40,537.50				(40,537.50)		(40,537.50)
Nonprogrammed Charges	39,187.50				(39,187.50)		(39,187.50)
*Interest on Long-term Debt	362,768.67				(362,768.67)		(362,768.67)
Cocurricular Activities	454,162.23	64,162.54			(389,999.69)		(389,999.69)
Total Governmental Activities	10,848,164.68	107,685.25	978,872.82	23,707.40	(9,737,899.21)		(9,737,899.21)
Business-type Activities:							
Food Service	440,339.66	293,059.83	226,732.80			79,452.97	79,452.97
Drivers Education Instruction	13,470.23	14,910.00				1,439.77	1,439.77
Total Business-type Activities	453,809.89	307,969.83	226,732.80			80,892.74	80,892.74
Total Primary Government	\$ 11,301,974.57	\$ 415,655.08	\$ 1,205,605.62	\$ 23,707.40	(9,737,899.21)	80,892.74	(9,657,006.47)
		General Revenues:					
		Taxes:					
		Property Taxes		7,137,602.11		7,137,602.11	
		Utility Taxes		175,905.27		175,905.27	
		Revenue from State Sources:					
		State Aid		2,352,193.16		2,352,193.16	
		Unrestricted Investment Earnings		16,296.32		580.45	
		Other General Revenues		1,232,431.81		1,232,431.81	
		Total General Revenues		10,914,428.67		580.45	
		Changes in Net Position		1,176,529.46		81,473.19	
		Net Position Beginning		16,849,320.65		154,496.69	
		Prior Period Adjustment		1,127,308.43		1,127,308.43	
		Adjusted NET POSITION - Beginning		17,976,629.08		154,496.69	
		NET POSITION - ENDING		19,153,158.53		235,969.88	

* The District does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

The notes to the financial statements are an integral part of this statement.

MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Pension Fund</u>	<u>Bond Redemption Fund</u>	<u>Total Governmental Funds</u>
ASSETS:						
Cash and Cash Equivalents	\$2,174,664.33	\$1,609,906.40	\$396,009.55	\$534,899.29	\$ 34,739.44	\$ 4,750,219.01
Investments	801,979.78					801,979.78
Taxes Receivable-Current	1,641,847.78	983,818.29	452,552.12	98,377.59	187,575.38	3,364,171.16
Taxes Receivable-Delinquent	27,268.30	13,227.43	6,081.81	1,317.85	2,296.55	50,191.94
Accounts Receivable	1,699.40		4,400.45			6,099.85
Due from Other Governments	250,417.76	23,707.40	58,608.00			332,733.16
Inventory of Supplies	6,409.10					6,409.10
TOTAL ASSETS	<u>\$4,904,286.45</u>	<u>\$2,630,659.52</u>	<u>\$917,651.93</u>	<u>\$634,594.73</u>	<u>\$224,611.37</u>	<u>\$ 9,311,804.00</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:						
Liabilities:						
Accounts Payable	\$ 52,741.34	\$ 258,841.07	\$ 30,791.93	\$	\$	\$ 342,374.34
Contracts Payable	462,890.20		76,343.95			539,234.15
Construction Contracts Payable-Retained Percentage		39,562.00				39,562.00
Payroll Deductions and Withholdings and Employer Matching Payable	100,376.71		17,220.33			117,597.04
Total Liabilities	<u>616,008.25</u>	<u>298,403.07</u>	<u>124,356.21</u>			<u>1,038,767.53</u>
Deferred Inflows of Resources:						
Taxes Levied for a Future Period	1,641,847.78	983,818.29	452,552.12	98,377.59	187,575.38	3,364,171.16
Unavailable Revenue-Property Taxes	27,268.30	13,227.43	6,081.81	1,317.85	2,296.55	50,191.94
Total Deferred Inflows of Resources	<u>1,669,116.08</u>	<u>997,045.72</u>	<u>458,633.93</u>	<u>99,695.44</u>	<u>189,871.93</u>	<u>3,414,363.10</u>
Fund Balances:						
Nonspendable:						
Inventory	6,409.10					6,409.10
Restricted for:						
Capital Outlay		1,335,210.73				1,335,210.73
Special Education			334,661.79			334,661.79
Pension				534,899.29		534,899.29
Debt Service					34,739.44	34,739.44
Assigned to:						
Unemployment	43,530.69					43,530.69
Subsequent Year's Budget	228,695.00					228,695.00
Unassigned	2,340,527.33					2,340,527.33
Total Fund Balances	<u>2,619,162.12</u>	<u>1,335,210.73</u>	<u>334,661.79</u>	<u>534,899.29</u>	<u>34,739.44</u>	<u>4,858,673.37</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$4,904,286.45</u>	<u>\$2,630,659.52</u>	<u>\$917,651.93</u>	<u>\$634,594.73</u>	<u>\$224,611.37</u>	<u>\$ 9,311,804.00</u>

The notes to the financial statements are an integral part of this statement.

**MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Total Fund Balances – Governmental Funds \$ 4,858,673.37

Amounts reported for governmental activities in the Statement of Net Assets are different because:

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

Total Cost of Capital Assets:	\$ 34,057,842.13	
Total Accumulated Depreciation:	<u>(6,846,623.51)</u>	27,211,218.62

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:

Capital Outlay Certificates Payable	(6,970,000.00)	
General Obligation Bonds Payable	(5,885,000.00)	
Notes Payable	(2,058,810.11)	
Capital (Financing) Lease	(21,112.32)	
Early Retirement	(19,350.75)	
Accrued Leave Payable	<u>(10,785.52)</u>	(14,965,058.70)

Internal Service funds are used by management to charge the costs of activities, such as insurance, to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Position.

Health Insurance Cash	559,178.09	
Health Insurance Accounts Payable	(4,081.72)	
Incurred Claims	<u>(84,000.00)</u>	471,096.37

Net Pension Asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds. 2,099,366.68

Pension related deferred outflows are components of pension asset and therefore are not reported in the funds. 1,859,090.79

Pension related deferred inflows are components of pension liability and therefore are not reported in the funds (2,431,420.53)

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

Delinquent Taxes at June 30, 2015		<u>50,191.94</u>
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Net Position – Governmental Activities \$ 19,153,158.53

The notes to the financial statements are an integral part of this statement.

MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Pension Fund</u>	<u>Bond Redemption Fund</u>	<u>Total Governmental Funds</u>
Revenues:						
Revenue from Local Sources:						
Taxes:						
Ad Valorem Taxes	\$ 3,466,535.01	\$ 2,043,015.01	\$ 939,474.38	\$ 204,425.92	\$401,516.76	\$ 7,054,967.08
Prior Years' Ad Valorem Taxes	34,701.43	15,932.43	7,354.77	1,594.26	2,534.93	62,117.82
Tax Deed Revenue	13.78	9.16	4.28	0.92		28.14
Utility Taxes	175,905.27					175,905.27
Penalties and Interest on Taxes	9,495.18	4,932.94	2,286.49	494.66	763.32	17,972.59
Regular Day School Transportation Fees						
Earnings on Investments and Deposits	7,451.73	4,553.43	856.32	1,546.57	(103.92)	14,304.13
Cocurricular Activities:						
Admissions	53,372.75					53,372.75
Other Pupil Activity Income	10,789.79					10,789.79
Other Revenue from Local Sources:						
Rentals	26,960.98					26,960.98
Services provided other LEA's	11,000.00					11,000.00
Refund of Prior Years Expenditures	2,981.00					2,981.00
Medicaid Services	16,084.40		16,438.31			32,522.71
Other	22,864.56	3,198.77	158.86			26,222.19
Revenue from Intermediate Sources:						
County Sources:						
County Apportionment	123,804.55					123,804.55
Revenue in Lieu of Taxes	9,314.99	2,843.89	1,309.68	284.39	541.33	14,294.28
Revenue from State Sources:						
Grants-in-Aid:						
Unrestricted Grants-in-Aid	2,352,193.16					2,352,193.16
Restricted Grants-in-Aid	18,938.00		309,844.00			328,782.00
Other State Revenue	113,133.73					113,133.73
Revenue from Federal Sources:						
Grants-in-Aid:						
Unrestricted Grants-in-Aid Received from Federal Government Through Intermediate Source	3,420.03	11,619.55	4,054.75	882.68	1,741.96	21,718.97
Restricted Grants-in-Aid Received from Federal Government Through State	273,862.00	23,707.40	241,376.12			538,945.52
Total Revenue	<u>6,732,822.34</u>	<u>2,109,812.58</u>	<u>1,523,157.96</u>	<u>209,229.40</u>	<u>406,994.38</u>	<u>10,982,016.66</u>

Expenditures:

Instruction:

Regular Programs:

Elementary	1,434,022.45	118,583.22	31,000.00	1,583,605.67
Middle/Junior High	887,783.19	52,845.31	18,000.00	958,628.50
High School	1,324,678.03	164,964.86	26,000.00	1,515,642.89
Other Regular Programs	7,533.11			7,533.11

Special Programs:

Programs for Special Education			1,090,353.12	1,090,353.12
Educationally Deprived	148,638.50			148,638.50

Support Services:

Pupils:

Guidance	266,541.49			266,541.49
Health	8,167.49		2,297.05	10,464.54
Psychological			49,050.45	49,050.45
Speech Pathology			111,298.36	111,298.36
Student Therapy Services			129,352.97	129,352.97

Support Services - Instructional Staff:

Improvement of Instruction	34,388.00			34,388.00
Educational Media	193,924.14	38,937.50		232,861.64

Support Services - General Administration:

Board of Education	54,893.62			54,893.62
Executive Administration	170,256.65			170,256.65

Support Services - School Administration:

Office of the Principal	469,735.63			469,735.63
Other	479.39			479.39

Support Services - Business:

Fiscal Services	141,082.56			141,082.56
Operation and Maintenance of Plant	912,972.07	41,663.44		954,635.51
Pupil Transportation	223,830.00			223,830.00
Internal Services	38,906.07	14,287.88		53,193.95

Support Services - Central:

Information	993.30			993.30
Staff	532.50			532.50

Support Services - Special Education:

Administrative Costs			101,928.18	101,928.18
Transportation Costs			30,407.15	30,407.15

Community Services:

Nonpublic School	11,867.38	9,379.24		21,246.62
Other	19,290.88			19,290.88

MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Pension Fund</u>	<u>Bond Redemption Fund</u>	<u>Total Governmental Funds</u>
Nonprogrammed Charges:						
Payments to State - Unemployment	486.00					486.00
Early Retirement Payments				54,374.24		54,374.24
Debt Services		939,982.52			389,517.50	1,329,500.02
Cocurricular Activities:						
Male Activities	85,178.92					85,178.92
Female Activities	72,181.23					72,181.23
Transportation	31,411.91					31,411.91
Combined Activities	215,219.20	9,964.60				225,183.80
Capital Outlay		<u>765,272.44</u>				<u>765,272.44</u>
Total Expenditures	<u>6,754,993.71</u>	<u>2,155,881.01</u>	<u>1,514,687.28</u>	<u>129,374.24</u>	<u>389,517.50</u>	<u>10,944,453.74</u>
Excess of Revenue Over (Under)						
Expenditures	<u>(22,171.37)</u>	<u>(46,068.43)</u>	<u>8,470.68</u>	<u>79,855.16</u>	<u>17,476.88</u>	<u>37,562.92</u>
Other Financing Sources						
General Long-Term Debt Issued		28,149.84				28,149.84
Compensation for Loss on General Capital Assets		<u>86,926.00</u>				<u>86,926.00</u>
Total Other Financing Sources		<u>115,075.84</u>				<u>115,075.84</u>
Net Change in Fund Balance	(22,171.37)	69,007.41	8,470.68	79,855.16	17,476.88	152,638.76
FUND BALANCE - JULY 1, 2014	<u>2,641,333.49</u>	<u>1,266,203.32</u>	<u>326,191.11</u>	<u>455,044.13</u>	<u>17,262.56</u>	<u>4,706,034.61</u>
FUND BALANCE - JUNE 30, 2015	<u>\$ 2,619,162.12</u>	<u>\$ 1,335,210.73</u>	<u>\$ 334,661.79</u>	<u>\$ 534,899.29</u>	<u>\$ 34,739.44</u>	<u>\$ 4,858,673.37</u>

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The notes to the financial statements are an integral part of this statement.

**MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Net Change in Fund Balances – Total Governmental Funds \$ 152,638.76

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

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the period.

Capital Outlays	\$ 765,272.44	
Depreciation Expense	<u>(884,156.11)</u>	(118,883.67)

Repayment of long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.

Capital Outlay Certificates	725,000.00	
General Obligation Bonds	220,000.00	
Notes Payable	14,693.83	
Financing (Capital Acquisition) Lease	<u>7,037.52</u>	966,731.35

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

Accrued Vacation Leave	(653.76)	
Early Retirement	<u>15,672.74</u>	15,018.98

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.

(28,149.84)

Internal service funds are used by management to charge costs of certain activities such as self insurance to individual funds. The net revenue (expense) of the internal service funds is reported within the governmental

(199,740.32)

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

2,516.48

The loss on disposal of fixed assets is not recognized in the governmental funds but is recognized in the government-wide statements.

(13,330.79)

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

399,728.51

Change in Net Position of Governmental Activities \$ 1,176,529.46

The notes to the financial statements are an integral part of this statement.

MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015

	<u>Enterprise Funds</u>			<u>Internal</u>
	<u>Food</u>	<u>Driver</u>	<u>Total</u>	<u>Service Fund</u>
	<u>Service</u>	<u>Education</u>		<u>Health</u>
	<u>Fund</u>	<u>Fund</u>		<u>Insurance</u>
				<u>Fund</u>
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	\$202,003.16	\$11,459.44	\$213,462.60	\$ 559,178.09
Inventory of Stores Purchased for Resale	3,134.48		3,134.48	
Inventory of Donated Food	13,050.66		13,050.66	
Total Current Assets	<u>218,188.30</u>	<u>11,459.44</u>	<u>229,647.74</u>	<u>559,178.09</u>
Capital Assets:				
Machinery and Equipment	110,508.97		110,508.97	
Less: Accumulated Depreciation	<u>(82,962.82)</u>		<u>(82,962.82)</u>	
Total Noncurrent Assets	<u>27,546.15</u>		<u>27,546.15</u>	
TOTAL ASSETS	<u>245,734.45</u>	<u>11,459.44</u>	<u>257,193.89</u>	<u>559,178.09</u>
LIABILITIES:				
Current Liabilities:				
Accounts Payable	505.77		505.77	4,081.72
Incurred but Not Reported Claims				84,000.00
Deposits Payable	<u>20,718.24</u>		<u>20,718.24</u>	
Total Current Liabilities	<u>21,224.01</u>		<u>21,224.01</u>	<u>88,081.72</u>
NET POSITION:				
Net Investment in Capital Assets	27,546.15		27,546.15	
Unrestricted Net Position	<u>196,964.29</u>	<u>11,459.44</u>	<u>208,423.73</u>	<u>471,096.37</u>
TOTAL NET POSITION	<u>\$ 224,510.44</u>	<u>\$ 11,459.44</u>	<u>\$ 235,969.88</u>	<u>\$ 471,096.37</u>

The notes to the financial statements are an integral part of this statement.

MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Enterprise Funds</u>			<u>Internal Service Fund</u>
	<u>Food Service Fund</u>	<u>Driver Education Fund</u>	<u>Total</u>	<u>Health Insurance Fund</u>
Operating Revenue:				
Food Sales:				
To Pupils	\$ 229,442.58	\$	\$ 229,442.58	\$
To Adults	5,781.00		5,781.00	
A la Carte	57,836.25		57,836.25	
Tuition and Fees:				
Driver's Education		14,910.00	14,910.00	
Self Insurance Premiums				875,897.13
Total Operating Revenue	<u>293,059.83</u>	<u>14,910.00</u>	<u>307,969.83</u>	<u>875,897.13</u>
Operating Expenses:				
Food Service:				
Salaries	4,453.78		4,453.78	
Employee Benefits	790.92		790.92	
Purchased Services	393,184.59		393,184.59	
Supplies	4,973.01		4,973.01	
Cost of Sales-Purchased Food				
Cost of Sales-Donated Food	33,499.83		33,499.83	
Depreciation-Local Funds	3,437.53		3,437.53	
Other Community Services:				
Salaries		8,395.75	8,395.75	
Employee Benefits		1,205.02	1,205.02	
Purchased Services		3,869.46	3,869.46	
Self Insurance Costs				1,077,629.64
Total Operating Expenses	<u>440,339.66</u>	<u>13,470.23</u>	<u>453,809.89</u>	<u>1,077,629.64</u>
Operating Income (Loss)	(147,279.83)	1,439.77	(145,840.06)	(201,732.51)
Nonoperating Revenue:				
Local Sources:				
Investment Earnings	567.87	12.58	580.45	1,992.19
State Sources:				
Cash Reimbursements	3,126.03		3,126.03	
Federal Sources:				
Cash Reimbursements	184,959.42		184,959.42	
Donated Food	38,647.35		38,647.35	
Total Nonoperating Revenue	<u>227,300.67</u>	<u>12.58</u>	<u>227,313.25</u>	<u>1,992.19</u>
Change in Net Position	80,020.84	1,452.35	81,473.19	(199,740.32)
Net Position - Beginning	<u>144,489.60</u>	<u>10,007.09</u>	<u>154,496.69</u>	<u>670,836.69</u>
NET POSITION - ENDING	<u>\$ 224,510.44</u>	<u>\$ 11,459.44</u>	<u>\$ 235,969.88</u>	<u>\$ 471,096.37</u>

The notes to the financial statements are an integral part of this statement.

MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Enterprise Funds</u>			<u>Internal</u>
	<u>Food</u>	<u>Driver</u>	<u>Total</u>	<u>Service Fund</u>
	<u>Service</u>	<u>Education</u>		
	<u>Fund</u>	<u>Fund</u>		<u>Insurance</u>
				<u>Fund</u>
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 296,225.57	\$ 14,910.00	\$ 311,135.57	\$
Cash Receipts for Interfund Services Provided				875,897.13
Payments to Suppliers	(400,023.95)	(3,869.46)	(403,893.41)	
Payments to Employees	(5,244.70)	(9,600.77)	(14,845.47)	
Other Receipts and (Disbursements)				(1,069,148.82)
Net Cash Provided (Used) by Operating Activities	<u>(109,043.08)</u>	<u>1,439.77</u>	<u>(107,603.31)</u>	<u>(193,251.69)</u>
Cash Flows from Noncapital Financing Activities:				
Operating Subsidies	188,085.45		188,085.45	
Net Cash Flows from Noncapital Financing Activities:	<u>188,085.45</u>		<u>188,085.45</u>	
Cash Flows from Capital and Related Financing Activities:				
Purchase of Capital Assets	(10,849.11)		(10,849.11)	
Activities:	<u>(10,849.11)</u>		<u>(10,849.11)</u>	
Cash Flows from Investing Activities:				
Investment Earnings	567.87	12.58	580.45	1,992.19
Net Cash Flows from Investing Activities:	<u>567.87</u>	<u>12.58</u>	<u>580.45</u>	<u>1,992.19</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 68,761.13</u>	<u>\$ 1,452.35</u>	<u>\$ 70,213.48</u>	<u>\$ (191,259.50)</u>
Cash and Cash Equivalents at Beginning of Year	\$ 133,242.03	\$ 10,007.09	\$ 143,249.12	\$ 750,437.59
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>202,003.16</u>	<u>11,459.44</u>	<u>213,462.60</u>	<u>559,178.09</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 68,761.13</u>	<u>\$ 1,452.35</u>	<u>\$ 70,213.48</u>	<u>\$ (191,259.50)</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET				
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating Income (Loss)	\$(147,279.83)	\$ 1,439.77	\$(145,840.06)	\$ (201,732.51)
Adjustments to Reconcile Operating Income to				
Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	3,437.53		3,437.53	
Value of Commodities Used	33,499.83		33,499.83	
Change in Assets and Liabilities:				
Accounts and Other Payables	(1,866.35)		(1,866.35)	8,480.82
Deposits Payable	<u>3,165.74</u>		<u>3,165.74</u>	
Net Cash Provided (Used) by Operating Activities	<u>\$(109,043.08)</u>	<u>\$ 1,439.77</u>	<u>\$(107,603.31)</u>	<u>\$ (193,251.69)</u>
Noncash Investing, Capital and Financing Activities:				
Value of Commodities Received	\$ 38,647.35			

The notes to the financial statements are an integral part of this statement.

**MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015**

	Private Purpose Trust Funds	Agency Funds
	<u> </u>	<u> </u>
ASSETS:		
Cash and Cash Equivalents	\$ 85,081.83	\$ 122,627.16
Investments	3,500.00	7,587.19
Accounts Receivable		657.52
Beneficial Interest in Assets held by SD Community Foundation	<u>317,219.94</u>	<u> </u>
 TOTAL ASSETS	 <u>405,801.77</u>	 <u>130,871.87</u>
 LIABILITIES:		
Amount Held for Others	<u> </u>	<u>130,871.87</u>
 TOTAL LIABILITIES	 <u> </u>	 <u>130,871.87</u>
 NET POSITION:		
Restricted for Scholarships:		
Non-Expendable	317,219.94	
Expendable	74,291.42	
Restricted for Educational Enrichment:		
Expendable	<u>14,290.41</u>	<u> </u>
 TOTAL NET POSITION	 <u>\$ 405,801.77</u>	 <u>\$</u>

The notes to the financial statements are an integral part of this statement.

**MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Private-Purpose Trust Funds</u>
ADDITIONS:	
Contributions and Earnings	\$ <u>125,991.45</u>
Total Additions	<u>125,991.45</u>
DEDUCTIONS:	
Other Deductions for Scholarships	<u>103,361.90</u>
Total Deductions	<u>103,361.90</u>
Change in Net Position	22,629.55
Net Position - Beginning	<u>383,172.22</u>
NET POSITION - ENDING	<u><u>\$ 405,801.77</u></u>

The notes to the financial statements are an integral part of this statement.

MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity

The reporting entity of Madison Central School District No. 39-2, consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The School District is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the School District (primary government). The School District may also be financially accountable for another organization if that organization is fiscally dependent on the School District.

The School District has included the Madison Central School Educational Foundation, Inc., a blended component unit, as part of the private-purpose trust funds on the statement of fiduciary net position and statement of changes in fiduciary net position. The Madison Central School Educational Foundation is a non-profit corporation established to promote, enhance and enable educational opportunities, in the Madison Central School District. The financial records are maintained by the Madison Central School District and may be obtained from them.

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

b. Basis of Presentation

Government-wide Financial Statements:

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

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

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

Fund Financial Statements:

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

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

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

Governmental Funds:

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

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

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

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

Pension Fund – A fund established by SDCL 13-10-6 for the purpose of paying pensions to retired employees of school districts, which have established such systems, paying the School District's share of retirement plan contributions, and for funding early retirement benefits to qualifying employees. This fund is financed by property taxes. This is a major fund.

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

The Bond Redemption Fund – A fund established by SDCL 13-16-13 to account for the proceeds of a special property tax restricted to use for the payment of principal and interest on general obligation bonded debt. The Bond Redemption Fund is the only debt service fund maintained by the School District. This is a major fund.

Proprietary Funds:

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

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

Food Service Fund – A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

Driver's Education Fund – A fund used to record financial transactions related to driver's education instruction. This fund is financed by user charges. This is a major fund.

Internal Service Funds – Are used to report activities that provide goods or services to other funds, departments, or agencies of the School District and its component units, or to other governments, on a cost-reimbursement basis. Internal Service Funds are never considered to be major funds.

The Health Insurance Fund is the only Internal Service Fund maintained by the School District.

Fiduciary Funds:

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

Private-Purpose Trust Funds – Private-Purpose Trust Funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations or other governments. The amounts accounted for in the District's private-purpose trust funds include amounts originating from donations for the purpose of paying scholarship monies to students, and the Madison Central School Education Foundation Inc. component unit activity.

Agency Funds – Agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The District maintains agency funds for the following purposes: Student Class Funds, Student Club Funds and Clearing Accounts.

c. Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

Government-wide Financial Statements:

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

Fund Financial Statements:

All governmental 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 for the School District Number is 60 days. The revenues which are accrued are primarily amounts due from other governments for grants and taxes at June 30, 2015.

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

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

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

d. Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

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

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged, in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate.

e. Deposits and Investments:

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

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

f. Capital Assets

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

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

Government-Wide Statements

All capital assets are valued at historical cost 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. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

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

The total June 30, 2015 balance of capital assets for governmental activities includes approximately 3.14% for which costs were determined by estimates of original costs. The total June 30, 2015, balance of capital assets for business-type activities are valued at original cost.

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ 5,000.00	NA	NA
Buildings	5,000.00	Straight Line	50 yrs.
Improvements other than Buildings	5,000.00	Straight Line	10-50 yrs.
Machinery and Equipment	5,000.00	Straight Line	2-20 yrs.
Food Service Machinery & Equipment	2,500.00	Straight Line	12 yrs

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements

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

g. Long-Term Liabilities:

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of compensated absences, note payable, capital outlay certificates payable, general obligation bonds payable, and early retirement benefits payable.

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

h. 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.

i. Proprietary Funds Revenue and Expense Classifications:

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

j. Cash and Cash Equivalents:

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

k. Equity Classifications

Government-wide Financial Statements:

Equity is classified as Net Position and is displayed in three components:

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

Fund Financial Statements:

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

l. Application of Net Position:

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

m. Deferred Inflows and Deferred Outflows of Resources:

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

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

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

The Government does not have a formal minimum fund balance policy.

A schedule of fund balances is provided as follows:

MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Pension Fund</u>	<u>Bond Redemption Fund</u>	<u>Total Governmental Funds</u>
Fund Balances:						
Inventory	\$ 6,409.10	\$	\$	\$	\$	\$ 6,409.10
Restricted for:						
Capital Outlay Fund		1,335,210.73				1,335,210.73
Special Education Fund			334,661.79			334,661.79
Pension Fund				534,899.29		534,899.29
Debt Service Requirements					34,739.44	34,739.44
Assigned to:						
Unemployment Subsequent Year's Budget	43,530.69 228,695.00					43,530.69 228,695.00
Unassigned	2,340,527.33					2,340,527.33
Total Fund Balances	<u>\$ 2,619,162.12</u>	<u>\$ 1,335,210.73</u>	<u>\$ 334,661.79</u>	<u>\$ 534,899.29</u>	<u>\$ 34,739.44</u>	<u>\$ 4,858,673.37</u>

o. 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.

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

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

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

Investments - In general, SDCL 4-5-6 permits School District funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires 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.

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.

Concentration of Credit Risk - The School District places no limit on the amount that may be invested in any one issuer. The school district does not have any investments with an external investment pool as of June 30, 2015.

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.

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

NOTE 3 – BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

In 2010, the Madison Central School Educational Foundation (component unit) transferred \$171,288.52 from its investment portfolio to the South Dakota Community Foundation (SDCF) as an irrevocable gift. Additionally the organization has made transfers of \$11,000, \$10,500, and

\$7,000, during the fiscal years 2011, 2013, and 2014, respectively, from its investment portfolio to the South Dakota Community Foundation (SDCF) as irrevocable gifts. The policy of SDCF is to calculate the amount of money available for distribution from funds annually. The calculation is a percentage of the average balance in the fund over the last 16 quarters. The percentage can be up to 5% and is calculated shortly after December 31 each year. SDCF exercises variance power, that is, if the purpose for which the fund was created becomes obsolete or if making distributions from the fund becomes impossible, unnecessary, or inconsistent with community needs, SDCF's board is obliged to select a similar use for the funds, which will most nearly meet the charitable intent of the fund. As of June 30, 2015, this endowment has a value of \$317,219.94 and is reported on the Statement of Fiduciary Net Position.

NOTE 4 – RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year. No allowance for estimated uncollectibles has been established as the District believes all receivables are collectible.

NOTE 5 – INVENTORY

Inventory held for consumption is stated at cost.

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

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

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

NOTE 6 – PROPERTY TAXES

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

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

NOTE 7 – CHANGES IN CAPITAL ASSETS

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

Primary Government

	Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015
<i>Governmental Activities:</i>				
Capital Assets, not being depreciated:				
Land	\$ 117,077.15	\$	\$	\$ 117,077.15
Construction Work in Progress		462,321.00		462,321.00
Total, not being depreciated	<u>117,077.15</u>	<u>462,321.00</u>		<u>579,398.15</u>
Capital Assets, being depreciated:				
Buildings	23,874,496.08	154,700.00		24,029,196.08
Improvements Other than Buildings	7,259,590.64			7,259,590.64
Machinery and Equipment	2,139,684.57	148,251.44	(98,278.75)	2,189,657.26
Total, being depreciated	<u>33,273,771.29</u>	<u>302,951.44</u>	<u>(98,278.75)</u>	<u>33,478,443.98</u>
Less Accumulated Depreciation:				
Buildings	(3,894,872.73)	(426,757.83)		(4,321,630.56)
Improvements Other than Buildings	(1,198,478.21)	(337,477.95)		(1,535,956.16)
Machinery and Equipment	(954,064.42)	(119,920.33)	84,947.96	(989,036.79)
Total Accumulated Depreciation	<u>(6,047,415.36)</u>	<u>(884,156.11)</u>	<u>84,947.96</u>	<u>(6,846,623.51)</u>
Total Capital Assets, being depreciated, net	<u>27,226,355.93</u>	<u>(581,204.67)</u>	<u>(13,330.79)</u>	<u>26,631,820.47</u>
Governmental activities capital assets, net	<u>\$ 27,343,433.08</u>	<u>\$ (118,883.67)</u>	<u>\$ (13,330.79)</u>	<u>\$ 27,211,218.62</u>

**Depreciation expense was charged to functions as follows:

Governmental Activities:		
Instruction		\$ 485,488.45
Support Services		358,461.29
Cocurricular		40,206.37
Total Depreciation expense-governmental activities		<u>\$ 884,156.11</u>

Business - Type Activities:

	Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015
Capital Assets, being depreciated:				
Machinery and Equipment	\$ 103,365.36	\$ 10,849.11	\$ (3,705.50)	\$ 110,508.97
Less Accumulated Depreciation:				
Machinery and Equipment	(83,230.79)	(3,437.53)	3,705.50	(82,962.82)
Business-type activity capital assets, net	<u>\$ 20,134.57</u>	<u>\$ 7,411.58</u>	<u>\$</u>	<u>\$ 27,546.15</u>

**Depreciation expense was charged to functions as follows:

Business-type Activity		
Food Service		<u>\$ 3,437.53</u>

Construction Work in Progress at June 30, 2015 is composed of the following:

<u>Project Name</u>	<u>Project Authorization</u>	<u>Expended Thru 6/30/2015</u>	<u>Committed</u>
Bus Barn Construction	\$ 742,000.00	\$ 462,321.00	\$ 279,679.00

NOTE 8 – OPERATING LEASE

An operating lease exists with Pitney Bowes, Inc. for a postage meter. The term of the lease is for sixty months payable quarterly from the Capital Outlay Fund. This agreement calls for a cost of \$89.77 per month.

<u>Fiscal Year</u>	<u>Postage Meter</u>
2016	\$ 538.62

NOTE 9 – LONG -TERM LIABILITIES

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

<u>Governmental Activities</u>	<u>Note Payables</u>	<u>Capital Outlay Certificates</u>	<u>General Obligation Bonds</u>	<u>Copier Lease</u>	<u>Early Retirement</u>	<u>Compensated Absences</u>	<u>Totals</u>
Long-Term Liabilities Payable, July 1, 2014	\$ 2,073,504	\$ 7,695,000	\$ 6,105,000	\$	\$ 35,023	\$ 10,132	\$ 15,918,659
Additions				28,150	38,702	8,358	75,210
Retired Amounts	<u>(14,694)</u>	<u>(725,000)</u>	<u>(220,000)</u>	<u>(7,038)</u>	<u>(54,374)</u>	<u>(7,704)</u>	<u>(1,028,810)</u>
Long-Term Liabilities Payable, June 30, 2015	<u>\$ 2,058,810</u>	<u>\$ 6,970,000</u>	<u>\$ 5,885,000</u>	<u>\$ 21,112</u>	<u>\$ 19,351</u>	<u>\$ 10,786</u>	<u>\$ 14,965,059</u>
Due within One Year	<u>\$ 240,541</u>	<u>\$ 750,000</u>	<u>\$ 225,000</u>	<u>\$ 7,038</u>	<u>\$ 19,351</u>	<u>\$ 10,786</u>	<u>\$ 1,252,715</u>

Compensated activities for governmental activities typically have been liquidated from the General Fund. Early Retirement Benefits payable for governmental activities typically have been liquidated from the Pension Fund.

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

Capital Outlay Certificates:

Series 2007, Maturity Dates - November 1, 2008 to November 1, 2022, Interest Rate from 3.75% to 4.00%, Payments made from the Capital Outlay Fund. \$ 205,000.00

Series 2009 Refunding Certificates, Maturity Dates - July 1, 2010 to July 1, 2016, Interest Rate from 1.4% to 3.15%, Payments made from the Capital Outlay Fund. 575,000.00

Series 2011 Refunding Certificates, Maturity Dates - July 1, 2012 to July 1, 2016, Interest Rate from 0.55% to 1.20%, Payments made from the Capital Outlay Fund. 155,000.00

Series 2012, Maturity Dates - September 27, 2012 to July 1, 2032, Interest Rate from 1.10% to 3.00%, Payments made from the Capital Outlay Fund. 6,035,000.00

General Obligation Bonds Payable:

Series 2011 General Obligation Bonds, Maturity Dates - December 15, 2013 to December 15, 2031, Interest Rate from 0.50% to 3.80%, Payments made from the Bond Redemption Fund. 5,885,000.00

Compensated Absences:

Vacation pay which is payable from the General Fund. 10,785.52

Notes Payable:

2008, Maturity Date-September 5, 2023, Interest Rate of 3.00%, Payments made from the Capital Outlay Fund. 2,058,810.11

Early Retirement:

Payable to individuals who qualify for the School District's early retirement plan. Early retirement is payable in two equal installments, one in June of the year of retirement, and one in the following year. Payments made from the Pension Fund. 19,350.75

Copier (Capital Acquisition) Lease:

Capital lease financing for the purchase of three copiers, due in 4 installments of \$7,037.52, at interest rate of 0.00%, final payment in June 2018. Payments from Capital Outlay Fund. 21,112.32

The purchase price at the commencement of the financing (capital acquisition) leases are:

	Copier Lease
Principal	\$28,149.84
Interest	<u> </u>
TOTAL	<u><u>\$28,149.84</u></u>

The annual debt service requirements to maturity for all debt outstanding, other than compensated absences, as of June 30, 2015, are as follows:

Annual Requirements to Maturity for Long Term Debt
June 30, 2015

Year	Capital Outlay		General		Notes		Copier	Early	Total	
	Certificates		Obligation Bonds		Payable		(Capital Acquisition) Lease	Retirement		
Ending	Principal	Interest	Principal	Interest	Principal	Interest	Principal		Principal	Interest
2016	\$ 750,000	\$ 171,315	\$ 225,000	\$ 166,900	\$ 240,541	\$ 699	\$ 7,038	\$ 19,351	\$ 1,241,930	\$ 338,914
2017	330,000	151,316	235,000	164,135	240,469	239	7,037		812,506	315,690
2018	330,000	146,974	250,000	160,732	225,400		7,037		812,437	307,706
2019	335,000	141,869	260,000	156,583	225,400				820,400	298,452
2020	340,000	135,760	270,000	151,607	225,400				835,400	287,367
2021-2025	1,845,000	564,625	1,580,000	650,896	901,600				4,326,600	1,215,521
2026-2030	2,110,000	313,160	2,065,000	374,552					4,175,000	687,712
2031-2035	930,000	41,240	1,000,000	38,328					1,930,000	79,568
Total	\$ 6,970,000	\$ 1,666,259	\$ 5,885,000	\$ 1,863,733	\$ 2,058,810	\$ 938	\$ 21,112	\$ 19,351	\$ 14,954,273	\$ 3,530,930

NOTE 10 – PENSION PLAN

Plan Information:

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and 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 SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

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 one each July 1 is indexed to the consumer price index (CPI) based on SDRS funded status:

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2015, 2014, and 2013 were \$330,735.90, \$323,136.79, and \$312,877.63, respectively, equal to the required contributions each year.

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

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

Proportionate share of net position restricted for pension benefits	\$	30,909,660.65
Less proportionate share of total pension assets		<u>28,810,293.98</u>
Proportionate share of net pension asset	\$	<u>2,099,366.68</u>

At June 30 2015, the School District reported an asset of \$2,099,366.68 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014 and the total pension asset used to calculate the net pension asset was based on a projection of the School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2014, the School District's proportion was .2913929%, which is an increase of .2913929% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the School District recognized pension revenue of \$88,676.47 . At June 30, 2015 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 177,634.81	\$
Changes in assumption	1,370,403.98	
Net difference between projected and actual earnings on pension plan investments		2,431,420.53
District contributions subsequent to the measurement date	<u>311,052.00</u>	<u></u>
TOTAL	<u>\$ 1,859,090.79</u>	<u>\$ 2,431,420.53</u>

\$311,052.00 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended June 30:

2015	\$	(166,818.44)
2016		(166,818.44)
2017		(166,818.44)
2018		<u>(382,926.42)</u>
TOTAL	\$	<u>(883,381.74)</u>

Actuarial Assumptions:

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

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

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

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

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	64.0%	4.7%
Fixed Income	26.0%	1.8%
Real Estate	8.0%	5.5%
Cash	<u>2.0%</u>	0.8%
Total	<u>100%</u>	

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 7.25 percent through 2016 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these

assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension 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 2016 and 7.50 percent thereafter, as well as what the School's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net pension liability (asset)	\$ 2,074,569.14	\$ (2,099,366.68)	\$ (5,503,646.99)

Pension Plan Fiduciary Net Position:

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

NOTE 11 – RESTRICTED NET POSITION

Restricted net position for the fiscal year ended June 30, 2015 was as follows:

<u>Major Purpose</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay	Law	\$ 1,327,325.84
Special Education	Law	340,743.60
Pension	Law	516,866.39
Bond Redemption	Debt Covenants	37,035.99
SDRS Pension Purposes	Law	1,527,036.93
Total Restricted Net Position		<u>\$ 3,749,008.75</u>

NOTE 12 – JOINT VENTURES

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

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

Baltic	8.00 %
Chester	6.00 %
Colman-Egan	5.00 %
Dell Rapids	15.00 %
Flandreau	14.00 %
Garretson	7.00 %
Howard	9.00 %
Madison Central	15.00 %
Oldham-Ramona	4.00 %
Rutland	3.00 %
Tri-Valley	14.00 %

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

The School District retains no equity in the Net Position of the co-op, but does have a responsibility to fund deficits of the co-op in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from Prairie Lakes Educational Cooperative.

At June 30, 2015, this joint venture had total assets of \$148,202.54, total liabilities of \$94,406.65, and net position of \$53,795.89.

NOTE 13 – RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2015, the School District managed its risks as follows:

Employee Health Insurance

The School District has elected to be self-insured and retain risk for liabilities for all claims up to \$40,000 per individual per year for employee medical costs. The School District established a Medical Self-Insurance Fund (an internal service fund) to account for and finance its health risk of loss. The school handles the risk of loss through "premiums" collected from the employees and the school through the purchase of commercial reinsurance to cover losses on excess of \$40,000 per individual per year. The coverage provides three options for deductibles of \$500 per person up to \$1,000 maximum per family, \$1,250 per person up to \$2,500 maximum per family or \$2,500 per person up to \$5,000 maximum per family. The plan allows a maximum lifetime health benefit of \$1,000,000 per person. Part of the medical package also includes a \$10,000 term life insurance policy, which includes accidental death and disability for the employee only.

Wellmark Blue Cross Blue Shield has been hired as the third party to administer the self-insurance plan.

The General and Special Education Funds participate in the program and make payments to the Medical Self-Insured Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a reserve for losses. That reserve was \$471,096 at June 30, 2015, and is reported as unrestricted Net Position of the Medical Self-Insurance Internal Service Fund.

The liability of \$84,000 reported in the fund at June 30, 2015, is based on the requirements of Government Accounting Standards Board Statements No. 10, which requires that a liability for claims be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Liability Insurance

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

Worker's Compensation

The School District purchases liability insurance for worker's compensation from a commercial

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

Unemployment Benefits

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

The School District has Assigned Fund Balance in the General Fund in the amount of \$43,530.69 for the payment of future unemployment benefits.

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

NOTE 14 – EARLY RETIREMENT PLAN

The district maintains an early retirement plan for certified teachers and administrators. The plan is available to teachers who are at least age 52 but less than age 63 as of the first day of the following school year and have at least 12 years of service with the district. The plan is available to administrators who are at least age 52 but not later than age 62 and have at least 12 years of continuous, satisfactory service with the district. Under the plan, the district will pay 75% of the employee's current annual salary, payable in two installments following retirement for teachers and one payment for administrators in the year following the final year of employment. These amounts are shown as liabilities until the amount approved in the early retirement agreement has been paid for. The School District paid \$54,374.24 for such benefits to three participating employees during the year.

NOTE 15 – SIGNIFICANT CONTINGENCIES – LITIGATION

At June 30, 2015, the School District was not involved in any litigation.

NOTE 16 – PERIOD ADJUSTMENT

The School District implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date-An Amendment of GASB Statement No. 68*. As a result, beginning net position has been restated to reflect the related net pension asset and deferred outflows of resources as of July 1, 2014 as follows:

Net Position July 1, 2014, as previously reported	\$ 394,416.11
Restatement for pension accounting:	
Net Pension Asset	821,568.82
Pension Related Deferred Outflows of Resources	<u>311,052.00</u>
Net Position July 1, 2014, as restated	<u>\$ 1,527,036.93</u>

NOTE 17 – CONDUIT DEBT

During fiscal year 2015, the School District cosigned a note with First Bank and Trust of Madison, SD. This note was issued to the Booster Club to pay for scoreboards for the District. The note was secured by these scoreboards, which are owned by the District. The amount due as of June 30, 2015 was \$58,820.00. This note was subsequently paid off early during the fall of 2015.

**REQUIRED SUPPLEMENTARY INFORMATION
MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance
	<u>Original</u>	<u>Final</u>	(Budgetary Basis)	Positive (Negative)
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 3,424,622.00	\$ 3,424,622.00	\$3,466,535.01	\$ 41,913.01
Prior Years' Ad Valorem Taxes	42,000.00	42,000.00	34,701.43	(7,298.57)
Tax Deed Revenue			13.78	13.78
Utility Taxes	188,500.00	188,500.00	175,905.27	(12,594.73)
Penalties and Interest on Taxes	16,000.00	16,000.00	9,495.18	(6,504.82)
Tuition and Fees:				
Regular Day School Transportation	2,000.00	2,000.00		(2,000.00)
Earnings on Investments and Deposits	16,000.00	16,000.00	7,451.73	(8,548.27)
Cocurricular Activities:				
Admissions	52,000.00	52,000.00	53,372.75	1,372.75
Rentals	1,500.00	1,500.00		(1,500.00)
Other Pupil Activity Income	12,000.00	12,000.00	10,789.79	(1,210.21)
Other Revenue from Local Sources:				
Rentals	19,000.00	19,000.00	26,960.98	7,960.98
Contributions and Donations	3,000.00	3,000.00		(3,000.00)
Services provided other LEA's	11,000.00	11,000.00	11,000.00	0.00
Refund of Prior Years Expenditures			2,981.00	2,981.00
Medicaid Services	48,000.00	48,000.00	16,084.40	(31,915.60)
Other	16,160.00	16,160.00	22,864.56	6,704.56
Revenue from Intermediate Sources:				
County Sources:				
County Apportionment	103,000.00	103,000.00	123,804.55	20,804.55
Revenue in Lieu of Taxes	10,000.00	10,000.00	9,314.99	(685.01)
Revenue from State Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	2,389,769.00	2,389,769.00	2,352,193.16	(37,575.84)
Restricted Grants-in-Aid			18,938.00	18,938.00
Other State Revenue	154,500.00	154,500.00	113,133.73	(41,366.27)
Revenue from Federal Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid Received from Federal Government Through an Intermediate Source	40.00	40.00	3,420.03	3,380.03
Restricted Grants-in-Aid Received from Federal Government Through the State	<u>272,310.00</u>	<u>272,310.00</u>	<u>273,862.00</u>	<u>1,552.00</u>
Total Revenue	<u>6,781,401.00</u>	<u>6,781,401.00</u>	<u>6,732,822.34</u>	<u>(48,578.66)</u>

**REQUIRED SUPPLEMENTARY INFORMATION
MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance
	<u>Original</u>	<u>Final</u>	(Budgetary Basis)	Positive (Negative)
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	1,511,722.00	1,511,722.00	1,434,022.45	77,699.55
Middle/Junior High	902,397.00	902,397.00	887,783.19	14,613.81
High School	1,347,146.00	1,347,146.00	1,324,678.03	22,467.97
Other Regular Programs	14,538.00	14,538.00	7,533.11	7,004.89
Special Programs:				
Educationally Deprived	167,611.00	167,611.00	148,638.50	18,972.50
Support Services:				
Pupils:				
Guidance	273,770.00	273,770.00	266,541.49	7,228.51
Health	19,338.00	19,338.00	8,167.49	11,170.51
Support Services - Instructional Staff:				
Improvement of Instruction	15,450.00	15,450.00	34,388.00	(18,938.00)
Educational Media	220,889.00	220,889.00	193,924.14	26,964.86
Support Services - General Administration:				
Board of Education	49,110.00	62,610.00	54,893.62	7,716.38
Executive Administration	177,121.00	177,121.00	170,256.65	6,864.35
Support Services - School Administration:				
Office of the Principal	485,363.00	485,363.00	469,735.63	15,627.37
Other	3,250.00	3,250.00	479.39	2,770.61
Support Services - Business:				
Fiscal Services	142,793.00	142,793.00	141,082.56	1,710.44
Operation and Maintenance of Plant	905,914.00	916,914.00	912,972.07	3,941.93
Pupil Transportation	279,381.00	279,381.00	223,830.00	55,551.00
Internal Services	32,400.00	37,900.00	38,906.07	(1,006.07)
Support Services - Central:				
Information	1,600.00	1,600.00	993.30	606.70
Staff	1,500.00	1,500.00	532.50	967.50
Community Services:				
Nonpublic School	12,058.00	12,058.00	11,867.38	190.62
Other	19,350.00	19,350.00	19,290.88	59.12
Nonprogrammed Charges:				
Payment to State Unemployment	1,000.00	1,000.00	486.00	514.00
Cocurricular Activities:				
Male Activities	87,547.00	87,547.00	85,178.92	2,368.08
Female Activities	74,728.00	74,728.00	72,181.23	2,546.77
Transportation	37,089.00	37,089.00	31,411.91	5,677.09
Combined Activities	224,701.00	224,701.00	215,219.20	9,481.80
Contingencies	30,000.00			
Total Expenditures	<u>7,037,766.00</u>	<u>7,037,766.00</u>	<u>6,754,993.71</u>	<u>282,772.29</u>
Net Change in Fund Balance	(256,365.00)	(256,365.00)	(22,171.37)	234,193.63
Fund Balance - Beginning	<u>2,641,333.49</u>	<u>2,641,333.49</u>	<u>2,641,333.49</u>	
FUND BALANCE - ENDING	<u>\$ 2,384,968.49</u>	<u>\$ 2,384,968.49</u>	<u>\$ 2,619,162.12</u>	<u>\$ 234,193.63</u>

**REQUIRED SUPPLEMENTARY INFORMATION
MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL OUTLAY FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$1,917,090.00	\$1,917,090.00	\$2,043,015.01	\$ 125,925.01
Prior Years' Ad Valorem Taxes	14,000.00	14,000.00	15,932.43	1,932.43
Tax Deed Revenue			9.16	9.16
Penalties and Interest on Taxes	5,500.00	5,500.00	4,932.94	(567.06)
Investment Earnings	2,500.00	2,500.00	4,553.43	2,053.43
Other Revenue from Local Sources:				
Other	3,300.00	3,300.00	3,198.77	(101.23)
Revenue from Intermediate Sources:				
Revenue in Lieu of Taxes			2,843.89	2,843.89
Revenue from Federal Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid Received from Federal Government Through an Intermediate Source			11,619.55	11,619.55
Total Revenue	<u>1,942,390.00</u>	<u>1,942,390.00</u>	<u>2,109,812.58</u>	<u>167,422.58</u>
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	120,440.00	120,440.00	127,966.50	(7,526.50)
Middle/Junior High	63,170.00	63,170.00	62,228.59	941.41
High School	173,500.00	173,500.00	174,348.14	(848.14)
Support Services - Instructional Staff:				
Educational Media	59,100.00	59,100.00	56,773.54	2,326.46
Support Services - Business:				
Facilities Acquisition and Construction		616,600.00	462,321.00	154,279.00
Operation and Maintenance of Plant	301,600.00	301,600.00	266,002.00	35,598.00
Pupil Transportation	36,500.00	36,500.00	32,627.00	3,873.00
Internal Services	20,500.00	20,500.00	14,287.88	6,212.12
Community Services				
Nonpublic School			9,379.24	(9,379.24)
Debt Services	1,158,346.00	1,158,346.00	939,982.52	218,363.48
Cocurricular Activities:				
Combined Activities	10,000.00	10,000.00	9,964.60	35.40
Total Expenditures	<u>1,943,156.00</u>	<u>2,559,756.00</u>	<u>2,155,881.01</u>	<u>403,874.99</u>
Excess Revenue Over/(Under) Expenditures	(766.00)	(617,366.00)	(46,068.43)	571,297.57
Other Financing Sources:				
General Long-Term Debt Issued			28,149.84	28,149.84
Compensation for Loss on General Capital Assets			86,926.00	86,926.00
Total Other Financing Sources(Uses):			<u>115,075.84</u>	<u>115,075.84</u>
Net Change in Fund Balance	(766.00)	(617,366.00)	69,007.41	686,373.41
Fund Balance - Beginning	1,266,203.32	1,266,203.32	1,266,203.32	
FUND BALANCE - ENDING	<u>\$1,265,437.32</u>	<u>\$ 648,837.32</u>	<u>\$1,335,210.73</u>	<u>\$ 686,373.41</u>

**REQUIRED SUPPLEMENTARY INFORMATION
MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
	Original	Final		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 907,476.00	\$ 907,476.00	\$ 939,474.38	\$ 31,998.38
Prior Years' Ad Valorem Taxes	8,000.00	8,000.00	7,354.77	(645.23)
Tax Deed Revenue			4.28	4.28
Penalties and Interest on Taxes	2,900.00	2,900.00	2,286.49	(613.51)
Investment Earnings	1,500.00	1,500.00	856.32	(643.68)
Other Revenue From Local Sources:				
Medicaid Services	40,500.00	40,500.00	16,438.31	(24,061.69)
Other Federal Revenue			158.86	158.86
Revenue from Intermediate Sources:				
Revenue in Lieu of Taxes	1,400.00	1,400.00	1,309.68	(90.32)
Revenue from State Sources:				
Restricted Grant in Aid	334,314.00	334,314.00	309,844.00	(24,470.00)
Revenue from Federal Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid				
Received from Federal Government Through an Intermediate Source			4,054.75	4,054.75
Restricted Grants-in-Aid Received from Federal Government through State	244,739.00	244,739.00	241,376.12	(3,362.88)
Total Revenue	<u>1,540,829.00</u>	<u>1,540,829.00</u>	<u>1,523,157.96</u>	<u>(17,671.04)</u>
Expenditures:				
Special Programs:				
Programs for Special Education	1,189,178.00	1,189,178.00	1,090,353.12	98,824.88
Support Services:				
Pupils:				
Health	4,773.00	4,773.00	2,297.05	2,475.95
Psychological	49,500.00	49,500.00	49,050.45	449.55
Speech Pathology	120,934.00	120,934.00	111,298.36	9,635.64
Student Therapy Services	106,000.00	106,000.00	129,352.97	(23,352.97)
Support Services - Special Education:				
Administrative Costs	104,430.00	104,430.00	101,928.18	2,501.82
Transportation Costs	24,135.00	24,135.00	30,407.15	(6,272.15)
Autism/Preschool	19,953.00	19,953.00		19,953.00
Total Expenditures	<u>1,618,903.00</u>	<u>1,618,903.00</u>	<u>1,514,687.28</u>	<u>104,215.72</u>
Net Change in Fund Balances	(78,074.00)	(78,074.00)	8,470.68	86,544.68
Fund Balance - Beginning	326,191.11	326,191.11	326,191.11	
FUND BALANCE - ENDING	<u>\$ 248,117.11</u>	<u>\$ 248,117.11</u>	<u>\$ 334,661.79</u>	<u>\$ 86,544.68</u>

**REQUIRED SUPPLEMENTARY INFORMATION
MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
PENSION FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		Actual	Variance
	<u>Original</u>	<u>Final</u>	Amounts (Budgetary Basis)	
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 195,981.00	\$ 195,981.00	\$ 204,425.92	\$ 8,444.92
Prior Years' Ad Valorem Taxes	1,400.00	1,400.00	1,594.26	194.26
Tax Deed Revenue			0.92	0.92
Penalties and Interest on Taxes	500.00	500.00	494.66	(5.34)
Investment Earnings	1,500.00	1,500.00	1,546.57	46.57
Revenue from Intermediate Sources:				
Revenue in Lieu of Taxes	300.00	300.00	284.39	(15.61)
Revenue from Federal Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid				
Received from Federal Government Through an Intermediate Source			882.68	882.68
Total Revenue	<u>199,681.00</u>	<u>199,681.00</u>	<u>209,229.40</u>	<u>9,548.40</u>
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	41,400.00	41,400.00	31,000.00	10,400.00
Middle/Junior High	20,700.00	20,700.00	18,000.00	2,700.00
High School	27,900.00	27,900.00	26,000.00	1,900.00
Nonprogrammed Charges:				
Early Retirement Payments	129,413.00	129,413.00	54,374.24	75,038.76
Total Expenditures	<u>219,413.00</u>	<u>219,413.00</u>	<u>129,374.24</u>	<u>90,038.76</u>
Net Change in Fund Balances	(19,732.00)	(19,732.00)	79,855.16	99,587.16
Fund Balance - Beginning	<u>455,044.13</u>	<u>455,044.13</u>	<u>455,044.13</u>	
FUND BALANCE - ENDING	<u>\$435,312.13</u>	<u>\$435,312.13</u>	<u>\$ 534,899.29</u>	<u>\$ 99,587.16</u>

Schedule of Required Supplementary Information
MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY (ASSET)
South Dakota Retirement System

	2015
District's proportion of the net pension liability (asset)	0.2913929%
District's proportionate share of net pension liability (asset)	\$ (2,099,367)
District's covered-employee payroll	\$ 5,095,643
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-41.20%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107.3%

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

Schedule of Required Supplementary Information
MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
SCHEDULE OF THE SCHOOL DISTRICT CONTRIBUTIONS
South Dakota Retirement System

	<u>2014</u>	<u>2015</u>
Contractually required contribution	<u>\$ 305,740</u>	<u>\$ 311,052</u>
Contributions in relation to the contractually required contribution	<u>\$ 305,740</u>	<u>\$ 311,052</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>
District's covered-employee payroll	\$5,095,643	\$5,184,615
Contributions as a percentage of covered-employee payroll	6.00%	6.00%

MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
Schedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with legally required budget.

NOTE 1 – BUDGETS AND BUDGETARY ACCOUNTING

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

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

NOTE 2 – GAAP/BUDGETARY ACCOUNTING BASIS DIFFERENCES

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

**MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

<u>Federal Grantor/Pass-Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures Amount 2015</u>
U.S. Department of Agriculture:			
Pass-Through the SD Department of Education:			
Child Nutrition Cluster:			
Non-Cash Assistance (Commodities):			
National School Lunch Program	10.555	N/A	\$ 33,499.83
Cash Assistance: (Note 2),			
National School Lunch Program	10.555	N/A	159,611.08
School Breakfast Program	10.553	N/A	<u>25,348.34</u>
Total U.S. Department of Agriculture			<u>218,459.25</u>
US Department of the Interior:			
Pass-Through McCook County and Lake County:			
Federal Wetlands P.I.L.T. (Note 2)	15.226	N/A	<u>21,718.97</u>
Total U.S. Department of Interior			<u>21,718.97</u>
U.S. Department of Education:			
Pass-Through the SD Department of Education:			
Title I Grants to Local Educational Agencies	84.010	N/A	159,830.00
Vocational Education - Basic Grants to States	84.048	N/A	5,475.00
Improving Teacher Quality State Grants	84.367	N/A	79,237.00
Special Education Cluster: (Note 3)			
Special Education - Grants to States	84.027	N/A	238,604.12
Special Education - Preschool Grants	84.173	N/A	<u>2,772.00</u>
Total Special Education Cluster			<u>241,376.12</u>
Total U.S. Department of Education			<u>485,918.12</u>
National Science Foundation:			
Pass-Through the SD Department of Education:			
EPSCoR-STEM Enhancement through Business Partnerships	47.081	N/A	<u>29,320.00</u>
Total National Science Foundation			<u>29,320.00</u>
U.S. Department of Homeland Security:			
Pass-Through the SD Department of			
Public Safety-Office of Homeland Security:			
Homeland Security Grant	97.067	N/A	<u>23,707.40</u>
Grand Total			<u>\$ 779,123.74</u>

MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015
(continued)

NOTE 1: The accompanying Schedule of Expenditures of Federal awards includes the federal grant activity of Madison School District, and is presented on the modified accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of State, Local Governments, and Non-Profit Organizations." Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2: Federal reimbursements are not based on specific expenditures. Therefore, the amounts reported here represent cash received rather than federal expenditures.

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

QUAM & BERGLIN, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
110 WEST MAIN – P.O. BOX 426
ELK POINT, SOUTH DAKOTA 57025

(605) 356-3374

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

School Board
Madison Central School District No. 39-2
Lake 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Madison Central School District No. 39-2, Lake County, South Dakota (School District), as of June 30, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated November 11, 2015, which was qualified because the long-term financial obligations and commitments related to other postemployment benefits was not recorded.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charges with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that we not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Current Audit Findings and Questioned Costs that we consider to be a significant deficiency.

Compliance and Other Matters

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

School District's Response to Finding

The School District's response to the finding identified in our audit is described in the accompanying Corrective Action Plan as listed in the Table of Contents. The School District's response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Quam & Berglin, P.C.

Quam and Berglin, P.C.
Elk Point, SD

November 11, 2015

QUAM & BERGLIN, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
110 WEST MAIN – P.O. BOX 426
ELK POINT, SOUTH DAKOTA 57025

(605) 356-3374

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

School Board
Madison Central School District No. 39-2
Lake County, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the Madison Central School District No. 39-2, South Dakota's (School District) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the major federal programs for the year ended June 30, 2015. The Madison Central District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinion on Each Major Federal Program

In our opinion, Madison Central School District No. 39-2, Lake County, South Dakota complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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

Quam & Berglin, P.C.

Quam and Berglin, P.C.

Elk Point, SD
November 11, 2015

**MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

PRIOR FEDERAL AUDIT FINDING:

The prior audit report contained no written federal audit findings.

PRIOR OTHER AUDIT FINDING NUMBER 2014-01:

A Significant Deficiency in internal controls was reported due to a lack of proper segregation of duties for revenues.

Corrective Action Plan:

This audit finding has not been corrected and is restated as finding number 2015-001 on the Schedule of Current Audit Findings and Questioned Costs.

**MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

SUMMARY OF INDEPENDENT AUDITOR'S RESULTS:

Financial Statements

- a. An unmodified opinion was issued on the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information. A qualified opinion for the lack of reporting long-term financial obligations and commitments related to other postemployment benefits was issued for the statements of the governmental activities.
- b. A significant deficiency was disclosed by our audit of the financial statements for a lack of segregation of duties for revenue as discussed in finding number 2015-001.
- c. Our audit did not disclose any noncompliance which was material to the financial statements.

Federal Awards

- d. An unmodified opinion was issued on compliance with the requirements applicable to major programs.
- e. Our audit did not disclose any audit findings that need to be disclosed in accordance with the Office of Management and Budget Circular A-133, Section .510(a).
- f. The federal awards tested as major programs included:

	<u>CFDA#</u>
Special Education Cluster:	
Special Education - Grants to States	84.027
Special Education - Preschool Grants	84.173

- g. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$300,000.
- h. The Madison Central School District did qualify as a low-risk entity.

**MADISON CENTRAL SCHOOL DISTRICT NO. 39-2
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

CURRENT FEDERAL AUDIT FINDINGS:

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

CURRENT OTHER AUDIT FINDINGS:

Internal Control Related Finding – Significant Deficiency:

FINDING NUMBER 2015-001

There is a significant deficiency resulting from the lack of segregation of duties for revenues.

Criteria:

In order to achieve proper internal control, it is necessary to have segregation of duties provided between performance, review and record keeping of the tasks related to the revenues. Lack of this segregation of duties could adversely affect the organization's ability to record, process, summarize and report financial data consistent with management assertions.

Condition, Cause and Effect:

A significant deficiency in internal controls was reported due to a lack of proper segregation of duties for revenues resulting in decreased reliability of reported financial data and increased potential for the loss of public assets.

Recommendation:

We recommend that district officials be cognizant of this lack of segregation of duties and attempt to provide compensating controls whenever and wherever possible and practical.

Corrective Action Plan:

Mitchell Brooks, Business Manager for Madison Central School District No. 39-2, is the contact person responsible for the corrective action plan for this comment. This comment is a result of the size of the entity, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The Board of Education has prepared a response to the finding which is on page 62.

Madison Central School District #39-2

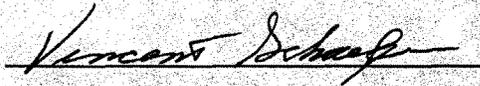
Vince Schaefer
Superintendent
Email: vince.schaefer@k12.sd.us
www.madison.k12.sd.us/superintendent

800 NE 9th Street, Madison, SD 57042
Telephone: (605) 256-7700
Fax: (605) 256-7711

CORRECTIVE PLAN OF ACTION FOR THE YEAR ENDED JUNE 30, 2015

Madison Central School District No. 39-2 has considered the lack of segregation of duties for the revenues. At this time it is not cost efficient for Madison Central School District No. 39-2 to hire the additional staff needed to achieve segregation of duties. Alternate procedures have been implemented by Madison Central School District No. 39-2 to decrease the likelihood that financial data is adversely affected.

Madison Central School District No.39-2 will continue to monitor the necessity to have segregation of duties for revenues and implement such segregation as budget dollars and board authority allows.



School Superintendent



Business Manager

*Madison Central School District Mission Statement:
To educate all students to fully achieve their personal and academic potential as life long learners skilled in communication,
problem solving and global responsibility.*