



Financial Statements  
June 30, 2015

# McLaughlin School District No. 15-2

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McLaughlin School District No. 15-2  
School District Officials  
June 30, 2015

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School Board Chairman	Paul Guggolz
School Board Vice-Chairman	Juliana Taken Alive
School Board Members	Wilfred Jones Coby Schmeichel Christopher Reid
Superintendent	Scott Lepke



## Independent Auditor's Report

Members of the School Board  
McLaughlin School District No. 15-2  
Corson County, South Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of McLaughlin School District No. 15-2 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

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

### Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

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

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

### **Basis for Qualified Opinion on Governmental Activities**

Management has not adopted a methodology for recording capital assets and other post-employment benefits in the governmental activities that is consistent with accounting principles generally accepted in the United States of America. The amount by which these departures would affect the assets, liabilities, net position, and expenses of the governmental activities is not reasonably determinable.

### **Qualified Opinion**

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the McLaughlin School District No. 15-2, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Unmodified Opinions**

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of McLaughlin School District No. 15-2, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Correction of Error**

As discussed in Note 9 to the financial statements, an error resulting in the understatement of amounts previously reported for receivables and revenue as of June 30, 2014, was discovered by management of the School District during the current year. Accordingly, an adjustment has been made to beginning fund balance/net position as of July 1, 2014, to correct the error. Our opinions are not modified with respect to this matter.

### **Adoption of New Accounting Standard**

As described in Notes 1 and 9 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*, which has resulted in a restatement of the net position as of July 1, 2014. Our opinions are not modified with respect to this matter.

### **Other Matters**

#### **Required Supplementary Information**

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

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinions on the basic financial statements are not affected by the missing information.

#### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise McLaughlin School District No. 15-2's financial statements. The school district officials listing is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The school district officials listing has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2016 on our consideration of McLaughlin School District No. 15-2's internal control over financial reporting and on 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 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 McLaughlin School District No. 15-2's internal control over financial reporting and compliance.



Bismarck, North Dakota  
February 2, 2016

McLaughlin School District No. 15-2  
Statement of Net Position  
June 30, 2015

	Governmental Activities
<b>Assets</b>	
Cash	\$ 3,417,122
Savings certificates	30,000
Taxes receivable	289,749
Restitution receivable, net	140,400
Due from other government	259,720
Inventories	3,946
Other assets	10,000
Restricted cash	328,527
Net pension asset	1,251,027
Capital assets	
Land, improvements and construction in progress	12,438,985
Other capital assets, net of depreciation	3,805,697
Total assets	21,975,173
 <b>Deferred Outflows of Resources</b>	
Pension plans	1,125,279
 <b>Liabilities</b>	
Accounts payable	166,769
Other current liabilities	479,159
Noncurrent liabilities	
Due within one year	
Early retirement payable	48,082
Compensated absences payable	50,000
Energy loan	61,322
Bond payable	155,000
Due in more than one year	
Early retirement payable	170,775
Compensated absences payable	67,262
Energy loan	490,577
Bond discount	(66,000)
Bond payable	3,550,000
Total Liabilities	5,172,946
 <b>Deferred Inflow of Resources</b>	
Pension plans	1,448,900
Taxes levied for future period	328,536
Total Deferred Inflows of Resources	1,777,436
 <b>Net Position</b>	
Net investment in capital assets	11,987,783
Restricted for	
Debt service	328,527
SDRS net pension asset	1,251,027
Unrestricted	2,582,733
Total Net Position	\$ 16,150,070

See Notes to Financial Statements

McLaughlin School District No. 15-2  
Statement of Activities  
Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Primary Government						
Governmental activities						
Instruction	\$ 3,738,411	\$ -	\$ 1,045,552	\$ 86,219	\$ (2,606,640)	\$ (2,606,640)
Support services	3,427,128	-	207,359	-	(3,219,769)	(3,219,769)
Cocurricular activities	234,046	14,625	-	-	(219,421)	(219,421)
Interest and other fiscal charges	178,297	-	-	-	(178,297)	(178,297)
<b>Total Governmental Activities</b>	<b>\$ 7,577,882</b>	<b>\$ 14,625</b>	<b>\$ 1,252,911</b>	<b>\$ 86,219</b>	<b>\$ (6,224,127)</b>	<b>(6,224,127)</b>
General revenues						
Taxes						
Property taxes						
						704,777
Revenue from county sources						
						61,009
Revenue from state sources						
						2,416,742
Revenue from federal sources						
						2,916,171
Unrestricted investment earnings						
						17,766
Other general revenues						
						102,186
Total general revenues						
						<u>6,218,651</u>
Change in net position						
						(5,476)
Net position - July 1, 2014 as restated (Note 9)						
						<u>16,155,546</u>
Net position - June 30, 2015						
						<u>\$ 16,150,070</u>

McLaughlin School District No. 15-2  
Balance Sheet – Governmental Funds  
June 30, 2015

	General Fund	Special Education	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
101 Cash	\$ 3,350,219	\$ 73,321	\$ 25,442	\$ 3,448,982
106 Savings certificates	30,000	-	-	30,000
110 Taxes receivable--current	128,656	67,006	83,768	279,430
112 Taxes receivable--delinquent	5,331	2,342	2,646	10,319
120 Restitution receivable, net	140,400	-	-	140,400
140 Due from other government	242,092	15,161	2,467	259,720
150 Imprest fund	10,000	-	-	10,000
104 Cash restricted for debt service	-	-	328,527	328,527
170 Inventory	-	-	3,946	3,946
<b>Total Assets</b>	<b><u>\$ 3,906,698</u></b>	<b><u>\$ 157,830</u></b>	<b><u>\$ 446,796</u></b>	<b><u>\$ 4,511,324</u></b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>				
<b>Liabilities</b>				
400 Checks in excess of cash	\$ -	\$ -	\$ 31,860	\$ 31,860
402 Accounts payable	97,927	62,637	6,205	166,769
404 Contracts payable	305,170	13,881	-	319,051
450 Payroll deductions and withholdings and employer matching payable	149,799	9,804	505	160,108
<b>Total Liabilities</b>	<b><u>552,896</u></b>	<b><u>86,322</u></b>	<b><u>38,570</u></b>	<b><u>677,788</u></b>
<b>Deferred Inflows of Resources:</b>				
474 Unavailable revenue-property taxes	5,331	2,342	2,646	10,319
474 Taxes levied for future periods	161,271	74,335	92,930	328,536
<b>Total deferred inflows of resources</b>	<b><u>166,602</u></b>	<b><u>76,677</u></b>	<b><u>95,576</u></b>	<b><u>338,855</u></b>
<b>Fund Balance (Deficit)</b>				
703 Nonspendable	140,400	-	3,946	144,346
720 Restricted for Capital outlay	-	-	12,318	12,318
Debt service	-	-	328,527	328,527
704 Unassigned	3,046,800	(5,169)	(32,141)	3,009,490
<b>Total Fund Balance (Deficit)</b>	<b><u>3,187,200</u></b>	<b><u>(5,169)</u></b>	<b><u>312,650</u></b>	<b><u>3,494,681</u></b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b><u>\$ 3,906,698</u></b>	<b><u>\$ 157,830</u></b>	<b><u>\$ 446,796</u></b>	<b><u>\$ 4,511,324</u></b>

McLaughlin School District No. 15-2  
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
June 30, 2015

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Total Fund Balances - Governmental Funds	\$ 3,494,681
Amounts reported for governmental activities in the statement of net position are different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	16,244,682
Assets, such as taxes receivable that are not available to pay for current period expenditures, are unearned in the fund level statements.	10,319
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	(323,621)
The pension asset is not available in the current period and therefore is not reported in the funds.	1,251,027
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(4,527,018)</u>
Net Position-Governmental Activities	<u><u>\$ 16,150,070</u></u>

McLaughlin School District No. 15-2  
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2015

	General Fund	Special Education	Other Governmental Funds	Total Governmental Funds
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1110 Ad Valorem taxes	\$ 295,250	\$ 135,031	\$ 177,887	\$ 608,168
1120 Prior years' Ad Valorem taxes	2,428	943	612	3,983
1140 Gross receipts taxes	78,919	-	-	78,919
1190 Penalties and interest on taxes	1,398	864	1,126	3,388
1500 Earnings on investments and deposits	17,766	-	-	17,766
1600 Sales	-	-	1,202	1,202
1700 Cocurricular activities				
1710 Admissions	14,625	-	-	14,625
1900 Other revenue from local sources				
1990 Other	88,852	12,132	-	100,984
2000 Revenue from intermediate sources				
2110 County Apportionment	33,376	-	-	33,376
2900 Other	27,633	-	-	27,633
3000 Revenue from state sources				
3110 Unrestricted grants-in-aid	2,260,319	-	-	2,260,319
3120 Restricted grants-in-aid	-	156,423	-	156,423
4000 Revenue from federal sources				
4100 Grants-in-aid				
4110 Unrestricted grants-in-aid received from federal government	2,845,138	71,033	-	2,916,171
4140 Restricted grants-in-aid received from federal government	-	-	86,219	86,219
4150-4199 Restricted grants-in-aid received from federal government through the state	937,718	83,032	-	1,020,750
4400 Johnson O'Malley	24,802	-	-	24,802
4810 Federal Reimbursements	-	-	198,004	198,004
4820 Donated Food	-	-	9,355	9,355
Total Revenues	<u>6,628,224</u>	<u>459,458</u>	<u>474,405</u>	<u>7,562,087</u>

McLaughlin School District No. 15-2  
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2015

	General Fund	Special Education	Other Governmental Funds	Total Governmental Funds
Expenditures				
1000 Instruction				
1100 Regular programs				
1110 Elementary	1,139,211	-	74,470	1,213,681
1120 Middle School	293,060	-	30,910	323,970
1130 High School	723,456	-	18,404	741,860
1140 Preschool	105,696	-	2,493	108,189
1190 Other regular programs	107,337	-	-	107,337
1200 Special programs				
1220 Programs for Special Education	-	554,903	-	554,903
1270 Educationally deprived	623,845	-	-	623,845
1290 Other special programs	148,687	-	-	148,687
2000 Support services				
2100 Pupils				
2120 Guidance	124,316	-	-	124,316
2130 Health	65,080	-	-	65,080
2140 Psychological	-	30,000	-	30,000
2150 Speech Pathology	-	65,470	-	65,470
2160 Audiology Services	-	361	-	361
2170 Student Therapy Services	-	65,475	-	65,475
2180 Orientation and Mobility Services	-	531	-	531
2200 Support services - instructional staff				
2210 Improvement of Instruction	16,961	-	-	16,961
2220 Educational media	46,165	-	115,969	162,134
2300 Support services - general administration				
2310 Board of Education	341,707	-	-	341,707
2320 Executive administration	213,176	-	-	213,176
2400 Support services - school administration				
2410 Office of the Principal	360,939	-	-	360,939
2500 Support services - business				
2520 Fiscal services	166,090	-	-	166,090
2530 Facilities acquisition	-	-	30,674	30,674
2540 Operation and maintenance of plant	729,310	-	152,789	882,099
2550 Pupil transportation	259,240	-	-	259,240
2560 Food Services	19,661	-	341,217	360,878
2700 Support services - Special Education				
2710 Administrative Costs	-	96,135	-	96,135
2730 SPED transportation costs	-	8,121	-	8,121
2750 Other Special Education Costs	-	30,633	-	30,633
2600 Support services - central				
2631 Information services	70,433	-	-	70,433
3000 Community services				
3200 Community recreation service	16,016	-	-	16,016
4000 Nonprogrammed charges				
4400 Payments to state unemployment	8,919	-	-	8,919
4500 Early retirement payment	51,740	-	-	51,740
6000 Cocurricular activities				
6100 Male activities	41,944	-	-	41,944
6200 Female activities	37,744	-	-	37,744
6900 Combined activities	154,358	-	-	154,358
Debt Service				
Principal payment	211,322	-	-	211,322
Interest and other fiscal charges	174,297	-	-	174,297
Capital Outlay	-	-	72,749	72,749
Total Expenditures	<u>6,250,710</u>	<u>851,629</u>	<u>839,675</u>	<u>7,942,014</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>377,514</u>	<u>(392,171)</u>	<u>(365,270)</u>	<u>(379,927)</u>

McLaughlin School District No. 15-2  
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2015

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	General Fund	Special Education	Other Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)				
5110 Transfers in	-	-	464,671	464,671
8100 Transfers out	(464,671)	-	-	(464,671)
Total Other Financing Sources (Uses)	(464,671)	-	464,671	-
Net Change in Fund Balances	(87,157)	(392,171)	99,401	(379,927)
Fund Balance - July 1, 2014 as restated (Note 9)	3,274,357	387,002	213,249	3,874,608
Fund Balance (Deficit) - June 30, 2015	\$ 3,187,200	\$ (5,169)	\$ 312,650	\$ 3,494,681

McLaughlin School District No. 15-2

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

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Net Change in Fund Balances - Total Governmental Funds	\$ (379,927)
Amounts reported for governmental activities in the statement of activities are different because	
Governmental fund report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives.	72,749
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	10,319
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(171,575)
Payment of principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	207,322
In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense	<u>255,636</u>
Change in Net Position of Governmental Activities	<u><u>\$ (5,476)</u></u>

McLaughlin School District No. 15-2  
Statement of Fiduciary Net Position – Fiduciary Funds  
June 30, 2015

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	<u>Agency Funds</u>
Assets	
Cash	\$ 28,059
Savings certificates	<u>8,361</u>
Total assets	<u><u>\$ 36,420</u></u>
Liabilities	
Amounts held for others	<u><u>\$ 36,420</u></u>

## **Note 1 - Summary of Significant Accounting Policies**

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

### **Reporting Entity**

The reporting entity of the McLaughlin School District No. 15-2 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. The school district is governed by an elected five-member board of education.

McLaughlin School District No. 15-2 (the School District) participates in a cooperative service unit with six other school districts, Northwest Area Schools cooperative. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the School District.

### **Basis of Presentation**

The financial statements of the School District have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), with the exception of not adopting a methodology for recording capital assets and other post-employment benefits in the governmental activities, that is consistent with accounting principles generally accepted in the United States of America. The GASB is the standard setting body for governmental accounting and financial reporting.

### **Government-wide Financial Statements**

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the reporting entity as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

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

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

**Fund Financial Statements**

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

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined or

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

**Governmental Funds**

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

**Fiduciary Funds**

Fiduciary funds are never considered to be major funds.

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

## **Measurement Focus and Basis of Accounting**

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

### **Measurement Focus**

#### **Government-wide Financial Statements**

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

#### **Fund Financial Statements**

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

### **Basis of Accounting**

#### **Government-Wide Financial Statements**

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

#### **Fund Financial Statements**

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the McLaughlin School District No. 15-2, the length of that cycle is 60 days. The revenues which are accrued at June 30, 2015 are revenues from federal sources.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred inflows of resources 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 fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

### Deposits and Investments

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

Deposits – The School District’s deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 110 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA” or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost plus interest, if the account is of the add-on type. 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 earning the income and then transfer to the General Fund.

### Restricted Cash

The District’s bond requires the District to restrict cash for debt service. The District has restricted cash for debt service of \$328,527 at June 30, 2015.

### Custodial and Concentration Credit Risk

For deposits and investments, the custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the School District will not be able to recover collateral securities that are in the possession of an outside party. The School District’s deposits are insured and collateralized by the South Dakota Public Deposit Protection Collateral Program. The School places no limit on the amount the School District may deposit in any one financial institution. The following details deposits and investments by depository:

	Dakotah Bank	Wells Fargo Trust	First National	Total
Reconciliation of cash and savings certificates to government-wide statement of net position				
Cash	\$ -	\$ 328,527	\$ 3,088,595	\$ 3,417,122
Add: CDs over 90-day maturity (reported as savings certificates on government-wide statement of net position)	30,000	-	-	30,000
Total cash and savings certificates	30,000	328,527	3,088,595	3,447,122
Add: Agency fund cash (not included in government-wide statement of net position)	-	-	28,059	28,059
Total reconciled deposits	\$ 30,000	\$ 328,527	\$ 3,116,654	\$ 3,475,181

**Interest Rate Risk** – The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All certificates of deposit mature in less than 1 year.

**Credit Risk** – State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices.

**Investments** – In general, SDCL 4-5-6 permits school funds to be invested in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) 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.

Investments are stated at fair value.

The Governmental funds had certificates of deposit of \$30,000; the Agency Fund had \$8,361 at June 30, 2015.

### **Restitution Receivable**

The restitution receivable is stated at its outstanding principal balance adjusted for the allowance for losses. The receivable is due in monthly installments of \$300 and does not bear interest. The allowance is reported based on management's estimate of the receivable that will not be collected. The allowance for losses netted with the restitution receivable was \$133,085 at June 30, 2015.

### **Inventory**

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

In the government-wide financial statements and in the fund financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of the government as they are consumed. In the governmental fund financial statements, the "consumption method" of recording inventory is used.

### **Capital Assets**

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

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Prior to July 1, 2003, capital assets were recorded at insurance values rather than historical cost, which is not in accordance with generally accepted accounting principles.

The total June 30, 2015 balances of capital assets for governmental activities include estimates of the original costs.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$ 1,000		
Buildings	50,000	Straight-line	50-80 years
Machinery/equipment	2,500	Straight-line	5-20 years

Land is not depreciated.

### **Fund Financial Statements**

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

### **Long-Term Liabilities**

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

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

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

Sick leave is earned by the employees at the rate of 14 days per year. Upon termination, certified employees are entitled to receive compensation for their accrued sick leave balance on the basis of \$50 per day up to 45 days, then \$100 per day unused.

As of June 30, 2015, a liability of \$117,262 existed for accumulated unpaid leave balance (annual and sick) calculated at the employees' June 30, 2015 pay rates and a liability of \$218,857 existed for early retirement benefits payable.

### **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.

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

As of July 1, 2014 the McLaughlin School District No. 15-2 adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension liability/asset, deferred outflows of resources, deferred inflows of resources, and pension expense/revenue. The effect of the implementation of these standards on beginning net position is disclosed in Note 9 and the additional disclosures required by these standards are included in Note 8.

### **Deferred Outflows and Inflows of Resources**

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

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

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

### **Program Revenues**

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

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

3. Program-specific capital grants and contributions – these arise from mandatory and voluntary non-exchange transactions and other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

### **Equity Classifications**

In the government-wide statements equity is classified as net position and is displayed in three components:

Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Consists of net position with constraints placed on its use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

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

### **Restricted and Unrestricted Resources**

It is the school’s policy to first apply restricted resources when an expenditure is incurred for purposes for which both restricted and unrestricted net position are available.

### **Fund Balance Classification Policies and Procedures**

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

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Business Manager.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The School District uses *restricted* amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the 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.

**Note 2 - Property Tax**

Property taxes are levied on or before October 1, attach as an enforceable lien on property as of the following January 1 and are payable in two installments on or before April 30 and October 31 of the following year. The county bills and collects the school district's taxes and remits them to the school. Approximately 50% is considered to be applied to finance the budget of the current fiscal year, and the remaining percentage (50%) is considered to be applied to finance the budget for the subsequent year. School district property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Current year property taxes receivable which is not available as a resource that can be used to finance the current year's appropriations and therefore are not susceptible to accrual have been deferred and are not reported as 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 3 - Legal Compliance**

**Expenditures over Appropriations**

The Special Education fund expenditures exceeded appropriations by \$57,169, which was covered by beginning excess fund balance. No remedial action is anticipated or required.

**Note 4 - Changes in Capital Assets and Generally Accepted Accounting Principles Departure**

The School District has not adopted a method for recording capital assets that is in accordance with generally accepted accounting principles.

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

**Governmental Activities**

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets, not being depreciated				
Land	\$ 41,152	\$ -	\$ -	\$ 41,152
Construction in process	12,325,084	72,749	-	12,397,833
Total capital assets not being depreciated	12,366,236	72,749	-	12,438,985
Capital assets, being depreciated				
Buildings	4,567,874	-	-	4,567,874
Machinery/equipment	1,307,946	-	-	1,307,946
Total capital assets being depreciated	5,875,820	-	-	5,875,820
Less accumulated depreciation for				
Buildings	(1,200,401)	-	-	(1,200,401)
Machinery/equipment	(869,722)	-	-	(869,722)
Total accumulated depreciation	(2,070,123)	-	-	(2,070,123)
Total capital assets being depreciated, net	3,805,697	-	-	3,805,697
Governmental type activity capital assets, net	\$ 16,171,933	\$ 72,749	\$ -	\$ 16,244,682

**Note 5 - Non-Current Liabilities**

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

**Governmental Activities**

	Early Retirement Benefits Payable	2011A Bond	Bond Discount	Energy Loan	Compensated Absences Governmental Funds	Total
Noncurrent liabilities payable, July 1, 2014	\$ 79,291	\$ 3,855,000	\$ (70,000)	\$ 613,221	\$ 85,253	\$ 4,562,765
Issuance of early retirement payable	189,272	-	-	-	-	189,272
Payment of early retirement payable	(49,706)	-	-	-	-	(49,706)
Bond payments	-	(150,000)	-	(61,322)	-	(211,322)
Amortization	-	-	4,000	-	-	4,000
Accrued compensated absences	-	-	-	-	232,076	232,076
Compensated absences used	-	-	-	-	(200,067)	(200,067)
Noncurrent liabilities payable, June 30, 2015	<u>218,857</u>	<u>3,705,000</u>	<u>(66,000)</u>	<u>551,899</u>	<u>117,262</u>	<u>4,527,018</u>
Noncurrent liabilities, due within one year	<u>48,082</u>	<u>155,000</u>	<u>-</u>	<u>61,322</u>	<u>50,000</u>	<u>314,404</u>
Noncurrent liabilities, due in more than one year	<u>\$ 170,775</u>	<u>\$ 3,550,000</u>	<u>\$ (66,000)</u>	<u>\$ 490,577</u>	<u>\$ 67,262</u>	<u>\$ 4,212,614</u>

Compensated absences, early retirement benefits payable, Series 2011A Certificates of Participation Bonds, and the Energy Efficient Loan for governmental activities typically have been liquidated from the General Fund.

The District maintains an early retirement program. Eligible employees at least 55 years of age with 20 years of service to the school district may elect early retirement benefits. The payment will be 30% of the current year's negotiated base salary until reaching the age of 66.

The annual payment requirements to maturity for all early retirement benefits payable outstanding as of June 30 are as follows:

<u>Year Ending</u>	
2016	\$ 48,082
2017	38,228
2018	23,695
2019	19,496
2020	19,496
2021-2025	60,112
2026	<u>9,748</u>
Totals	<u>\$ 218,857</u>

Series 2011A Certificates of Participation Bonds are due December 1, 2031 and bear interest at a rate of 5.884%. The related bond discount will be amortized over the life of the bond. The annual payment requirements to maturity for all qualified zoning academy bonds outstanding as of June 30, 2015 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 155,000	\$ 169,910	\$ 324,910
2017	160,000	164,985	324,985
2018	165,000	159,497	324,497
2019	170,000	153,423	323,423
2020	175,000	146,735	321,735
2021-2025	1,005,000	608,598	1,613,598
2026-2030	1,270,000	330,697	1,600,697
2031-2032	605,000	32,463	637,463
Totals	<u>\$ 3,705,000</u>	<u>\$ 1,766,308</u>	<u>\$ 5,471,308</u>

The Energy Efficiency Loan is an interest free loan due July 31, 2023. The annual payment requirements to maturity are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 61,322	\$ -	\$ 61,322
2017	61,322	-	61,322
2018	61,322	-	61,322
2019	61,322	-	61,322
2020	61,322	-	61,322
2021-2024	245,289	-	245,289
Totals	<u>\$ 551,899</u>	<u>\$ -</u>	<u>\$ 551,899</u>

**Note 6 - Individual Fund Interfund Transfers**

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

	<u>Transfer from General Fund</u>
Transferred to Other governmental funds	<u>\$ 464,671</u>

The School District typically uses transfers to transfer impact aid monies from the general fund to the capital outlay fund, special education, and food service funds in order to subsidize these funds.

**Note 7 - Individual Fund Deficit**

Fund	Amount
Special Education	\$ (5,169)
Food Service	(28,197)

The special education fund deficit balance is the result of a decrease from budget to actual for restricted grants-in-aid. In 2016, the District will make a transfer from the general fund to bring the special education and food service fund balance to zero. The food service fund deficit balance is a result of equipment allocated to the fund that is not reflected in the governmental statements. In 2016, the District will make an operating transfer to cover any deficits.

**Note 8 - Retirement Plan**

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

**Benefits Provided**

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

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

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

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

**Contributions**

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2015, 2014, and 2013 were \$202,792, \$182,191, and \$184,093, 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	\$ (18,419,276)
Less proportionate share of total pension liability	<u>17,168,249</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (1,251,027)</u></u>

At June 30 2015, the School District reported an asset of \$1,251,027 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 .1736430%.

For the year ended June 30, 2015, the School District recognized pension revenue of \$52,843. At June 30, 2015 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 105,854	\$ -
Changes in assumption	816,633	-
Net difference between projected and actual earnings on pension plan investments	-	1,448,900
District contributions subsequent to the measurement date	202,792	-
Total	\$ 1,125,279	\$ 1,448,900

\$202,792 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 asset in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension revenue as follows:

Year Ending			
2016			\$ (99,408)
2017			(99,408)
2018			(99,408)
2019			(228,189)
2020			-
Thereafter			-
Totals			\$ (526,413)

**Actuarial Assumptions**

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

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

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

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

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

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

**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 asset.

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

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

	1% Decrease	Current Discount Rate	1% Increase
School District's proportionate share of the net pension liability (asset)	\$ 1,236,250	\$ (1,251,027)	\$ (3,279,660)

**Pension Plan Fiduciary Net Position**

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

**Note 9 - Restatements**

As of July 1, 2014 the School District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the cost and obligations associated with pensions in their financial statements, including additional note disclosures and required supplementary information.

Beginning net position was restated to retroactively report the beginning net pension asset and deferred outflows of resources related to pension contributions made after the measurement date and to report the beginning restitution receivable, net of allowance as follows:

	<u>Governmental Activities</u>
Net Position July 1, 2014, as previously reported	\$ 15,339,776
Restatement for pension accounting	
Net Pension Asset	489,578
Pension related Deferred Outflows of Resources	182,192
Restatement for restitution receivable, net of allowance of \$133,085	<u>144,000</u>
Net Position July 1, 2014, as restated	<u><u>\$ 16,155,546</u></u>

An error resulting in the understatement of amounts previously reported for the restitution receivable and revenue, net of the allowance for losses as of June 30, 2014, was discovered by management of the School District during the current year. Accordingly, an adjustment has been made to beginning fund balance/net position as of July 1, 2014, to correct the error.

Beginning fund balance was restated to retroactively report the beginning restitution receivable, net of allowance as follows:

	General Fund
Fund Balance July 1, 2014, as previously reported	\$ 3,130,357
Restatement for restitution receivable, net of allowance of \$133,085	144,000
Fund Balance July 1, 2014, as restated	\$ 3,274,357

**Note 10 - Joint Ventures**

The school district participates in the Nwas Cooperative, a cooperative service unit (co-op) formed for the purpose of providing vocational and special education services to the member school districts.

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

Dupree School District No. 64-2	14.29%
Faith School District No. 46-2	14.29%
Harding County School District No. 31-1	14.29%
Isabel School District No. 20-2	14.29%
McIntosh School District No. 15-1	14.28%
McLaughlin School District No. 15-2	14.28%
Timber Lakes School District No. 20-3	14.28%
	100.00%

The co-ops governing board is composed of seven representatives, one from each member school district, who are School Board members. The board is responsible for adopting the co-op's budget and setting services 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 responsibility to fund deficits of the co-op. As of June 30, 2015 this joint venture had fund equity of \$2,378,311 and no long-term debt.

Separate financial statements for this joint venture are available from the Northwest Area Schools Multi-District Education Cooperative.

## **Note 11 - Risk Management**

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

### **Employee Health Insurance**

The School purchases health insurance for its employees from Bill Markve & Associates in Dakota Dunes, South Dakota. The school district pays \$522 per month per employee towards the monthly premium. The coverage provides various deductibles per calendar year and has a co-insurance of 70%. Included in the health insurance premium is a \$10,000 life insurance policy.

### **Liability Insurance**

The School District is covered by EMC Insurance Companies brokered by Key Insurance in Mobridge, South Dakota, an independent insurance agency currently operating as an insurance program for the School District. The School District pays an annual premium to provide coverage related to torts; theft or damage to property; and errors and omissions of public officials.

The agreement with the Key Insurance provides that the above coverage's will be provided to a \$5,000,000 limit. Member premiums are used by the agency for payment of claims and to pay for re-insurance for claims in excess of \$50,000 to the upper limit. The School District carries a \$1,000 deductible for the liability, property and errors and omissions coverages.

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

### **Workers' Compensation**

The School District purchases liability insurance through EMC Insurance brokered by Key Insurance for Workers' Compensation from a commercial carrier.

### **Unemployment Benefits**

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

The School District has no reserved net position for payment on future unemployment benefits.



Required Supplementary Information  
June 30, 2015

# McLaughlin School District No. 15-2

McLaughlin School District No. 15-2

Statement of Revenues, Expenditures, and Changes in Fund Balance—Budget to Actual—General Fund  
Year Ended June 30, 2015

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	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1110 Ad Valorem taxes	\$ 270,000	\$ 270,000	\$ 295,250	\$ 25,250
1120 Prior years' Ad Valorem taxes	6,000	6,000	2,428	(3,572)
1140 Gross receipts taxes	70,000	70,000	78,919	8,919
1190 Penalties and interest on taxes	2,000	2,000	1,398	(602)
1500 Earnings on investments and deposits	20,035	20,035	17,766	(2,269)
1700 Cocurricular activities				
1710 Admissions	10,000	10,000	14,625	4,625
1900 Other revenue from local sources				
1990 Other	3,600	3,600	88,852	85,252
2000 Revenue from intermediate sources				
2110 County Apportionment	22,000	22,000	33,376	11,376
2900 Other			27,633	27,633
3000 Revenue from state sources				
3110 Unrestricted grants-in-aid	2,218,000	2,218,000	2,260,319	42,319
4000 Revenue from federal sources				
4140 Restricted grants-in-aid received from federal government				
4150-4199 Restricted grants-in-aid received from federal government through the state	118,037	118,037	2,845,138	2,727,101
4400 Johnson O'Malley	827,354	827,354	937,718	110,364
	15,628	15,628	24,802	9,174
Total revenue	<u>3,582,654</u>	<u>3,582,654</u>	<u>6,628,224</u>	<u>3,045,570</u>

McLaughlin School District No. 15-2

Statement of Revenues, Expenditures, and Changes in Fund Balance—Budget to Actual—General Fund  
Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
1000 Instruction				
1100 Regular programs				
1110 Elementary	1,104,512	1,104,512	1,139,211	(34,699)
1120 Middle School	268,604	268,604	293,060	(24,456)
1130 High School	739,402	739,402	723,456	15,946
1140 Preschool	107,440	107,440	105,696	1,744
1190 Other regular programs	103,380	103,380	107,337	(3,957)
1200 Special programs				
1270 Educationally deprived	592,858	592,858	623,845	(30,987)
1290 Other special programs	132,295	132,295	148,687	(16,392)
2000 Support services				
2100 Pupils				
2120 Guidance	141,288	141,288	124,316	16,972
2130 Health	65,270	65,270	65,080	190
2200 Support services - instructional staff				
2210 Improvement of instruction	55,986	55,986	16,961	39,025
2220 Educational media	43,695	43,695	46,165	(2,470)
2300 Support services - general administration				
2310 Board of Education	215,668	215,668	341,707	(126,039)
2320 Executive administration	215,190	215,190	213,176	2,014
2400 Support services - school administration				
2410 Office of the Principal	386,956	386,956	360,939	26,017
2500 Support services - business				
2520 Fiscal services	169,045	169,045	166,090	2,955
2540 Operation and maintenance of plant	890,633	890,633	729,310	161,323
2550 Pupil transportation	263,459	263,459	259,240	4,219
2560 Food Services	35,473	35,473	19,661	15,812
2600 Support services - central				
2631 Information services	64,520	64,520	70,433	(5,913)
3000 Community services				
3200 Community recreation service	23,390	23,390	16,016	7,374
4000 Nonprogrammed charges				
4400 Payments to state unemployment	20,000	20,000	8,919	11,081
4500 Early retirement payment	51,760	51,760	51,740	20
5000 Debt Service Payment				
5000 Debt service payment	386,720	386,720	385,619	1,101
6000 Cocurricular activities				
6100 Male activities	46,900	46,900	41,944	4,956
6200 Female activities	39,342	39,342	37,744	1,598
6900 Combined activities	198,284	198,284	154,358	43,926
Total expenditures	<u>6,362,070</u>	<u>6,362,070</u>	<u>6,250,710</u>	<u>111,360</u>
Excess of Revenue over (Under) Expenditures	<u>(2,779,416)</u>	<u>(2,779,416)</u>	<u>377,514</u>	<u>3,156,930</u>

McLaughlin School District No. 15-2

Statement of Revenues, Expenditures, and Changes in Fund Balance–Budget to Actual–General Fund  
Year Ended June 30, 2015

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	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Other financing sources (uses)				
5110 Transfers in	2,691,233	2,691,233	-	(2,691,233)
8110 Transfer out	-	-	(464,671)	(464,671)
Total Other Financing Sources (Uses)	<u>2,691,233</u>	<u>2,691,233</u>	<u>(464,671)</u>	<u>(3,155,904)</u>
Net Change in Fund Balances	(88,183)	(88,183)	(87,157)	1,026
Fund Balance - July 1, 2014 as restated (Note 9)	<u>3,274,357</u>	<u>3,274,357</u>	<u>3,274,357</u>	-
Fund Balance - June 30, 2015	<u>\$ 3,186,174</u>	<u>\$ 3,186,174</u>	<u>\$ 3,187,200</u>	<u>\$ 1,026</u>

McLaughlin School District No. 15-2  
Statement of Revenues, Expenditures, and Changes in Fund Balance–Budget to Actual–Special Education  
June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1100 Taxes				
1110 Ad Valorem taxes	\$ 90,000	\$ 90,000	\$ 135,031	\$ 45,031
1120 Prior years' Ad Valorem taxes	1,000	1,000	943	(57)
1190 Penalties and interest on taxes	500	500	864	364
1900 Other revenue from local sources				
1990 Other	10,000	10,000	12,132	2,132
3000 Revenue from state sources				
3100 grants-in-aid				
3120 restricted grants-in-aid	340,000	340,000	156,423	(183,577)
4000 Revenue from federal sources				
4100 Grants-in-aid				
4110 Unrestricted grants-in-aid received from federal government	50,000	50,000	71,033	21,033
4150-4199 Restricted grants-in-aid received from federal government through the state	83,090	83,090	83,032	(58)
Total revenue	<u>574,590</u>	<u>574,590</u>	<u>459,458</u>	<u>(115,132)</u>
<b>Expenditures</b>				
1200 Special programs				
1220 Programs for Special Education	584,210	584,210	554,903	29,307
2000 Support Services				
2100 Pupils				
2140 Psychological	-	-	30,000	(30,000)
2150 Speech Pathology	55,830	55,830	65,470	(9,640)
2160 Audiology Services	-	-	361	(361)
2170 Student Therapy Services	55,000	55,000	65,475	(10,475)
2180 Orientation and Mobility Services	-	-	531	(531)
2700 Support Services - Special Education				
2710 Administrative Costs	99,420	99,420	96,135	3,285
2730 SPED transportation costs	-	-	8,121	(8,121)
2750 Other Special Education Costs	-	-	30,633	(30,633)
Total expenditures	<u>794,460</u>	<u>794,460</u>	<u>851,629</u>	<u>(57,169)</u>
Net Change in Fund Balances	(219,870)	(219,870)	(392,171)	(172,301)
Fund Balance - July 1, 2014	<u>387,002</u>	<u>387,002</u>	<u>387,002</u>	<u>-</u>
Fund Balance (Deficit) - June 30, 2015	<u>\$ 167,132</u>	<u>\$ 167,132</u>	<u>\$ (5,169)</u>	<u>\$ (172,301)</u>

McLaughlin School District No. 15-2  
 Schedule of Employer's Share of Net Pension Asset and Schedule of Employer's Contributions  
 June 30, 2015

Schedule of the Proportionate Share of the Net Pension Asset  
 Last 10 Fiscal Years\*

Pension Plan	Measurement Date	Employer's Proportion (Percentage) of the Net Pension Asset	Employer's Proportionate Share (Amount) of the Net Pension Asset (a)	Employer's Covered Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Asset as a Percentage of its Total Employer's Contributions (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Asset
SDRS	6/30/2014	<u>0.1736430%</u>	<u>\$ 1,251,027</u>	<u>\$ 3,036,538</u>	<u>41.20%</u>	<u>107.29%</u>

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

Schedule of Employer's Contributions  
 Last 10 Fiscal Years\*

Pension Plan	Fiscal Year Ending	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Employee Payroll (d)	Contributions as a Percentage of Covered Employee Payroll (b/d)
SDRS	6/30/2015	<u>\$ 202,792</u>	<u>\$ 202,792</u>	<u>\$ -</u>	<u>\$ 3,379,892</u>	<u>6.00%</u>

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

**Notes to Required Supplementary Information**

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

### **Note 1 - Basis of Presentation**

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

### **Note 2 - Budgetary Legal Requirements**

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

1. Prior to the first regular board meeting in May of each year the school board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the school board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the school board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the school board, the operating budget is legally binding at the fund level and actual expenditures of each fund cannot exceed the amounts budgeted for that fund, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the school board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the school board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund, capital project funds, and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Generally accepted accounting principles prescribe that budgetary information be presented for the General Fund and special revenue funds of the School District only.

McLaughlin School District No. 15-2  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Expenditures FY 2015
US Department of Agriculture		
Pass-through the SD Department of Education		
School breakfast program (Note 2)	10.553	\$ 50,896
Food donation (commodities used)	10.555	9,934
National school lunch program (Note 2)	10.555	147,108
Child Nutrition Cluster		<u>207,938</u>
National School Lunch Program Equipment Grant	10.579	22,102
Fresh fruits and vegetables	10.582	14,804
Total US Department of Agriculture		<u>244,844</u>
US Department of the Interior		
Direct federal funding		
Indian education - assistance to schools - Johnson - O'Malley (Note 2)	15.130	<u>24,802</u>
US Department of Education		
Direct federal funding		
Impact aid - (Title VIII) (Note 2)	84.041	<u>2,970,495</u>
Indian education - grants to local educational agencies	84.060	<u>90,386</u>
Pass-through the SD Department of Education		
Title I grants to local educational agencies	84.010	720,951
Improving teacher quality state grants (Title II, Part A)	84.367A	117,948
Special education cluster		
Special education - grants to states (IDEA, Part B, P.L. 102-119)	84.027	71,622
IDEA Preschool	84.173	11,410
IDEA cluster		<u>83,032</u>
Total US Department of Education		<u>3,982,812</u>
National Endowment for the Humanities		
South Dakota Art Council		
Artists in Schools and Communities	45.025	<u>1,148</u>
Grand total		<u>\$ 4,253,606</u>

**Note 1 – Basis of Accounting**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the school and is presented on the modified accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements. The only funds that are passed through to the District come from the South Dakota Department of Education. However, no pass-through ID's were obtained to be placed on the accompanying schedule of expenditures of federal awards

**Note 2 – Federal Reimbursements**

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



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

To the School Board  
McLaughlin School District No. 15-2  
Corson County, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and aggregate remaining fund information of McLaughlin School District No. 15-2, Corson County, South Dakota, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise McLaughlin School District No. 15-2's basic financial statements, and have issued our report thereon dated February 2, 2016. The report on the governmental activities was qualified due to departures from generally accepted accounting principles in recording capital assets and other postemployment benefits.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered McLaughlin School District No. 15-2'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 McLaughlin School District No. 15-2's internal control. Accordingly, we do not express an opinion on the effectiveness of McLaughlin School District No. 15-2's internal control.

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether McLaughlin School District No. 15-2's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one immaterial instance of noncompliance or other matters that is reported as finding 2015-D.

### **McLaughlin School District No. 15-2's Response to Findings**

McLaughlin School District No. 15-2's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. McLaughlin School District No. 15-2's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. 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.



Bismarck, North Dakota  
February 2, 2016



## **Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance Required by OMB Circular A-133**

School Board  
McLaughlin School District No. 15-2  
Corson County, South Dakota

### **Report on Compliance for Each Major Federal Program**

We have audited McLaughlin School District No. 15-2's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of McLaughlin School District No. 15-2's major federal programs for the year ended June 30, 2015. McLaughlin School District No. 15-2's major federal programs are identified in the summary of audit results section of the accompanying schedule of 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 the compliance for each of McLaughlin School District No. 15-2'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 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 McLaughlin School District No. 15-2'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 of McLaughlin School District No. 15-2's compliance.

### **Basis for Qualified Opinion on Title I**

As described in the accompanying schedule of findings and questioned costs, McLaughlin School District No. 15-2 did not comply with requirements regarding CFDA #84.010 Title I, as described in findings number 2015-005 for Eligibility and 2015-006 for Cash Management. Compliance with such requirements is necessary, in our opinion, for McLaughlin School District No. 15-2 to comply with the requirements applicable to that program.

### **Qualified Opinion on Title I**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, McLaughlin School District No. 15-2 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on Title I for the year ended June 30, 2015.

### **Unmodified Opinion on the Other Major Federal Program**

In our opinion, McLaughlin School District No. 15-2 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its other major Federal program identified in the summary of audit results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2015.

### **Report on Internal Control over Compliance**

Management of McLaughlin School District No. 15-2 is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered McLaughlin School District No. 15-2's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of McLaughlin School District No. 15-2's internal control over compliance.

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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-001, 2015-005, and 2015-006 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-002, 2015-003, 2015-004, and 2015-007 to be significant deficiencies.

McLaughlin School District No. 15-2's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. McLaughlin School District No. 15-2's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in dark ink and is positioned above the typed name and date.

Bismarck, North Dakota  
February 2, 2016

**Prior Year Findings – Financial Statement Audit**

**2014-A Segregation of Duties – Material Weakness**

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

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

Cause: The District has limited staff to be able to adequately segregate duties.

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

Recommendation: While we recognize that your office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the District. In addition, controls should be implemented to mitigate the risks related to the lack of segregation of duties. An example of a mitigating control would be to have a board member compare the bank statement with the list of disbursements from the accounting system at each board meeting, not having signature stamps for authorized signers to prevent abuse, and having listings of all cash disbursements by check number going in the Board packets to ensure no disbursements are omitted from getting Board approval.

Status: This is a repeat finding in 2015 reported as finding 2015-A.

**2014-B Recording of Transactions – Material Weakness**

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

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

Cause: Misstatements material to the financial statements could result from inadequate controls over recording of transactions.

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

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

Status: This is a repeat finding in 2015 reported as finding 2015-B.

**2014-C Preparation of Financial Statements – Significant Deficiency**

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

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

Cause: The District has not trained staff in GASB reporting standards.

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

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

Status: This is a repeat finding in 2015 reported as finding 2015-C.

**C. State Compliance Item**

**2014-D Publishing Proposed Budget, Budget hearing and Expenditures in Excess of Budget for Capital Outlay Fund**

Condition: The district did not publish the proposed budget together with a notice of the budget hearing in the newspaper on or before July 15. They District also had expenditures in excess of the budgeted appropriations for the Capital Outlay Fund.

Criteria: South Dakota Codified Law 13-11-2 requires the proposed sufficient budget together with a notice of budget hearing published in the designated newspaper on or before July 15.

Cause: The District did not ensure that the proposed budget and notice of budget hearing was published within the required timeframe and capital outlay expenditures were in excess of appropriations.

Effect: The district is not in compliance with South Dakota Codified law 13-11-2.

Recommendation: We recommend the District publish the proposed budgets and budget hearings in the newspaper within the required timeframe per South Dakota Codified law 13-11-2 and amend any budgets to ensure they are sufficient to cover expected expenditures.

Status: The budget hearing was completed on time, however the Special Education Fund's expenditures exceeded the budgeted amounts. This is a repeat finding reported as finding 2015-D for expenditures exceeding the budgeted amounts.

**D. Findings – Major Federal Program Audit**

**2014-001 - Impact Aid, CFDA #84.041, 13-14 Award Year and Title 1, CFDA #84.010 13-14 Award Year**

**Allowable Costs – Lack of Segregation of Duties  
Material Weakness in Internal Control over Compliance**

Condition: The District has a lack of segregation of duties in their federal award program due to limited staff.

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

Cause: The District has limited staff to be able to adequately segregate duties.

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

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

Status: This is a repeat finding in 2015 reported as finding 2015-001.

**2014-002 Title 1, CFDA #84.010 13-14 Award Year**

**Procurement – Lack of Approved Purchase Orders  
Significant Deficiency in Internal Control over Compliance**

Condition: The District did not have approved purchase orders for all goods purchased with the federal funds as required by the District's procurement policy.

Criteria: Recipients of federal funds are required to establish written procurement procedures that at a minimum, meet the procurement standards defined in OMB Circular A-110. The District is required to follow the procurement procedures they have established when purchasing goods with federal funds.

Cause: The District has internal controls designed that require purchase orders for purchases of all goods, but the District is not consistently implementing the internal controls for all federal expenditures. The District also has designed a procurement policy but does not have a formal, written procurement policy.

Effect: Lack of proper controls to ensure purchases of goods and services are being made in accordance with procurement policies could result in purchases of unallowable goods and services.

Recommendation: We recommend the District establish a formal, written procurement policy and ensure the internal controls are implemented for all purchases.

Status: This has been corrected in the current year.

**2014-003 Impact Aid, CFDA #84.041, 13-14 Award Year**

**Reporting – Inaccurate Numbers Reported on Application  
Significant Deficiency in Internal Control over Compliance**

Condition: The following reporting errors were identified for the 2014-2015 award years:

- On Table 10, “Opening Balance for All Construction-Related Funds or Accounts,” “Non-Construction-Related Expenditures,” & “Closing Balance for All Construction-Related Funds or Accounts” did not report the correct amount.

Criteria: In accordance with OMB Circular A-87 No. 1810-0687, Local Educational Agencies are required to submit an annual impact aid application which provides specific information including counts of federally connected children in various categories, membership data and information on expenditures.

Cause: The District did not have controls implemented to review the reports submitted to the federal agencies.

Effect: Lack of controls over reporting could allow incorrect reports to be submitted resulting in the incorrect financial funding of the grant program. Failure to file the required reports with errors in the reports submitted could delay funding for the programs or result in noncompliance with reporting requirements.

Recommendation: We recommend the District implement internal controls to review the information submitted on federal aid applications to ensure information is appropriately reported

Status: This is a repeat finding in 2015 reported as 2015-003.

**2014-004 Title 1, CFDA #84.010 13-14 Award Year**

**Allowable Costs & Activities – Improper Time & Effort Documentation  
Significant Deficiency in Internal Control over Compliance**

Condition: The District did not complete the appropriate monthly time and effort documentation for teachers working less than 100% in Title I.

Criteria: In accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(4),(5),and (6) an employee who works less than 100% of the time in Title I must furnish monthly time and effort documentation that shows what percent of his/her time has been engaged in Title I activities. The certifications must be signed by the employee or a supervisory official having first-hand knowledge of the work performed by the employee.

Cause: The District also does not have internal controls implemented to ensure appropriate time and effort documentation is obtained. One of the four teachers tested didn't have the appropriate monthly documentation for their time and effort.

Effect: Failure to maintain time and effort documentation for employee salaries coded to the Title I program resulted in the salaries being considered questioned costs since there is no documentation to support the coding of the salaries to the Title I program.

Recommendation: We recommend the District implement internal controls to maintain time and effort documentation in accordance with OMB Circular A-87, such as certifications.

Status: This is a repeat finding in 2015 reported as 2015-004.

**2014-005 Title 1, CFDA #84.010 13-14 Award Year**

**Eligibility – Lack of Adequate Records for Eligibility of the Target Assistance Program  
Material Weakness in Internal Control over Compliance and Material Non-Compliance**

Condition: In accordance with OMB Circular A-87, Title I, Section 1115 of ESEA 20 USC 6315, the District did not implement internal controls over compliance with eligibility for the targeted assistance program administered by the District. The District established eligibility requirements but did not ensure these eligibility requirements were being met and also did not retain adequate records in order to determine who was eligible to participate in the program.

Criteria: Entities receiving federal funds should implement internal controls for all of the applicable compliance requirements to ensure processes are designed to provide reasonable assurance that the entity will be in compliance with the requirements. Proper internal controls include retention of adequate supporting documentation and approval and review of eligibility determinations.

Cause: The District does not keep records for eligibility of students participating in the targeted assistance program.

Effect: Lack of proper controls over eligibility could result in ineligible students participating in the targeted assistance program.

Recommendation: We recommend the District establish and implement internal control procedures related to compliance with eligibility including maintaining supporting documentation related to eligibility determinations and procedures related to the approval and review of the eligibility determinations.

Status: This is a repeat finding in 2015 reported as finding 2015-005.

**A. Summary of Audit Results**

Financial Statements

Type of auditors' report issued	Qualified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditors' report issued on compliance	
Title I, Part A	Qualified
Impact Aid	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	Yes
Identification of major programs:	
Name of Federal Program	<u>CFDA number</u>
Title I, Part A	84.010
Impact Aid	84.041
Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee	No

**B. Findings – Financial Statement Audit**

**2015-A Segregation of Duties – Material Weakness**

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

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

Cause: The District has limited staff to be able to adequately segregate duties.

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

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

Management's Response: The McLaughlin School District recognizes this finding during the 2014-2015 school year (FY15). The District has a limited ability to foster a complete segregation of duties among staff members. Bank statements are made available at every board meeting for oversight, board members are encouraged to present to the Business Office for review of invoices before expenditures are paid, signature stamps are not authorized, actual cash disbursements are always compared against approved accounts payable reports generated from the Software Unlimited accounting system. These are controls implemented based off of auditor recommendation.

**2015-B Recording of Transactions – Material Weakness**

Condition: We identified misstatements in the District's financial statements causing us to propose material audit adjustments, including a restatement to the 2014 financial statements.

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

Cause: Misstatements material to the financial statements could result from inadequate controls over recording of transactions.

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

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

Management's Response: The McLaughlin School District recognizes this finding during the 2014-2015 school year (FY15). All transactions affecting financial statements including cash receipts, manual journal entries and monthly bank reconciliations are reviewed and signed by the Superintendent prior to completion for approval by the Board during regular monthly meetings. The District's independent auditors and the South Dakota Departments of Education (DOE) and Legislative Audit (DLA) are consulted for assistance when necessary.

### **2015-C Preparation of Financial Statements – Material Weakness**

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

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

Cause: The District has not trained staff in GASB reporting standards.

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

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

Management's Response: The McLaughlin School District recognizes this finding during the 2014-2015 school year (FY15). All transactions affecting financial statements including cash receipts, manual journal entries and monthly bank reconciliations are reviewed and signed by the Superintendent prior to completion for approval by the Board during regular monthly meetings. The District's independent auditors and the DOE and DLA are consulted for assistance when necessary. Furthermore, the District Business Manager receives training from the DLA at least twice a year at biannual Association of School Business Official meetings for any GASB statement updates that could affect financials.

## **C. State Compliance Item**

### **2015-D Expenditures in Excess of Budget for Special Education Fund**

Condition: The District had expenditures in excess of the budgeted appropriations for the Special Education Fund.

Criteria: South Dakota Codified Law 13-11-2 requires the school district not exceed the budgeted appropriations total of each fund for the school fiscal year.

Cause: The Special Education expenditures were in excess of appropriations.

Effect: The district is not in compliance with South Dakota Codified law 13-11-2.

Recommendation: We recommend the District amend any budgets to ensure they are sufficient to cover expected expenditures.

Management's Response: The McLaughlin School District recognizes this finding during the 2014-2015 school year (FY15). It was not realized by Administration that the District was in non-compliance pursuant to SDCL 13-11-2. Throughout the fiscal year, supplemental budgets are prepared by the Business Manager and recommended for Board of Education approval at regularly scheduled monthly meetings. The Special Education Fund had a high fund balance for several years and additionally, the needs of the Special Education department have continued to rise for children with disabilities. In an effort to spend down the fund balance by accommodating the needs of our children, we were also setting our District up financially to receive additional financial resources through the South Dakota Extraordinary Cost Fund.

#### **D. Findings – Major Federal Program Audit**

##### **2015-001 - Impact Aid, CFDA #84.041, 14-15 Award Year and Title 1, CFDA #84.010 14-15 Award Year**

###### **Allowable Costs – Lack of Segregation of Duties Material Weakness in Internal Control over Compliance**

Condition: The District has a lack of segregation of duties in their federal award program due to limited staff.

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

Cause: The District has limited staff to be able to adequately segregate duties.

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

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

Corrective Action Plan: The McLaughlin School District realized the risk of material weaknesses during the 2014-2015 school year. Though the District has a limited ability to foster a complete segregation of duties among staff members, during the 2014-2015 school year, the Board of Education adopted an Internal Control of Accounting System/Risk Management Policy which is modeled after internal control memos and compiled for approval at the recommendation of Administration. The District has also adopted a firm procurement policy which is executed and enforced by the Administration.

Contact Person Responsible: Superintendent and Business Manager

Anticipated Completion Date: July 2015

**2015-002 Title 1, CFDA #84.010 14-15 Award Year**

**Allowable Costs – Unallowable Cost Approved for Purchase  
Significant Deficiency in Internal Control over Compliance**

Condition: The District purchased a good with federal funds that was an unallowable cost under the program.

Criteria: Entities receiving federal funds should implement internal controls for all of the applicable compliance requirements to ensure processes are designed to provide reasonable assurance that the entity will be in compliance with the requirements. Proper internal controls include making sure only allowable costs are charged to the program.

Cause: The District does not have adequate internal controls implemented to ensure appropriate purchases are made under the program. One of forty-one expenditures tested was for an unallowable cost under the program.

Effect: Inadequate review of purchases could adversely affect the District's ability to detect misstatements or noncompliance in amounts that would be material in relation to the federal program in a timely period by employees in the normal course of performing their assigned function.

Recommendation: We recommend the District ensure only allowable costs are charged to the federal program.

Corrective Action Plan: The McLaughlin School District realized the risk of significant deficiencies during the 2014-2015 school year. Though the District has already implemented a formal, written procurement policy, during the 2014-2015 school year, the Board of Education adopted an Internal Control of Accounting System/Risk Management Policy which is modeled after internal control memos and compiled for approval at the recommendation of Administration. The Title I Authorized Representative, Elementary and Secondary Principals, Business Manager and Superintendent work closely together along with department supervisors and purchasing agents in the District to ensure all applications for grant awards are completed timely and accurately, all expenditures are encumbered and accounted for in accordance with local procurement policies and procedures as well as State and Federal accountability standards, all requests for reimbursement are generated with consistent oversight and approval prior to submission, and all receipts are recorded to the appropriate revenue chart of account. The procurement policy and procedures follow a process of requisition, supervisor approval, approved purchase order issuance by Business Manager, purchase, product receipt, invoice entered for payment and Board approval of all warrants presented at the regularly scheduled monthly Board meeting. Strict adherence to this local procurement policy is mandatory.

Contact Person Responsible: Superintendent and Business Manager

Anticipated Completion Date: July 2015

**2015-003 Impact Aid, CFDA #84.041, 14-15 Award Year**

**Reporting – Inaccurate Numbers Reported on Application  
Significant Deficiency in Internal Control over Compliance**

Condition: The following reporting errors were identified for the 2014-2015 award year:

- On Table 7, “Total membership enrolled in State-approved education programs for all children with disabilities” did not report the correct amount.

Criteria: In accordance with OMB Circular A-87 No. 1810-0687, Local Educational Agencies are required to submit an annual impact aid application which provides specific information including counts of federally connected children in various categories, membership data and information on expenditures.

Cause: The District did not have controls implemented to review the reports submitted to the federal agencies.

Effect: Lack of controls over reporting could allow incorrect reports to be submitted resulting in the incorrect financial funding of the grant program. Failure to file the required reports with errors in the reports submitted could delay funding for the programs or result in noncompliance with reporting requirements.

Recommendation: We recommend the District implement internal controls to review the information submitted on federal aid applications to ensure information is appropriately reported

Corrective Action Plan: The McLaughlin School District realized the risk of significant deficiencies during the 2014-2015 school year. The Board of Education adopted an Internal Control of Accounting System/Risk Management Policy which is modeled after internal control memos and compiled for approval at the recommendation of Administration. In fiscal year 2015, the District Business Manager and Superintendent provided for review by the "Admin team" the Impact Aid application. The Admin team, which includes the District Special Education Director, did not discover this oversight in reporting children with disabilities on Table 7. When necessary, Impact Schools of South Dakota, the National Association of Federally Impacted Schools and other associations will be contacted to ensure timely and accurate completion of the Impact Aid application, annually by January 31st.

Contact Person Responsible: Superintendent and Business Manager

Anticipated Completion Date: July 2015

**2015-004 Title 1, CFDA #84.010 14-15 Award Year**

**Allowable Costs & Activities – Improper Time & Effort Documentation  
Significant Deficiency in Internal Control over Compliance**

Condition: The District did not complete the appropriate monthly time and effort documentation for teachers working less than 100% in Title I.

Criteria: In accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(4),(5),and (6) an employee who works less than 100% of the time in Title I must furnish monthly time and effort documentation that shows what percent of his/her time has been engaged in Title I activities. The certifications must be signed by the employee or a supervisory official having first-hand knowledge of the work performed by the employee.

Cause: The District also does not have internal controls implemented to ensure appropriate time and effort documentation is obtained. One of the four teachers tested didn't have the appropriate monthly documentation for their time and effort.

Effect: Failure to maintain time and effort documentation for employee salaries coded to the Title I program could result in the salaries being incorrectly coded to the program since time and effort documentation is not being maintained.

Recommendation: We recommend the District implement internal controls to maintain time and effort documentation in accordance with OMB Circular A-87, such as certifications.

Corrective Action Plan: The McLaughlin School District recognizes this finding during the 2014-2015 school year (FY15). Telephone and on-site training was received in the Spring and Summer of 2013 during and following a State Department of Education Title I Desk Review to understand the proper documentation to be used. During fiscal year 2014, the Title I Authorized Representative, Elementary and Secondary Principals, Business Manager and Superintendent misunderstood which time and effort documentation was correct for recording when staff was working less than 100% in Title I. As a Focus and Priority Schools in FY15, the District agreed to maintain a Technical Advisor through June 2016 to assist in overseeing Title I staff performance and time and effort documentation controls. The time and effort documentation was maintained throughout the school year, however with constant compliance reviews and DOE oversight, the physical file folder containing all of the documentation was misplaced and could not be located.

Contact Person Responsible: Superintendent and Title I Authorized Representative

Anticipated Completion Date: July 2015

#### **2015-005 Title 1, CFDA #84.010 14-15 Award Year**

##### **Eligibility – Lack of Adequate Records for Eligibility of the Targeted Assistance Program Material Weakness in Internal Control over Compliance and Material Non-Compliance**

Condition: In accordance with OMB Circular A-87, Title I, Section 1115 of ESEA 20 USC 6315, the District did not implement internal controls over compliance with eligibility for the targeted assistance program administered by the District. The District established eligibility requirements but did not ensure these eligibility requirements were being met and also did not retain adequate records in order to determine who was eligible to participate in the program.

Criteria: Entities receiving federal funds should implement internal controls for all of the applicable compliance requirements to ensure processes are designed to provide reasonable assurance that the entity will be in compliance with the requirements. Proper internal controls include retention of adequate supporting documentation and approval and review of eligibility determinations.

Cause: The District does not keep records for eligibility of students participating in the targeted assistance program.

Effect: Lack of proper controls over eligibility could result in ineligible students participating in the targeted assistance program.

Recommendation: We recommend the District establish and implement internal control procedures related to compliance with eligibility including maintaining supporting documentation related to eligibility determinations and procedures related to the approval and review of the eligibility determinations.

Corrective Action Plan: The McLaughlin School District recognizes this finding during the 2014-2015 school year (FY15). Realizing the compliance concerns with the Target Assistance Program during fiscal year 2015, the Secondary Principal and Superintendent began reviewing the steps to transition to a Schoolwide Program for High School. This application was completed for FY16

Contact Person Responsible: Superintendent, Title I Authorized Representative and Secondary Principal

Anticipated Completion Date: School year 2015-2016

**2015-006 Title 1, CFDA #84.010 14-15 Award Year**

**Cash Management – Request for Reimbursement on Unallowable Expenditures and Questioned Costs  
Material Weakness in Internal Control over Compliance and Material Non-Compliance**

Condition: The District requested reimbursements of Title I funds for unallowable expenditures.

Criteria: Entities receiving federal funds should implement internal controls for all of the applicable compliance requirements to ensure processes are designed to provide reasonable assurance that the entity will be in compliance with the requirements. Proper internal controls include approval and review of expenditures included in requests for reimbursements to ensure only allowable expenditures are included.

Cause: The District does not have proper internal controls implemented to ensure that requests for reimbursements are being made on expenditures that are allowable under the program.

Questioned Costs: \$50,600

Context: One teacher's salary was incorrectly coded in the general ledger system to Title I. The entire amount paid for this individual's salary is considered a questioned cost since it was requested for reimbursement through the Title I program.

Effect: Lack of proper controls over cash management could result in unallowable expenditures included in the request for reimbursement.

Recommendation: We recommend the District establish and implement internal control procedures related to compliance with allowable costs and procedures related to the approval and review of the expenditures included in the request for reimbursement.

Corrective Action Plan: The McLaughlin School District recognizes this finding during the 2014-2015 school year (FY15). The questioned costs and context arise from the realization of a high school teacher's schedule not accommodating Target Assistance Program kids as intended. Realizing the compliance concerns with the Target Assistance Program during fiscal year 2015, the Secondary Principal and Superintendent began reviewing the steps to transition to a Schoolwide Program for High School. This application was completed for FY16. Internal controls will be developed to ensure all salaries are coded correctly and only allowable costs are approved and requested for reimbursement.

Contact Person Responsible: Superintendent, Title I Authorized Representative and Business Manager

Anticipated Completion Date: School year 2015-2016

**2015-007 Impact Aid, CFDA #84.041, 14-15 Award Year**

**Davis-Bacon – Lack of Review of Certified Payrolls  
Significant Deficiency in Internal Control over Compliance**

Condition: The district did not review certified payrolls submitted to them by contractors to ensure that proper wage rate requirements are being followed.

Criteria: A good system of internal control contemplates an adequate review over certified payrolls submitted to the District by contractors.

Cause: The District does not have proper internal controls implemented to review the certified payroll reports and ensure that the general contractor is complying with wage rate requirements.

Effect: Lack of controls over review of certified payroll reports could allow incorrect wage rates to be paid to laborers or mechanics employed by contractors.

Recommendation: We recommend the District implement internal controls to review the information submitted to them by the contractors to ensure that the proper wage rate requirements are being met.

Corrective Action Plan: The McLaughlin School District recognizes this finding during the 2014-2015 school year (FY15). All certified payrolls were formerly reviewed and authorized by an Owner's Representative and Architect, but with the completion of the construction on-site, these individuals were no longer on contract to review a final outstanding invoice received from the General Contractor. Going forward, wage rate requirements will be met in the event of any contract labor to comply with Davis-Bacon Act.

Contact Person Responsible: Superintendent

Anticipated Completion Date: July 2015