

MILBANK SCHOOL DISTRICT NO. 25-4

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

JUNE 30, 2015

MILBANK SCHOOL DISTRICT NO. 25-4

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Wahlenberg Ritzman & Co., LLC

certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the School Board
Milbank School District No. 25-4
Grant County, South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Milbank School District No. 25-4 (the School District)** as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Milbank School District No. 25-4, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Adoption of a New Accounting Standard

As described in Notes 2 and 13 of 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 American require that the budgetary comparison information, schedule of funding progress, schedule of employer's share of net pension asset, and schedule of employer's contributions on pages 47 through 57 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 Government Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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 basic financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were 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, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

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

Wohlberg Ritzman + Co., LLC

Yankton, South Dakota
March 30, 2016

MILBANK SCHOOL DISTRICT NO. 25-4

STATEMENT OF NET POSITION
JUNE 30, 2015

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,754,063	\$ 166,010	\$ 3,920,073
Restricted cash and cash equivalents	266,667	-	266,667
Accounts receivable	36,000	33,594	69,594
Taxes receivable	2,480,075	-	2,480,075
Due from other governments	360,144	-	360,144
Due from other funds	10,000	-	10,000
Inventories	-	11,608	11,608
Net pension asset	1,628,737	77,819	1,706,556
Capital assets:			
Not being depreciated	78,418	-	78,418
Being depreciated, net of depreciation	5,418,424	95,492	5,513,916
Total capital assets	5,496,842	95,492	5,592,334
Total assets	14,032,528	384,523	14,417,051
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows	1,449,711	69,265	1,518,976
LIABILITIES			
Accounts payable	55,291	2,637	57,928
Contracts payable	436,273	2,763	439,036
Accrued interest	14,510	-	14,510
Accrued expenses	117,742	-	117,742
Unearned revenue	-	13,283	13,283
Long-term liabilities:			
Portion due or payable within one year:			
Capital outlay certificates	345,000	-	345,000
Compensated absences	27,734	938	28,672
Portion due or payable after one year:			
Capital outlay certificates	1,720,000	-	1,720,000
Compensated absences	110,935	3,751	114,686
Net OPEB obligation	78,414	4,043	82,457
Total liabilities	2,905,899	27,415	2,933,314
DEFERRED INFLOWS OF RESOURCES			
Pension related deferred inflows	1,886,351	90,128	1,976,479
Taxes levied for future period	2,618,839	-	2,618,839
Total deferred inflows of resources	4,505,190	90,128	4,595,318
NET POSITION			
Net investment in capital assets	3,431,842	95,492	3,527,334
Restricted for:			
Capital outlay	511,040	-	511,040
Special education	290,998	-	290,998
Pension	583,421	-	583,421
Bond redemption	266,667	-	266,667
Endowment - nonexpendable	81,565	-	81,565
SDRS pension purposes	1,192,097	56,956	1,249,053
Unrestricted	1,713,520	183,797	1,897,317
Total net position	\$ 8,071,150	\$ 336,245	\$ 8,407,395

The accompanying notes are an
integral part of these financial statements

MILBANK SCHOOL DISTRICT NO. 25-4

STATEMENT OF ACTIVITIES
JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:							
Instruction	\$ 4,444,658	\$ 90,652	\$ 671,991	\$ -	\$ (3,682,015)		\$ (3,682,015)
Support services	2,830,220	31,669	100,000	-	(2,698,551)		(2,698,551)
Community services	32,771	-	-	-	(32,771)		(32,771)
Nonprogrammed charges	37,862	-	-	-	(37,862)		(37,862)
Cocurricular activities	394,651	65,852	-	-	(328,799)		(328,799)
Interest and fiscal charges *	37,279	-	-	-	(37,279)		(37,279)
Total governmental activities	<u>7,777,441</u>	<u>188,173</u>	<u>771,991</u>	<u>-</u>	<u>(6,817,277)</u>		<u>(6,817,277)</u>
Business-type activities:							
Food service	557,162	316,184	227,202	-		(13,776)	(13,776)
Drivers education program	11,905	12,000	-	-		95	95
After school program	84,767	95,799	1,629	-		12,661	12,661
Total Business-type activities:	<u>653,834</u>	<u>423,983</u>	<u>228,831</u>	<u>-</u>		<u>(1,020)</u>	<u>(1,020)</u>
Total School District	\$ <u>8,431,275</u>	\$ <u>612,156</u>	\$ <u>1,000,822</u>	\$ <u>-</u>	<u>(6,817,277)</u>	<u>(1,020)</u>	<u>(6,818,297)</u>
* The District does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.							
		General revenues:					
		Taxes:					
		Property taxes			5,102,425	-	5,102,425
		Gross receipts tax			287,484	-	287,484
		Revenue from state sources:					
		State aid			1,906,239	-	1,906,239
		Earnings on investments			30,670	-	30,670
		Miscellaneous			258,997	-	258,997
		Transfers			(21,847)	21,847	-
		Total general revenues and transfers			<u>7,563,968</u>	<u>21,847</u>	<u>7,585,815</u>
		Change in net position			746,691	20,827	767,518
		Net position - beginning			6,449,867	273,631	6,723,498
		Prior period adjustment			874,592	41,787	916,379
		Net position - beginning, restated			<u>7,324,459</u>	<u>315,418</u>	<u>7,639,877</u>
		Net position - ending			\$ <u>8,071,150</u>	\$ <u>336,245</u>	\$ <u>8,407,395</u>

The accompanying notes are an integral part of these financial statements

MILBANK SCHOOL DISTRICT NO. 25-4

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	Major Funds			Nonmajor Funds	Total Governmental Funds
	General	Capital Outlay	Special Education		
ASSETS					
Cash and cash equivalents	\$ 2,176,837	\$ 592,100	\$ 313,966	\$ 671,160	\$ 3,754,063
Restricted cash and cash equivalents	-	-	-	266,667	266,667
Accounts receivable	-	-	36,000	-	36,000
Taxes receivable	1,254,241	749,903	395,666	80,265	2,480,075
Due from other governments	295,288	4,692	59,662	502	360,144
Due from other funds	10,000	-	-	-	10,000
Total assets	\$ 3,736,366	\$ 1,346,695	\$ 805,294	\$ 1,018,594	\$ 6,906,949
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 27,640	\$ 23,442	\$ 4,209	\$ -	\$ 55,291
Contracts payable	373,406	-	62,867	-	436,273
Accrued expenses	99,101	-	18,641	-	117,742
Total liabilities	500,147	23,442	85,717	-	609,306
Deferred Inflows of Resources:					
Taxes levied for future period	1,309,307	800,760	422,977	85,795	2,618,839
Unavailable revenue - Property taxes	19,828	11,453	5,602	1,146	38,029
Unavailable revenue - Utility taxes	78,407	-	-	-	78,407
Total deferred inflows of resources	1,407,542	812,213	428,579	86,941	2,735,275
Fund balances:					
Nonspendable:					
Endowment	-	-	-	81,565	81,565
Restricted:					
Capital outlay	-	511,040	-	-	511,040
Special education	-	-	290,998	-	290,998
Pension	-	-	-	583,421	583,421
Bond redemption	-	-	-	266,667	266,667
Assigned:					
Student counseling	9,361	-	-	-	9,361
Student instruction	88,982	-	-	-	88,982
Unassigned	1,730,334	-	-	-	1,730,334
Total fund balances	1,828,677	511,040	290,998	931,653	3,562,368
Total liabilities, deferred inflows of resources and fund balances	\$ 3,736,366	\$ 1,346,695	\$ 805,294	\$ 1,018,594	\$ 6,906,949

The accompanying notes are an integral part of these financial statements

MILBANK COUNTY SCHOOL DISTRICT NO. 25-4

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2015

Total fund balances for governmental funds		\$ 3,562,368
Total net position reported for governmental activities in the statement of net position is different because:		
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.		1,628,737
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	\$ 78,418	
Building and improvements, net of \$10,395,755 accumulated depreciation	4,600,643	
Equipment, net of \$834,993 accumulated depreciation	<u>817,781</u>	
Total capital assets		5,496,842
Some of the School District's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows of resources in the funds.		116,436
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.		1,449,711
Long-term liabilities applicable to the School District's governmental activities are not due and payable in current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position. Balances at June 30, 2015 are:		
Capital outlay certificates	\$ 1,065,000	
Capital outlay certificates - QZAB	1,000,000	
Accrued interest payable	14,510	
Compensated absences	138,669	
Net OPEB obligation	<u>78,414</u>	
Total long-term liabilities		(2,296,593)
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.		<u>(1,886,351)</u>
Total net position of governmental activities		<u>\$ 8,071,150</u>

The accompanying notes are an integral part of these financial statements

MILBANK SCHOOL DISTRICT NO. 25-4

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS - PAGE 1 OF 2
 YEAR ENDED JUNE 30, 2015

	Major Funds			Nonmajor Funds	Total Governmental Funds
	General	Capital Outlay	Special Education		
REVENUES					
Local sources:					
Taxes	\$ 2,781,012	\$ 1,548,725	\$ 809,963	\$ 160,680	\$ 5,300,380
Tuition and fees	39,401	-	51,251	-	90,652
Interest	6,090	-	-	24,580	30,670
Cocurricular activities	65,852	-	-	-	65,852
Other local revenue	216,991	-	39,178	356	256,525
Intergovernmental:					
County sources	65,344	-	-	-	65,344
State sources	1,906,239	-	182,554	-	2,088,793
Federal sources	262,102	-	227,335	-	489,437
Total revenues	<u>5,343,031</u>	<u>1,548,725</u>	<u>1,310,281</u>	<u>185,616</u>	<u>8,387,653</u>
EXPENDITURES					
Instruction:					
Regular programs	3,039,133	328,776	-	-	3,367,909
Special programs	136,819	-	844,731	-	981,550
Support services:					
Pupils	142,828	-	277,293	-	420,121
Instructional staff	256,157	3,140	-	-	259,297
General administration	247,235	-	-	-	247,235
School administration	346,706	-	-	-	346,706
Business	756,557	520,658	-	-	1,277,215
Central	1,749	-	-	-	1,749
Special education	-	-	123,044	-	123,044
Community services:					
Nonpublic school services	20,210	-	6,613	-	26,823
Nonprogrammed charges:					
Early retirement	-	-	-	37,862	37,862
Cocurricular activities:					
Transportation	41,422	-	-	-	41,422
Combined activities	309,227	36,679	-	-	345,906
Debt service:					
Principal	-	340,000	-	-	340,000
Interest and fiscal charges	-	41,078	-	-	41,078
Capital outlay	-	305,697	-	-	305,697
Total expenditures	<u>5,298,043</u>	<u>1,576,028</u>	<u>1,251,681</u>	<u>37,862</u>	<u>8,163,614</u>
Excess (deficiency) of revenues over expenditures	<u>44,988</u>	<u>(27,303)</u>	<u>58,600</u>	<u>147,754</u>	<u>224,039</u>

The accompanying notes are an
 integral part of these financial statements

MILBANK SCHOOL DISTRICT NO. 25-4

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS - PAGE 2 OF 2
 YEAR ENDED JUNE 30, 2015

	Major Funds			Nonmajor Funds	Total Governmental Funds
	General	Capital Outlay	Special Education		
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	66,667	66,667
Transfers out	(1,465)	(87,049)	-	-	(88,514)
Total other financing sources (uses)	(1,465)	(87,049)	-	66,667	(21,847)
Net change in fund balances	43,523	(114,352)	58,600	214,421	202,192
Fund balances - beginning	1,785,154	625,392	232,398	717,232	3,360,176
Fund balances - ending	<u>\$ 1,828,677</u>	<u>\$ 511,040</u>	<u>\$ 290,998</u>	<u>\$ 931,653</u>	<u>\$ 3,562,368</u>

The accompanying notes are an integral part of these financial statements

MILBANK SCHOOL DISTRICT NO. 25-4

RECONCILIATION OF STATEMENT OF THE REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

Net change in fund balances - total governmental funds	\$ 202,192
The change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$492,444) exceeded capital outlay (\$305,697) in the current period.	(186,747)
In both the government wide and fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the fund's statement differs from the accounting in the government wide statements in that the fund financial statements require the amounts to be "available". This amount reflects the application of both the application period and "availability criteria".	89,529
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This adjustment is the pension revenue related to the South Dakota Retirement System (SDRS) pension plan.	68,797
Changes in the pension related deferred outflows/inflows are direct components of pension asset and are not reflected in the governmental funds.	248,708
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.	
Repayments:	
Capital outlay certificates	340,000
Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment is the net change the following:	
Accrued interest payable	\$ 3,799
Compensated absences	14,569
Net OPEB obligation	<u>(34,156)</u>
Total	<u>(15,788)</u>
Change in net position of governmental activities	<u>\$ 746,691</u>

The accompanying notes are an integral part of these financial statements

MILBANK SCHOOL DISTRICT NO. 25-4

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2015

	Enterprise Funds		
	Food Service Fund	Other Enterprise Funds	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 108,261	\$ 57,749	\$ 166,010
Accounts receivable	32,414	1,180	33,594
Inventories:			
Supplies	1,793	-	1,793
Stores purchased for resale	9,687	-	9,687
Donated food	128	-	128
Total current assets	<u>152,283</u>	<u>58,929</u>	<u>211,212</u>
Noncurrent assets:			
Net pension asset	58,364	19,455	77,819
Capital assets:			
Machinery and equipment	317,528	-	317,528
Less accumulated depreciation	(222,036)	-	(222,036)
Total noncurrent assets	<u>153,856</u>	<u>19,455</u>	<u>173,311</u>
Total assets	<u>306,139</u>	<u>78,384</u>	<u>384,523</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows	<u>51,949</u>	<u>17,316</u>	<u>69,265</u>
LIABILITIES			
Current liabilities:			
Accounts payable	-	2,637	2,637
Contracts payable	2,763	-	2,763
Unearned revenue	13,283	-	13,283
Current portion of accrued compensated absences	938	-	938
Total current liabilities	<u>16,984</u>	<u>2,637</u>	<u>19,621</u>
Noncurrent liabilities:			
Accrued compensated absences	3,751	-	3,751
Net OPEB obligation	4,043	-	4,043
Total noncurrent liabilities	<u>7,794</u>	<u>-</u>	<u>7,794</u>
Total liabilities	<u>24,778</u>	<u>2,637</u>	<u>27,415</u>
DEFERRED INFLOWS OF RESOURCES			
Pension related deferred inflows	<u>67,596</u>	<u>22,532</u>	<u>90,128</u>
NET POSITION			
Investment in capital assets	95,492	-	95,492
SDRS pension purposes	42,717	14,239	56,956
Unrestricted	127,505	56,292	183,797
Total net position	<u>\$ 265,714</u>	<u>\$ 70,531</u>	<u>\$ 336,245</u>

The accompanying notes are an integral part of these financial statements

MILBANK SCHOOL DISTRICT NO. 25-4

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2015

	Enterprise Funds		
	Food Service Fund	Other Enterprise Funds	Total
OPERATING REVENUES			
Food sales	\$ 305,925	\$ -	\$ 305,925
Other charges for goods and services	7,794	102,989	110,783
Pension revenue	2,465	822	3,287
Other local revenue	-	3,988	3,988
Total operating revenues	<u>316,184</u>	<u>107,799</u>	<u>423,983</u>
OPERATING EXPENSES			
Salaries and employee benefits	222,663	81,941	304,604
Purchased services	6,310	4,431	10,741
Cost of materials	8,528	10,300	18,828
Cost of sales - purchased food	267,295	-	267,295
Cost of sales - donated food	44,414	-	44,414
Other	1,243	-	1,243
Depreciation	6,709	-	6,709
Total operating expenses	<u>557,162</u>	<u>96,672</u>	<u>653,834</u>
Operating income (loss)	<u>(240,978)</u>	<u>11,127</u>	<u>(229,851)</u>
NONOPERATING REVENUES (EXPENSES)			
State sources:			
Cash reimbursements	3,358	1,629	4,987
Federal sources:			
Cash reimbursements	182,227	-	182,227
Donated food	41,617	-	41,617
Total nonoperating revenues	<u>227,202</u>	<u>1,629</u>	<u>228,831</u>
Income (loss) before transfers	(13,776)	12,756	(1,020)
Transfers in	20,382	1,465	21,847
Total transfers	<u>20,382</u>	<u>1,465</u>	<u>21,847</u>
Change in net position	<u>6,606</u>	<u>14,221</u>	<u>20,827</u>
Total net position - beginning	227,768	45,863	273,631
Prior period adjustment	31,340	10,447	41,787
Total net position - beginning, restated	<u>259,108</u>	<u>56,310</u>	<u>315,418</u>
Total net position - ending	<u>\$ 265,714</u>	<u>\$ 70,531</u>	<u>\$ 336,245</u>

The accompanying notes are an integral part of these financial statements

MILBANK SCHOOL DISTRICT NO. 25-4

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2015

	Enterprise Funds		
	Food Service Fund	Other Enterprise Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 322,695	\$ 107,731	\$ 430,426
Payments to suppliers	(285,120)	(16,374)	(301,494)
Payments to employees	(229,054)	(84,911)	(313,965)
Net cash provided by (used in) operating activities	(191,479)	6,446	(185,033)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	20,382	1,465	21,847
Cash reimbursements - state sources	3,358	1,629	4,987
Cash reimbursements - federal sources	182,227	-	182,227
Net cash provided by noncapital financing activities	205,967	3,094	209,061
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(20,381)	-	(20,381)
Net increase (decrease) in cash and cash equivalents	(5,893)	9,540	3,647
Balances - beginning of year	114,154	48,209	162,363
Balances - end of year	\$ 108,261	\$ 57,749	\$ 166,010
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (240,978)	\$ 11,127	\$ (229,851)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	6,709	-	6,709
Value of donated commodities used	44,414	-	44,414
Change in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	5,185	754	5,939
Inventories	(1,364)	-	(1,364)
Pension asset and deferred outflows	(78,973)	(26,324)	(105,297)
Increase (decrease) in:			
Accounts payable	(380)	(1,643)	(2,023)
Contracts payable	89	-	89
Unearned revenue	3,791	-	3,791
Accrued compensated absences	(242)	-	(242)
Pension deferred inflows	67,596	22,532	90,128
Net OPEB obligation	2,674	-	2,674
Net cash provided by (used in) operating activities	\$ (191,479)	\$ 6,446	\$ (185,033)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Value of commodities received	\$ 41,617	\$ -	\$ 41,617

The accompanying notes are an integral part of these financial statements

MILBANK SCHOOL DISTRICT NO. 25-4

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

	<u>Agency Funds</u>	<u>Total</u>
ASSETS		
Cash and cash equivalents	\$ 145,250	\$ 145,250
Total assets	<u>145,250</u>	<u>145,250</u>
LIABILITIES		
Due to other funds	10,000	10,000
Amount held for others	<u>135,250</u>	<u>135,250</u>
Total liabilities	<u>145,250</u>	<u>145,250</u>
NET POSITION	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an
integral part of these financial statements

MILBANK SCHOOL DISTRICT NO. 25-4

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The reporting entity of Milbank School District No. 25-4 (the School District) consists of the primary government, which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity; those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

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

The School District has included the Milbank School Endowment, a blended component unit, as part of nonmajor governmental funds. The Milbank School Endowment is a nonprofit corporation established to provide an endowment for the Milbank School District through the receipt, solicitation, collection and otherwise raising of money and expending, dispersing, and otherwise handling and dispersing money to the Milbank School District or to any party for the direct benefit of the Milbank School District. The financial records are maintained by the Milbank School District and may be obtained from them.

The School District participates in an informal cost sharing arrangement with three other school districts. See detailed note entitled "Cost Sharing Consortium" for specific disclosures. Cost sharing consortiums do not meet the criteria for inclusion in the reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the School District.

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation

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

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

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

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

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

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The fund types of the School District financial reporting entity are described below:

Governmental Funds:

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

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

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

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

Pension Fund – A fund established by SDCL 13-10-6 for the purpose of paying pensions to retired employees of school districts, which have established such systems, paying the School District's share of retirement plan contributions, and for funding early retirement benefits to qualifying employees. This fund is financed by property taxes. This is not a major fund.

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

The Bond Redemption Fund – A fund established by SDCL 13-16-13 to account for the proceeds of a special property tax restricted to use for the payment of principal and interest on general obligation bonded debt. This is not a major fund.

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

Proprietary Funds:

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

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

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

The Other Enterprise Fund – A fund used to record financial transactions related to drivers education and after school program conducted for the benefit of the children. The fund is financed by user charges. This is not a major fund.

Fiduciary Funds:

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

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

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

Government-wide Financial Statements:

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

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the School District, the length of that cycle is 45 days. The revenues accrued at June 30, 2015 are property taxes and federal grants.

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Measurement Focus and Basis of Accounting, continued

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

Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

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

In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

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.

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
 JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets, continued

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

Government-wide Financial Statements:

All purchased capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

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

The total June 30, 2015 balance of capital assets for governmental activities includes approximately 20 percent for which the values were determined by estimates of the original costs. The total June 30, 2015 balance of capital assets for business-type activities includes approximately 5 percent for which the values were determined by estimates of the original cost. These estimated original costs were established by deflated current replacement cost.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	All	-	-
Buildings	\$ 50,000	Straight-line	15-50 years
Improvements other than buildings	\$ 10,000	Straight-line	10-50 years
Machinery and equipment	\$ 5,000	Straight-line	5-30 years

Land, an inexhaustible capital asset, is not depreciated.

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets, continued

Fund Financial Statements

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

Long-Term Liabilities

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

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

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

Deferred Inflows and Outflows of Resources

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

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

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Pension

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

Program Revenues

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

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

Proprietary Funds Revenue and Expense Classifications

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

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Cash and Cash Equivalents

The School District pools its cash resources for depositing and investing purposes. Accordingly, the enterprise funds have access to their cash resources on demand. Accordingly, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows. Certificates of deposit, regardless of maturity, are not considered to be cash equivalents.

Equity Classifications

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

Application of Net Position

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

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Balance Classification Policies and Procedures

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

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

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

The School District *does not* have a formal minimum fund balance policy.

2. IMPLEMENTATION OF GASB STATEMENT NO. 68 AND GASB STATEMENT NO. 71

As of July 1, 2014, the School District adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The implementation of these standards requires governments to calculate and report the costs and obligations associated with pensions in their basic financial statements.

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

2. IMPLEMENTATION OF GASB STATEMENT NO. 68 AND GASB STATEMENT NO. 71, continued

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 below and the additional disclosures required by these standards are included in Note 13.

Beginning net position was restated to retroactively report the beginning net position liability and deferred outflows of resources related to contributions made after the measurement date as follows:

	Governmental Activities	Business-Type Activities	Total
Net Position - June 30, 2014, as previously reported	\$ 6,449,867	\$ 273,631	\$ 6,723,498
Restatement for pension accounting:			
Net pension asset at June 30, 2014	637,392	30,454	667,846
Deferred outflows of resources related to contributions made during the year ended June 30, 2014	<u>237,200</u>	<u>11,333</u>	<u>248,533</u>
Net Pension - July 1, 2014, as restated	<u>\$ 7,324,459</u>	<u>\$ 315,418</u>	<u>\$ 7,639,877</u>

3. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

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

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

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

3. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK, continued

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.

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. As of June 30, 2015, the School District had no investments.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial risk. As of June 30, 2015, the School District's deposits were fully insured or collateralized and were not exposed to custodial credit risk.

Investments – As of June 30, 2015, the School District had no investments.

Authorized Investments by the District – The School District does not have a formal investment policy that further limits investments beyond those imposed by statutes.

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.

Concentration of Credit Risk - The School District places no limit on the amount that may be invested in any one issuer. As of June 30, 2015, the School District had no investments.

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

3. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK, continued

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit income from deposits and investments to the General Fund, except for the Food Service Fund and scholarship funds. Accounting principles generally accepted in the United States of America, on the other hand, requires material income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities. These interfund transfers are not violations of the statutory restrictions on interfund transfers.

4. RESTRICTED CASH AND INVESTMENTS

Assets restricted to use for a specific purpose through segregation of balances in separate accounts are as follows:

Amount:	Purpose:
\$ 266,667	For Debt Service, by debt covenants (sinking funds required to be in a separate account)

5. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year. Allowance for uncollectible accounts receivable are calculated based on historical trend data. The other funds receivables are stated at the face value. For the year ended June 30, 2015, the allowance for doubtful accounts totaled \$ -0-.

6. INVENTORIES

Inventories are stated at the lower of cost (first-in first-out) or market. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
 JUNE 30, 2015

6. INVENTORIES, continued

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

In the governmental fund financial statements, inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased (consumed). Reported inventories are equally offset by Nonspendable Fund Balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. Inventories of the governmental funds were immaterial as of June 30, 2015.

7. PROPERTY TAXES

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

School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is not intended to be used to finance the current year's appropriations and therefore are not susceptible to accrual has been reported as deferred inflows of resources 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 "available period."

8. CHANGES IN CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets not being depreciated:				
Land	\$ 78,418	\$ -	\$ -	\$ 78,418
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>78,418</u>	<u>-</u>	<u>-</u>	<u>78,418</u>

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

8. CHANGES IN CAPITAL ASSETS, continued

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Buildings and improvements	14,690,701	305,697	-	14,996,398
Equipment	1,652,774	-	-	1,652,774
Total capital assets being depreciated	<u>16,343,475</u>	<u>305,697</u>	<u>-</u>	<u>16,649,172</u>
Less accumulated depreciation for:				
Buildings and improvements	9,986,497	409,258	-	10,395,755
Equipment	751,807	83,186	-	834,993
Total accumulated depreciation	<u>10,738,304</u>	<u>492,444</u>	<u>-</u>	<u>11,230,748</u>
Total capital assets being depreciated, net	<u>5,605,171</u>	<u>(186,747)</u>	<u>-</u>	<u>5,418,424</u>
Governmental activities capital assets, net	<u>\$ 5,683,589</u>	<u>\$ (186,747)</u>	<u>\$ -</u>	<u>\$ 5,496,842</u>

Governmental activities' depreciation expense was charged to functions as follows:

Instruction	\$ 249,823
Support Services	217,484
Community Services	6,600
Co-curricular Activities	<u>18,537</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 492,444</u>

A summary of changes in business-type activities' capital assets for the year ended June 30, 2015 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-Type Activities:</i>				
Capital assets being depreciated:				
Buildings and improvements	\$ -	\$ -	\$ -	\$ -
Equipment	305,147	20,381	(8,000)	317,528
Total capital assets being depreciated	<u>305,147</u>	<u>20,381</u>	<u>(8,000)</u>	<u>317,528</u>
Less accumulated depreciation for:				
Buildings and improvements	-	-	-	-
Equipment	223,327	6,709	(8,000)	222,036
Total accumulated depreciation	<u>223,327</u>	<u>6,709</u>	<u>(8,000)</u>	<u>222,036</u>
Business-type activities capital assets, net	<u>\$ 81,820</u>	<u>\$ 13,672</u>	<u>-</u>	<u>\$ 95,492</u>

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

8. CHANGES IN CAPITAL ASSETS, continued

Business-type activities' depreciation expense was charged to functions as follows:

Food Service Fund \$ 6,709

9. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
Debt Payable:					
Capital Outlay Certificates Qualified Zone	\$ 1,405,000	\$ -	\$ (340,000)	\$ 1,065,000	\$ 345,000
Academy Bonds	1,000,000	-	-	1,000,000	-
Total Debt Payable	2,405,000	-	(340,000)	2,065,000	345,000
Compensated Absences	153,238	16,079	(30,648)	138,669	27,734
Total Governmental Activities	<u>2,558,238</u>	<u>16,079</u>	<u>(370,648)</u>	<u>2,203,669</u>	<u>372,734</u>
<i>Business-Type Activities:</i>					
Compensated Absences	4,931	744	(986)	4,689	938
Total Long-Term Liabilities	<u>\$ 2,563,169</u>	<u>\$ 16,823</u>	<u>\$ (371,634)</u>	<u>\$ 2,208,358</u>	<u>\$ 373,672</u>

Compensated absences for governmental activities typically have been liquidated from the General Fund and Special Education Fund. Compensated absences for business-type activities liquidated from the Food Service Fund.

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

9. LONG-TERM LIABILITIES, continued

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

Capital Outlay Certificates:

Limited Tax General Obligation Certificates,
Series 2009A, matures January 2018,
interest rates range from 2.0% to 3.2%
depending on length to maturity, payments
made from the Capital Outlay Fund. \$ 1,065,000

Qualified Zone Academy Bonds - Series 2011
zero interest. The bonds are due in annual
sinking fund payments of \$66,667 until 2026.
The payments will be made from the Debt
Service Fund, via transfers from the Capital
Outlay Fund. 1,000,000

Total debt payable 2,065,000

Compensated Absences:

Compensated absences payable from
General Fund \$ 119,286

Compensated absences payable from
Special Education Fund 19,383

Compensated absences payable from
Food Service Fund 4,689

Total Compensated Absences 143,358

Total Long-Term Liabilities \$ 2,208,358

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

9. LONG-TERM LIABILITIES, continued

The annual requirements to amortize long-term liabilities outstanding as of June 30, 2015, except for compensated absences are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Capital Outlay</u> <u>Certificates Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 345,000	\$ 31,818
2017	355,000	22,330
2018	365,000	11,680
2019	-	-
2020	-	-
2021-2025	-	-
2026	<u>1,000,000</u>	<u>-</u>
 Total	 <u>\$ 2,065,000</u>	 <u>\$ 65,828</u>

10. OPERATING LEASES

The School District has entered into a noncancelable operating lease for three copiers on March 17, 2015 calling for monthly payments of \$471. Additionally, the School District entered into a 3 year noncancelable operating lease for one copier on June 11, 2012 requiring monthly payments of \$1,447. Expense for the year ended June 30, 2015, totaled \$23,019 under these agreements.

The following are the minimum payments on these operating leases:

<u>Year</u>	<u>Amount</u>
2016	\$ 7,104
2017	<u>4,243</u>
	 <u>\$ 11,347</u>

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

11. INDIVIDUAL INTERFUND TRANSACTIONS

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

	Transfers In From	Transfers Out To
	<u> </u>	<u> </u>
<i>Governmental activities:</i>		
General Fund:		
Other Enterprise Funds	\$ -	\$ 1,465
	<u>-</u>	<u>1,465</u>
Capital Outlay Fund:		
Bond Redemption Fund	-	66,667
Food Service Fund	-	20,382
	<u>-</u>	<u>87,049</u>
Bond Redemption Fund:		
Capital Outlay Fund	66,667	-
	<u>66,667</u>	<u>-</u>
Total governmental activities	<u>66,667</u>	<u>88,514</u>
 <i>Business-type activities:</i>		
Food Service Fund:		
Capital Outlay Fund	20,382	-
	<u>20,382</u>	<u>-</u>
Other Enterprise Funds:		
General Fund	1,465	-
	<u>1,465</u>	<u>-</u>
Total business-type activities	<u>21,847</u>	<u>-</u>
Total primary government	<u>\$ 88,514</u>	<u>\$ 88,514</u>

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

12. RESTRICTED NET POSITION

The following table shows the net assets restricted for other purposes as shown on the Statement of Net Position:

<u>Purposes</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay Fund	Law	\$ 511,040
Special Education Fund	Law	290,998
Pension Fund	Law	583,421
Bond Redemption Fund	Law	266,667
SDRS Pension Purposes	Law	1,249,052
Endowment Nonexpendable	Donors	<u>81,565</u>
Total Restricted Net Position		<u>\$2,982,743</u>

13. PENSION PLAN

Plan Information

All employees, working more than 20 hours per week during the 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.

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued JUNE 30, 2015

13. PENSION PLAN, continued

Benefits Provided

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

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

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

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2015, 2014, and 2013 were \$259,967, \$248,533, and \$238,574, respectively, equal to the required contributions each year.

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

13. PENSION PLAN, continued

**Pension Assets, Pension Revenue, and Deferred Outflows of Resources and
Deferred Inflows of Resources to Pensions**

At June 30, 2014, SDRS is 107.3% 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	\$ 25,126,178
Less proportionate share of total pension liability	<u>23,419,622</u>
Proportionate share of net pension asset	<u>\$ 1,706,556</u>

At June 30, 2015, the School District reported an asset of \$1,706,556 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 District'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 0.2368706%.

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

13. PENSION PLAN, continued

Pension Assets, Pension Revenue, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions, continued

For the year ended June 30, 2015, the School District recognized pension revenue of \$72,084. At June 30, 2015 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 144,398	\$ -
Changes in assumption	1,113,989	-
Net difference between projected and actual earnings on pension plan investments	-	1,976,479
School District's contributions subsequent to the measurement date	<u>260,589</u>	<u>-</u>
Total	<u>\$ 1,518,976</u>	<u>\$ 1,976,479</u>

\$260,589 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension revenue as follows:

Year Ended June 30:

2016	\$ 86,395
2017	86,395
2018	86,395
2019	<u>198,318</u>
	<u>\$ 457,503</u>

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

13. PENSION PLAN, continued

Actuarial Assumptions

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

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

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

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

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

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

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

13. PENSION PLAN, continued

Discount Rate

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

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

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net pension liability (asset)	1,828,520	(1,706,556)	(4,473,864)

Pension Plan Fiduciary Net Position

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

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
 JUNE 30, 2015

14. OTHER POST EMPLOYMENT BENEFITS – HEALTHCARE PLAN

Plan Description – The Milbank School District No. 25-4 Other Post Employment Benefit Plan (the OPEB Plan) is a single-employer defined benefit healthcare plan administered by the School District. The OPEB Plan provides medical insurance benefits to eligible retirees and their spouses as permitted by South Dakota Codified Law 6-1-16. Benefit provisions were established and may be amended during the negotiated agreement process between district certified staff and the governing board. The OPEB Plan does not issue separately stated stand-alone financial statements.

Funding Policy – The contribution requirements of plan members and the School District are established and may be amended during the negotiated agreement process between district certified staff and the governing board. An individual is eligible to elect medical coverage upon retiring under the South Dakota Retirement System after reaching the age of 55 and with at least 13 years of service. Coverage ceases when the retiree or dependent attains the age of 65. The retiree is responsible for 100% of the full active premium rates for either single or family coverage (The pay-as-you-go basis).

Annual OPEB Cost and Net OPEB Obligation – the School District’s annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the financial components of the plan:

Annual Required Contribution (ARC)	\$	61,685
Interest on Net OPEB Obligation		(631)
Adjustment of Annual Required Contribution		1,041
Annual OPEB Cost		62,095
Contributions Made		(25,265)
Increase (Decrease) in Net OPEB Obligation		36,830
Net OPEB Obligation - Beginning of Year		45,627
Net OPEB Obligation - End of Year	\$	<u>82,457</u>

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

14. OTHER POST EMPLOYMENT BENEFITS – HEALTHCARE PLAN, continued

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

Fiscal Year Ended	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Obligation
6/30/2012	\$ 43,548	\$ 45,236	103.9%	\$ (1,688)
6/30/2013	\$ 44,303	\$ 22,691	51.2%	\$ 19,924
6/30/2014	\$ 45,212	\$ 19,509	43.2%	\$ 45,627
6/30/2015	\$ 62,095	\$ 25,265	40.7%	\$ 82,457

Funded Status and Funding Progress – As of June 30, 2015, the most recent actuarial valuation date, the plan's statistics were as follows:

Actuarial Accrued Liability	\$ 556,660
Actuarial Value of Benefit Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 556,660</u>
Funded Ratio	0.00%
Covered Payroll	\$ 4,453,865
Unfunded Actuarial Accrued Liability As a Percentage of Covered Payroll	12.50%

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

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

14. OTHER POST EMPLOYMENT BENEFITS – HEALTHCARE PLAN, continued

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

In the June 30, 2015 actuarial valuation, the Unit Credit Actuarial Cost Method was used. The actuarial assumptions included a 3.0 percent rate of return and an annual healthcare cost trend rate of 5.8 percent initially, reduced by decrements to an ultimate rate of 5.5 percent after 45 years. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

15. TERMINATION BENEFITS

The School District offers early retirement incentives to Milbank School District employees who find it necessary or desirable to retire early from employment within the School District. A certified teacher is eligible for early retirement if such employee is not less than 55 years of age or more than 64 years of age and has 13 years or more of employment service with the School District. Upon providing written notice to the Superintendent of Schools on or prior to March 1 of the year in which early retirement from the employ of the School District is to commence, the eligible employee shall be paid the following benefits:

The product of the employee's full contractual salary multiplied by a percentage factor according to a graduated scale ranging from 75% at age 55 to 8.4% at age 64. Cocurricular assignment pay shall be included in the final contractual salary, provided the employee has served in that specific assignment for at least 13 years.

The benefit shall be made payable in full or in part to the retiree on any regularly scheduled payday between July 1 and January 31, at the discretion of the retiree, in the school year after the effective retirement date.

A teacher electing early retirement shall be extended the opportunity to participate in the then existing major medical/health insurance program at his/her total expense. Application for such health plan participation shall be made by the retiree by March 1 of the fiscal year in which the retirement occurs; such coverage will provide insurance availability to employee and spouse until each individual reaches the age of 65 (maximum of 10 years for the spouse) or until eligible for Medicare.

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued JUNE 30, 2015

16. COMMITMENTS

The School District has a 5 year agreement with an independent entity to provide school bus transportation. The agreement calls for monthly payments based on a per pupil per day charge for resident pupils living outside of the municipal boundaries of Milbank, a flat monthly sum for resident pupils living within the municipal boundaries, and a per mile charge with a per hour waiting fee for out-of town activity events and for classes or activities. The agreement includes a formula for adjustment based on fuel price changes and guidelines for renegotiation for insurance premium increases. If there is a significant change in the School District's finances causing it to cease transportation of students, the agreement can be cancelled at the end of the school year. The School District must make a declaration by March 1 of that school year to cancel the agreement. The agreement was extended and expires at the end of the 2016-2017 school fiscal year.

For the year ended June 30, 2015, the School District paid \$370,430 from the Capital Outlay Fund under this agreement. The School District did not make a declaration to discontinue the agreement.

17. COST SHARING CONSORTIUM

The School District participates in the Northeast Consortium, an informal cost sharing arrangement for the purpose of providing vocational education and other services to member school districts. The members include the Milbank, Langford, Britton-Hecla, and Rosholt School Districts.

The group's oversight body is composed of the superintendent from each member school district. South Dakota Codified Law 1-24-19 requires the governing body of the joint entity be composed of elected officials from the participating governing bodies. The School Districts and the Consortium are not in compliance with this requirement.

The Milbank School District is the fiscal agent for the consortium. It applies for and processes reimbursement requests for the member School Districts. It recognizes all of the Federal Awards and recognizes amounts passed through to other members as expenditures.

18. RISK MANAGEMENT

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

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO FINANCIAL STATEMENTS - continued
JUNE 30, 2015

18. **RISK MANAGEMENT, continued**

Employee Health Insurance

The School District joined the South Dakota School District Health Benefits Fund. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The School District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage provides a deductible of \$250 per person up to \$500 per family. The plan also provides for coinsurance of 50 percent up to \$1,000 for individual and \$2,000 for family. The coverage also includes a \$2,000,000 lifetime maximum payment per person.

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

Liability Insurance

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

Worker's Compensation

The School District purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits

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

During the year ended June 30, 2015, there were no claims paid for unemployment benefits, nor had any claims been filed or were outstanding. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

MILBANK SCHOOL DISTRICT NO. 25-4

BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND - PAGE 1 OF 2
 YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary - Modified Accrual Basis)</u>	<u>Final Budget Positive (Negative)</u>
REVENUES				
Revenues from local sources:				
Taxes:				
Ad valorem taxes	\$ 2,521,423	\$ 2,521,423	\$ 2,562,621	\$ 41,198
Prior years ad valorem taxes	7,000	7,000	8,568	1,568
Gross receipts tax	190,000	190,000	209,077	19,077
Penalties and interest	5,000	5,000	746	(4,254)
Tuition and fees	22,553	22,553	39,401	16,848
Earning on investments and deposits	5,000	5,000	6,090	1,090
Cocurricular activities:				
Admissions	40,000	40,000	38,463	(1,537)
Pupil organization memberships	15,000	15,000	12,359	(2,641)
Rentals	1,500	1,500	1,370	(130)
Other pupil activity income	16,700	16,700	13,660	(3,040)
Other revenue from local sources:				
Rentals	15,000	15,000	15,126	126
Contributions and donations	-	-	100,000	100,000
Charges for services	34,000	34,000	12,185	(21,815)
Daycare services	-	-	-	-
Other	60,000	81,673	89,680	8,007
Revenues from intermediate sources:				
County sources:				
County apportionment	70,000	70,000	63,554	(6,446)
Revenue in lieu of taxes	-	-	1,790	1,790
Revenues from state sources:				
Grants-in-aid:				
Unrestricted	1,950,915	1,950,915	1,883,783	(67,132)
Restricted	-	-	15,000	15,000
Other	-	21,618	7,456	(14,162)
Revenues from federal sources:				
Grants-in-aid:				
Unrestricted	-	-	-	-
Restricted - received through state	237,943	237,943	262,102	24,159
Other federal revenue	-	-	-	-
Total revenues	<u>5,192,034</u>	<u>5,235,325</u>	<u>5,343,031</u>	<u>107,706</u>
EXPENDITURES				
Instruction:				
Regular programs:				
Elementary	1,202,000	1,237,620	1,237,610	10
Middle school	716,000	670,138	665,268	4,870
High school	1,115,000	1,136,260	1,136,255	5
Special programs:				
Culturally different	-	960	960	-
Educationally deprived	135,860	135,860	135,859	1

See Independent Auditor's Report

MILBANK SCHOOL DISTRICT NO. 25-4

BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND - PAGE 2 OF 2
 YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary - Modified Accrual Basis)</u>	<u>Final Budget Positive (Negative)</u>
Support services:				
Pupils:				
Attendance and social work	-	10,655	10,655	-
Guidance	74,000	74,000	68,431	5,569
Health	65,000	65,000	63,742	1,258
Instructional staff:				
Improvement of instruction	82,292	99,127	113,920	(14,793)
Educational media	165,000	159,606	142,237	17,369
General administration:				
Board of education	89,974	89,974	83,016	6,958
Executive administration	158,000	158,000	164,219	(6,219)
School administration:				
Office of principal	350,000	350,000	346,392	3,608
Other	1,500	1,500	314	1,186
Business:				
Fiscal services	134,000	134,000	128,158	5,842
Operations and maintenance of plant	648,000	648,000	595,750	52,250
Pupil transportation	6,200	6,200	5,638	562
Food services	-	27,012	27,011	1
Central:				
Staff	2,500	2,500	1,749	751
Statistical services	500	500	-	500
Community services:				
Custody and care of children	-	-	-	-
Nonpublic school services	19,753	19,753	20,210	(457)
Nonprogrammed charges				
Early retirement payments	-	-	-	-
Cocurricular activities:				
Transportation	45,000	45,000	41,422	3,578
Combined activities	315,002	315,002	309,227	5,775
Contingencies	30,000	12,205	-	12,205
Total expenditures	<u>5,355,581</u>	<u>5,398,872</u>	<u>5,298,043</u>	<u>100,829</u>
Excess (deficiency) of revenues over expenditures	<u>(163,547)</u>	<u>(163,547)</u>	<u>44,988</u>	<u>208,535</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	(1,465)	(1,465)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,465)</u>	<u>(1,465)</u>
Net change in fund balances	(163,547)	(163,547)	43,523	207,070
Fund balances - beginning	<u>1,785,154</u>	<u>1,785,154</u>	<u>1,785,154</u>	<u>-</u>
Fund balances - ending	<u>\$ 1,621,607</u>	<u>\$ 1,621,607</u>	<u>\$ 1,828,677</u>	<u>\$ 207,070</u>

See Independent Auditor's Report

MILBANK SCHOOL DISTRICT NO. 25-4

BUDGETARY COMPARISON SCHEDULE
 CAPITAL OUTLAY FUND - PAGE 1 OF 2
 YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary - Modified Accrual Basis)</u>	<u>Final Budget Positive (Negative)</u>
REVENUES				
Revenues from local sources:				
Taxes:				
Ad valorem taxes	1,645,000	1,608,202	1,542,679	(65,523)
Prior years ad valorem taxes	2,500	2,500	5,758	3,258
Penalties and interest	2,500	2,500	288	(2,212)
Earning on investments and deposits	-	-	-	-
Other revenue from local sources:				
Contributions and Donations	-	-	-	-
Other	-	-	-	-
Revenues from state sources				
Grants-in-aid				
Restricted	-	-	-	-
Revenues from federal sources				
Grants-in-aid				
Restricted	-	-	-	-
Total revenues	<u>1,650,000</u>	<u>1,613,202</u>	<u>1,548,725</u>	<u>(64,477)</u>
EXPENDITURES				
Instruction:				
Regular programs:				
Elementary	80,000	80,000	79,804	196
Middle school	85,000	114,250	108,731	5,519
High school	135,000	141,495	140,241	1,254
Support services:				
Instructional staff:				
Educational media	8,500	8,500	3,140	5,360
General administration:				
Executive administration	-	-	-	-
School administration:				
Office of the principal	-	-	-	-
Business:				
Fiscal services	6,000	6,185	6,181	4
Facilities acquisition and construction	410,000	410,000	385,603	24,397
Operations and maintenance of plant	60,000	60,000	60,000	-
Pupil transportation	390,000	390,000	370,430	19,570
Food services	47,000	48,600	4,141	44,459
Cocurricular activities:				
Combined activities	30,000	48,215	36,679	11,536
Capital Outlay	-	-	-	-
Debt service:				
Principal	381,232	381,232	340,000	41,232
Interest and fiscal charges	-	-	41,078	(41,078)
Issuance costs	-	-	-	-
Contingencies	<u>100,000</u>	<u>44,255</u>	<u>-</u>	<u>44,255</u>
Total expenditures	<u>1,732,732</u>	<u>1,732,732</u>	<u>1,576,028</u>	<u>156,704</u>

See Independent Auditor's Report

MILBANK SCHOOL DISTRICT NO. 25-4

BUDGETARY COMPARISON SCHEDULE
 CAPITAL OUTLAY FUND - PAGE 2 OF 2
 YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary - Modified Accrual Basis)</u>	<u>Final Budget Positive (Negative)</u>
Excess (deficiency) of revenues over expenditures	(82,732)	(119,530)	(27,303)	92,227
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	(87,049)	(87,049)
Proceeds of General Long-Term Liabilities	-	-	-	-
Total other financing sources (uses)	-	-	(87,049)	(87,049)
Net change in fund balances	(82,732)	(119,530)	(114,352)	5,178
Fund balances - beginning	625,392	625,392	625,392	-
Fund balances - ending	<u>\$ 542,660</u>	<u>\$ 505,862</u>	<u>\$ 511,040</u>	<u>\$ 5,178</u>

See Independent Auditor's Report

MILBANK SCHOOL DISTRICT NO. 25-4

BUDGETARY COMPARISON SCHEDULE
SPECIAL EDUCATION FUND
YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance With
	Original	Final	(Budgetary - Modified Accrual Basis)	Final Budget Positive (Negative)
REVENUES				
Revenues from local sources:				
Taxes:				
Ad valorem taxes	\$ 830,951	\$ 830,951	\$ 806,928	\$ (24,023)
Prior years ad valorem taxes	1,500	1,500	2,895	1,395
Penalties and interest	1,500	1,500	140	(1,360)
Tuition and fees	35,000	35,000	51,251	16,251
Earning on investments and deposits	-	-	-	-
Other revenue from local sources:				
Charges for services	30,000	30,000	19,484	(10,516)
Other	16,500	16,500	19,694	3,194
Revenues from state sources:				
Grants-in-aid:				
Restricted	179,790	179,790	182,554	2,764
Other	-	-	-	-
Revenues from federal sources:				
Grants-in-aid:				
Restricted - received through state	235,798	235,798	227,335	(8,463)
Total revenues	1,331,039	1,331,039	1,310,281	(20,758)
EXPENDITURES				
Instruction:				
Special programs:				
Special education	886,200	868,707	844,731	23,976
Support services:				
Pupils:				
Guidance services	16,736	16,736	16,359	377
Health services	13,080	13,080	13,005	75
Psychological services	62,000	69,890	69,885	5
Speech pathology	85,300	85,300	81,077	4,223
Audiology services	2,600	2,600	2,300	300
Student therapy	127,500	127,500	94,667	32,833
Special education:				
Administrative costs	119,083	119,083	114,227	4,856
Transportation costs	9,100	11,090	8,817	2,273
Community services:				
Nonpublic school services	-	6,613	6,613	-
Total expenditures	1,321,599	1,320,599	1,251,681	68,918
Excess (deficiency) of revenues over expenditures	9,440	10,440	58,600	48,160
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	9,440	10,440	58,600	48,160
Fund balances - beginning	232,398	232,398	232,398	-
Fund balances - ending	\$ 241,838	\$ 242,838	\$ 290,998	\$ 48,160

See Independent Auditor's Report

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2015

1. BASIS OF PRESENTATION

The Budgetary Comparison Schedule has been prepared on the modified accrual basis of accounting. The Budgetary Comparison Schedule presents 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.

2. BUDGETS AND BUDGETARY ACCOUNTING

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

1. Prior to the first regular board meeting in May of each year, the 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 and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
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.

MILBANK SCHOOL DISTRICT NO. 25-4

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - continued
JUNE 30, 2015

2. BUDGETS AND BUDGETARY ACCOUNTING, continued

9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.

MILBANK SCHOOL DISTRICT NO. 25-4

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS
 JUNE 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (Unit Credit)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as of Percentage of Covered Payroll
June 30, 2012	-	\$ 416,661	\$ 416,661	0%	\$ 3,901,410	10.68%
June 30, 2015	-	\$ 556,660	\$ 556,660	0%	\$ 4,453,865	12.50%

MILBANK SCHOOL DISTRICT NO. 25-4

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION ASSET
JUNE 30, 2015

	<u>2015</u>
School District's proportion of the net pension asset	0.2368706%
School District's proportionate share of net pension asset	\$ 1,706,556
School District's covered-employee payroll	\$ 4,343,150
School District's proportionate share of the net pension asset as a percentage of its covered-employee payroll	39.29%
Plan fiduciary net position as a percentage of the total pension asset	107.30%

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

MILBANK SCHOOL DISTRICT NO. 25-4

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DISTRICT'S PENSION CONTRIBUTIONS
JUNE 30, 2015

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 260,589	\$ 248,533
Contributions in relation to the contractually required contribution	<u>260,589</u>	<u>248,533</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$ 4,343,150	\$ 4,142,217
Contributions as a percentage of covered-employee payroll	6.00%	6.00%

MILBANK SCHOOL DISTRICT NO. 25-4

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015**

**Schedule of the Proportionate Share of the Net Pension Asset and
Schedule of Contributions.**

With only one year reported in the RSI, there is no additional information to include in notes. Details, if necessary, can be obtained from the SDRS audited financial statements.

Changes of benefit terms:

No changes were made in SDRS benefits during the year.

Changes of assumptions:

No changes were made in SDRS actuarial assumptions during the year.

SUPPLEMENTARY INFORMATION

MILBANK SCHOOL DISTRICT NO. 25-4

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2015

	<u>Pension</u>	<u>Bond Redemption</u>	<u>Endowment</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 589,595	\$ -	\$ 81,565	\$ 671,160
Restricted cash and cash equivalents	-	266,667	-	266,667
Taxes receivable	80,265	-	-	80,265
Due from other governments	<u>502</u>	<u>-</u>	<u>-</u>	<u>502</u>
Total assets	<u>\$ 670,362</u>	<u>\$ 266,667</u>	<u>\$ 81,565</u>	<u>\$ 1,018,594</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accrued expenses	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources:				
Taxes levied for future period	85,795	-	-	85,795
Unavailable revenue - Property taxes	<u>1,146</u>	<u>-</u>	<u>-</u>	<u>1,146</u>
Total deferred inflows of resources	<u>86,941</u>	<u>-</u>	<u>-</u>	<u>86,941</u>
Fund balances:				
Nonspendable:				
Endowment			81,565	81,565
Restricted:				
Pension	583,421	-	-	583,421
Bond Redemption	<u>-</u>	<u>266,667</u>	<u>-</u>	<u>266,667</u>
Total fund balances	<u>583,421</u>	<u>266,667</u>	<u>81,565</u>	<u>931,653</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 670,362</u>	<u>\$ 266,667</u>	<u>\$ 81,565</u>	<u>\$ 1,018,594</u>

See Independent Auditor's Report

MILBANK SCHOOL DISTRICT NO. 25-4

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015

	<u>Pension</u>	<u>Bond Redemption</u>	<u>Endowment</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES				
Local sources:				
Taxes	\$ 160,680	\$ -	\$ -	\$ 160,680
Interest	-	-	24,580	24,580
Other local revenue	-	-	356	356
Total revenues	<u>160,680</u>	<u>-</u>	<u>24,936</u>	<u>185,616</u>
EXPENDITURES				
Nonprogrammed charges:				
Early retirement	<u>37,862</u>	<u>-</u>	<u>-</u>	<u>37,862</u>
Total expenditures	<u>37,862</u>	<u>-</u>	<u>-</u>	<u>37,862</u>
Excess (deficiency) of revenues over expenditures	<u>122,818</u>	<u>-</u>	<u>24,936</u>	<u>147,754</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	66,667	-	66,667
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>66,667</u>	<u>-</u>	<u>66,667</u>
Net change in fund balances	122,818	66,667	24,936	214,421
Fund balances - beginning	<u>460,603</u>	<u>200,000</u>	<u>56,629</u>	<u>717,232</u>
Fund balances - ending	<u>\$ 583,421</u>	<u>\$ 266,667</u>	<u>\$ 81,565</u>	<u>\$ 931,653</u>

See Independent Auditor's Report

MILBANK SCHOOL DISTRICT NO. 25-4

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number		Disbursements/ Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Pass-Through the South Dakota Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program (Note 2)	10.553		
Cash Reimbursement		\$ 28,181	
Donated Food		133	
		<u>28,314</u>	\$ 28,314
National School Lunch Program (Note 2)	10.555		
Cash Reimbursement		154,046	
Donated Food		41,484	
		<u>195,530</u>	
Total Child Nutrition Cluster			<u>223,844</u>
Frest Fruit and Vegetable Program	10.582		<u>21,876</u>
Total U.S. Department of Agriculture			<u>245,720</u>
NATIONAL FOUNDATION ON THE ARTS AND HUMANITIES			
Pass-Through the South Dakota Department of Tourism:			
Promotion of the Arts - Partnership Agreements	45.025	4,833	
Total National Foundation on the Arts and Humanities			<u>4,833</u>
U.S. DEPARTMENT OF EDUCATION			
Pass-Through the South Dakota Department of Education:			
Title I Grants to Local Educational Agencies	84.010		149,074
Special Education Cluster:			
Special Education - Grants to States (Note 2)	84.027	221,327	
Special Education - Preschool Grants (Note 2)	84.173	6,007	
Total for Special Education Cluster		<u>227,334</u>	
Career and Technical Education - Basic Grants to States	84.048		22,481
Improving Teacher Quality State Grants	84.367		<u>63,838</u>
Total U.S. Department of Education			<u>462,727</u>
Total Expenditures			<u>\$ 713,280</u>

NOTE 1: 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 basic financial statements.

NOTE 2: Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received and/or food commodities used rather than federal expenditures.

*Wahlenberg
Ritzman & Co., LLC*
certified public accountants

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
Milbank School District No. 25-4
Milbank, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Milbank School District No. 25-4 (the School District)** as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated March 30, 2016.

Internal Control over Financial Reporting

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

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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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. Findings 2015-001.

Compliance and Other Matters

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

School District's Response to Findings

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

Wohlschlag Ritzman + Co., LLC
Yankton, South Dakota
March 30, 2016

*Wahlenberg
Ritzman & Co., LLC*
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the School Board
Milbank School District No. 25-4
Milbank, South Dakota

Report on Compliance for Each Major Federal Program

We have audited **Milbank School District No. 25-4's (the School District'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 the School District's major federal programs for the year ended June 30, 2015. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of 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.

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Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each major federal program for the year ended June 30, 2015.

Report on Internal Control over Compliance

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

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

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

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.

Wohlenberg Ridyman + Co., LLC

Yankton, South Dakota
March 30, 2016

MILBANK SCHOOL DISTRICT NO. 25-4

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2015**

SECTION II. FINDING - FINANCIAL STATEMENT AUDIT

Finding 2014-001.

A significant deficiency was reported for a lack of segregation of duties due to the size of the School District. This has been a finding since June 30, 2006.

Current Status: This has not been corrected and is restated as current audit finding 2015-001.

Finding 2014-002.

A significant deficiency was reported as the School District does not have an internal control system designed to provide for the preparation of the financial statements being audited. This has been a finding since June 30, 2008.

Current Status: This has been corrected.

SECTION III. FINDING – MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no prior major federal award program findings reported.

MILBANK SCHOOL DISTRICT NO. 25-4

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2015**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies identified? X yes _____ none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies identified? _____ yes X none reported

Type of auditor's report issued on compliance for major programs Unmodified

Audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 _____ yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553	Child Nutrition Cluster: School Breakfast Program
10.555	National School Lunch Program

Dollar Threshold used to distinguish between Type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee? X yes _____ no

MILBANK SCHOOL DISTRICT NO. 25-4

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2015**

SECTION II - FINDINGS - FINANCIAL STATEMENTS AUDIT

Finding 2015-001 – Segregation of Duties (Repeat Finding)

Significant Deficiency

Condition:

Our study and evaluation of internal control structure policies and procedures disclosed that there is a weakness in controls in effect at Milbank School District No. 25-4 (the District) relating to a lack of segregation of duties.

Questioned Costs: None.

Criteria:

Internal controls should be in place that provide reasonable assurance that all financial transactions are reviewed and approved before payments are made and reports generated. No one individual should handle a transaction from its inception to its completion.

Cause:

The School District has a limited number of staff to perform financial transactions.

Effect:

Inadequate segregation of duties could adversely affect the School 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:

We recommend that management and the School Board be constantly aware of this situation and continue their review of monthly financial statements. In addition, management should strive to obtain as much segregation of duties as possible as personnel and/or responsibilities change.

Views of Responsible Officials:

Please refer to the Corrective Action Plan for management's views and planned corrective action.

MILBANK SCHOOL DISTRICT NO. 25-4

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2015**

**SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD
PROGRAMS AUDIT**

There are no major federal award program findings.

Milbank School District 25-4

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Nancy Meyer, Business Manager
Dan Snaza, High School Principal
Kristopher Evje, Middle School Dean of Students
and Special Services Director
Keri Schliesman, Elementary Special Education Director
Tim Lease, Koch Elementary School Principal

Responses to Schedule of Findings and Questioned Costs Year Ended June 30, 2015

2015-001. Finding: Segregation of Duties

Response: The Superintendent is the contact person at this entity responsible for the corrective action plan for this comment. The entity has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties. Milbank School District No. 25-4 is aware of the problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties continues to exist.