



**NEWELL SCHOOL DISTRICT NO. 9-2**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
JUNE 30, 2016



**Ketel Thorstenson, LLP**  
Certified Public Accountants/Business & Personal Consultants

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## INDEPENDENT AUDITOR'S REPORT

School Board  
Newell School District No. 9-2  
Newell, South Dakota

### **Report on the Financial Statements**

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 **NEWELL SCHOOL DISTRICT NO. 9-2** (the District), Newell, South Dakota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

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

As discussed in Note 1 to the financial statements, management has not recorded certain capital assets in the governmental activities and has not recorded depreciation expense on any capital assets of the governmental activities. Accounting principles generally accepted in the United States of America require that capital assets be recorded as assets and depreciated, which would increase assets, net position, and expenses in the governmental activities. Based on management estimates, this departure would materially affect the governmental activities portion of the financial statements. However, actual amounts have not been determined.

#### ***Adverse Opinion on Governmental Activities***

In our opinion, because of the effects of the matter discussed in the Basis for Adverse Opinion on Governmental Activities paragraph, the financial statements referred to previously do not present fairly, the financial position of the governmental activities of the District as of June 30, 2016, and the changes in financial position thereof for the year then ended.

***Unmodified Opinions on Remaining Financial Statements***

In our opinion, the remaining financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2016, and the respective changes in financial position and cash flows, where applicable, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information, Schedule of the District's Proportionate Share of the Net Pension Asset, and Schedule of the District Contributions on pages 3 through 11 and 40 through 47, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP  
Certified Public Accountants

January 25, 2017

## **NEWELL SCHOOL DISTRICT NO. 9-2**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016**

This section of the District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2016. Please read it in conjunction with the District's financial statements, which follow this section.

#### **FINANCIAL HIGHLIGHTS**

- The District's net position from governmental and business-type activities decreased \$309,517 for the year ended June 30, 2016, primarily due to a decrease in federal funding sources and an increase in instruction and support services expenses.
- The total cost of the District's programs increased by approximately fifteen percent during fiscal year 2016, which is primarily due to an increase in instruction and support services.
- The general fund reported a current year fund balance of \$888,536.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District government, reporting the District's operations in more detail than the government-wide statements.
  - Governmental funds statements tell how general government services were financed in the short-term, as well as what remains for future spending.
  - Proprietary fund statements offer short-term and long-term financial information about the activities that the school operates like businesses. The only proprietary fund operated by the District is the Food Service Fund.
  - Fiduciary fund statements provide information about the financial relationships – like scholarship plans for graduating students – in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2016**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

Government-Wide Statements

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

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

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

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

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

**NEWELL SCHOOL DISTRICT NO. 9-2**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2016**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

Fund Financial Statements

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

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

The District has three kinds of funds:

- **Governmental Funds** – Most of the District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances remaining at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are greater or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service Enterprise Fund is the only proprietary fund maintained by the District.
- **Fiduciary Funds** – The District is the trustee, or fiduciary, for various external and internal parties. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.



**NEWELL SCHOOL DISTRICT NO. 9-2**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2016**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)**

Figure A-1 summarizes the major features of the District’s financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of the overview section of the management’s discussion and analysis explains the structure and contents of each of the statements.

<b>Figure A-1</b>				
	<b>Government-Wide Statements</b>	<b>Fund Statements</b>		
<b>Scope</b>	Entire District government (except fiduciary funds)	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
		The activities of the District that are not proprietary or fiduciary, such as elementary and high school education programs	Activities the District operates similar to private business - food service	Instances in which the District is the trustee or agent for someone else's resources
<b>Required Financial Statements</b>	Statement of Net Position and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances	Balance Sheet; Statement of Revenues, Expenses and Changes in Fund Net Position; and Statement of Cash Flows	Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<b>Type of Asset/ Liability Information</b>	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets although they can
<b>Type of Inflow/ Outflow Information</b>	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

**NEWELL SCHOOL DISTRICT NO. 9-2**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2016**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

Net Position

This section explains the differences between the current and prior year's assets, liabilities, and changes in net position. The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the District, consisting of compensated absences payable, energy efficiency loans, and capital outlay certificates payable have been reported in this manner on the Statement of Net Position. The difference between the District's assets and liabilities is its net position.

<b>Table A-1 COMPARATIVE SUMMARIZED STATEMENT OF NET POSITION</b>						
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	2015	2016	2015	2016	2015	2016
Current and Other Assets	\$ 2,984,799	<b>\$ 2,311,702</b>	\$ 3,932	<b>\$ (21,644)</b>	\$ 2,988,731	<b>\$ 2,290,058</b>
Capital Assets	10,166,992	<b>10,301,158</b>	10,071	<b>8,244</b>	10,177,063	<b>10,309,402</b>
<b>Total Assets</b>	13,151,791	<b>12,612,860</b>	14,003	<b>(13,400)</b>	13,165,794	<b>12,599,460</b>
Pension Related Deferred Outflows of Resources	\$ 595,009	<b>\$ 757,258</b>	\$ 14,814	<b>\$ 19,022</b>	\$ 609,823	<b>\$ 776,280</b>
Long-Term Debt	\$ 4,301,667	<b>\$ 4,271,022</b>	\$ 40	<b>\$ 575</b>	\$ 4,301,707	<b>\$ 4,271,597</b>
Other Liabilities	242,407	<b>269,175</b>	949	-	243,356	<b>269,175</b>
<b>Total Liabilities</b>	\$ 4,544,074	<b>\$ 4,540,197</b>	\$ 989	<b>\$ 575</b>	\$ 4,545,063	<b>\$ 4,540,772</b>
Taxes Levied for Future Period	\$ 663,617	<b>\$ 741,048</b>	\$ -	<b>\$ -</b>	\$ 663,617	<b>\$ 741,048</b>
Pension Related Deferred Inflows	766,199	<b>606,540</b>	19,077	<b>15,236</b>	785,276	<b>621,776</b>
<b>Total Deferred Inflows</b>	1,429,816	<b>1,347,588</b>	19,077	<b>15,236</b>	1,448,893	<b>1,362,824</b>
Net Position						
Net Investment in						
Capital Assets	5,961,992	<b>6,266,158</b>	10,071	<b>8,244</b>	5,972,063	<b>6,274,402</b>
Restricted	668,749	<b>696,044</b>	12,208	<b>14,112</b>	680,957	<b>710,156</b>
Unrestricted (Deficit)	1,142,169	<b>520,131</b>	(13,528)	<b>(32,545)</b>	1,128,641	<b>487,586</b>
<b>Total Net Position</b>	\$ 7,772,910	<b>\$ 7,482,333</b>	\$ 8,751	<b>\$ (10,189)</b>	\$ 7,781,661	<b>\$ 7,472,144</b>
Beginning Net Position	\$ 6,875,338	<b>\$ 7,772,910</b>	\$ 5,033	<b>\$ 8,751</b>	\$ 6,880,371	<b>\$ 7,781,661</b>
Change in Accounting Principle	356,234	-	8,869	-	365,103	-
Prior Period Adjustment	29,472	-	-	-	29,472	-
Change in Net Position	511,866	<b>(290,577)</b>	(5,151)	<b>(18,940)</b>	506,715	<b>(309,517)</b>
Percentage of Change in Net Position	7.05%	<b>-3.74%</b>	-37.05%	<b>-216.43%</b>	6.97%	<b>-3.98%</b>

**NEWELL SCHOOL DISTRICT NO. 9-2**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2016**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

Governmental Activities

The decrease in net position for the governmental activities from 2015 to 2016 is due to a decrease in operating grants and a decrease in federal revenue sources.

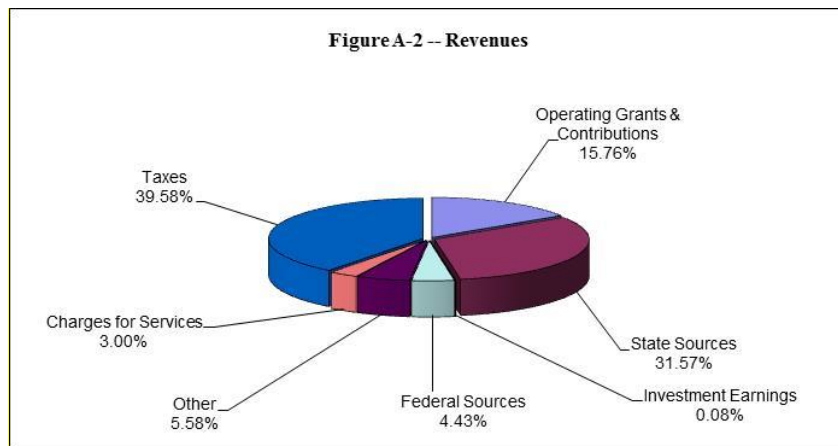
Business-Type Activities

The decrease in net position for business-type activities from 2015 to 2016 is due to increases in operating expenses.

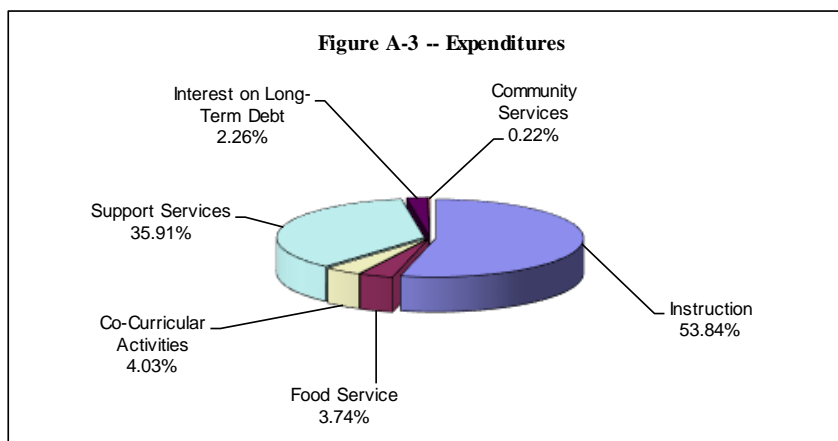
Changes in Net Position

This section illustrates condensed financial comparison of revenues and expenses and provides explanations for significant differences.

The District's revenues totaled \$3,929,912 for the year ended June 30, 2016. (See Table A-2.) Over one third of the District's revenue comes from property and other taxes, with approximately another third coming from state aid, and over 15 percent comes from operating grants and contributions. (See Figure A-2).



The total cost of all programs and services increased during fiscal year 2016. The District's expenses cover a range of services, with over one-half encompassing instruction, and over one third for support services. (See Figure A-3).



**NEWELL SCHOOL DISTRICT NO. 9-2**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2016**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONCLUDED)**

Changes in Net Position (Concluded)

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

	Table A-2					
	Total Governmental Activities		Total Business-Type Activities		Total	
	2015	2016	2015	2016	2015	2016
<b>Revenues</b>						
<i>Program Revenues</i>						
Charges for Services	\$ 42,134	\$ 36,134	\$ 55,429	\$ 44,075	\$ 97,563	\$ 80,209
Operating Grants and Contributions	583,440	479,640	102,793	95,458	686,233	575,098
<i>General Revenues</i>						
Property Taxes	1,529,904	1,632,547	-	-	1,529,904	1,632,547
Gross Receipts Taxes	123,707	121,685	-	-	123,707	121,685
Revenue State Sources	1,318,860	1,341,878	-	-	1,318,860	1,341,878
Revenue Federal Sources	185,268	35,426	-	-	185,268	35,426
Unrestricted Investment Earnings	3,175	94	-	-	3,175	94
Other General Revenues	233,267	142,975	-	-	233,267	142,975
<b>Total Revenues</b>	<b>4,019,755</b>	<b>3,790,379</b>	<b>158,222</b>	<b>139,533</b>	<b>4,177,977</b>	<b>3,929,912</b>
<b>Expenses</b>						
Instruction	1,958,949	2,282,231	-	-	1,958,949	2,282,231
Support Services	1,235,923	1,522,557	-	-	1,235,923	1,522,557
Community Services	19,508	9,515	-	-	19,508	9,515
Co-Curricular Activities	148,607	170,981	-	-	148,607	170,981
Interest on Long-Term Debt	144,902	95,672	-	-	144,902	95,672
Food Service	-	-	163,373	158,473	163,373	158,473
<b>Total Expenses</b>	<b>3,507,889</b>	<b>4,080,956</b>	<b>163,373</b>	<b>158,473</b>	<b>3,671,262</b>	<b>4,239,429</b>
<b>Change in Net Position</b>	<b>511,866</b>	<b>(290,577)</b>	<b>(5,151)</b>	<b>(18,940)</b>	<b>506,715</b>	<b>(309,517)</b>
Change in Accounting Principle	356,234	-	8,869	-	365,103	-
Prior Period Adjustment	29,472	-	-	-	29,472	-
<b>Ending Net Position</b>	<b>\$ 7,772,910</b>	<b>\$ 7,482,333</b>	<b>\$ 8,751</b>	<b>\$ (10,189)</b>	<b>\$ 7,781,661</b>	<b>\$ 7,472,144</b>

**Governmental Activities**

The District had experienced a decrease in other general revenue during the 2016 year as compared to the 2015 year. The decrease in other general revenues was due to significant compensation for loss of property in the 2015 year.

**Business-Type Activities**

Revenues of the District's business-type activities decreased by approximately twelve percent, and expenses decreased by approximately four percent. The decrease was due to a decrease in operating grants and a decrease in cost of food purchased.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2016**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The Pension Tax fund balance increased \$11,410 due to no significant changes in operations. The General Fund's fund balance decreased by \$525,930, primarily due to a decrease in federal funding and an increase in instruction and support expenditures. The Special Education Fund's fund balance decreased by \$64,463, primarily due to a decrease in funding. The Capital Outlay fund balance increased by \$47,851 due to the completion of the HVAC project in the prior year and limited capital outlay expenditures in 2016.

**BUDGETARY HIGHLIGHTS**

In the current year, the Capital Outlay Fund budgeted \$200,000 for technology equipment.

Net variances between budget and actual were due to unexpected revenues received and expenses incurred.

**CAPITAL ASSET ADMINISTRATION**

By the end of 2016, the District had invested approximately \$10.3 million in a broad range of capital assets, including land, buildings, and various machinery and equipment. (See Table A-3.) Governmental capital asset additions and deletions are not consistently tracked by the District, and thus not depreciated. Business-type fixed assets are net of depreciation.

<b>Table A-3</b>				
<b>Capital Assets</b>				
<b>(Net of Depreciation for Business - Type Activities)</b>				
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	2015	2016	2015	2016
Land	\$ 24,544	\$ 24,544	\$ -	\$ -
Buildings	4,555,073	4,689,239	-	-
Improvements Other than Buildings	4,314,589	4,314,589	-	-
Equipment	1,272,786	1,272,786	10,071	8,244
<b>Total Capital Assets (Net)</b>	<b>\$ 10,166,992</b>	<b>\$ 10,301,158</b>	<b>\$ 10,071</b>	<b>\$ 8,244</b>

**NEWELL SCHOOL DISTRICT NO. 9-2**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONCLUDED)  
JUNE 30, 2016**

**LONG-TERM DEBT**

At year-end, the District had \$4,271,597 in long-term obligations. This is a decrease of 1 percent as shown on Table A-4 below.

<b>Table A-4 Outstanding Debt and Obligations</b>				
	<u>2015</u>	<u>2016</u>	<u>Total Dollar Change</u>	<u>Total Percentage Change</u>
Compensated Absences	\$ 96,707	\$ <b>101,517</b>	\$ 4,810	5%
ASBSD Assessment	-	<b>135,080</b>	135,080	N/A
Energy Efficient Loan	975,000	<b>950,000</b>	(25,000)	-3%
Capital Outlay Certificates	3,230,000	<b>3,085,000</b>	(145,000)	-4%
<b>Total Outstanding Debt and Obligations</b>	<b>\$ 4,301,707</b>	<b>\$ 4,271,597</b>	<b>\$ (30,110)</b>	<b>-1%</b>

During 2016, the District had additional borrowings totaling \$200,000 from Capital Outlay Certificates and \$135,080 of an assessment from the Associated School Board of South Dakota (ASBSD).

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

The District’s current economic position has shown change. The District experienced an increase in total property valuation from \$194,631,316 to \$224,172,413. The increase in property valuation increases the District’s ability to generate revenue from property taxes; however, the total amount, which can be levied, is limited by the State of South Dakota.

One of the primary sources of revenue to the District is based on a per student allocation from the State of South Dakota. The state aid formula for the current year ensures that property taxes plus state aid will equal \$4,877 per pupil. The District has experienced a decrease of 41 ADM from 2015 to 2016. This decrease in ADM will result in the District receiving less overall revenue from the State of South Dakota.

The District’s enrollment increased from 329 to 288 (K-12) between fiscal year 2015 and 2016.

**CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have questions about this report or need additional information, contact the Newell School District’s Business Office, 501 Dartmouth Avenue, Newell, SD 57760.

NEWELL SCHOOL DISTRICT NO. 9-2

STATEMENT OF NET POSITION  
JUNE 30, 2016

	<u>Primary Government</u>		Total
	<u>Governmental</u> Activities	<u>Business-Type</u> Activities	
<b><u>ASSETS</u></b>			
Cash and Investments	\$ 852,536	\$ -	\$ 852,536
Taxes Receivable (Note 2)	830,139	-	830,139
Receivables (Note 3)	159,974	453	160,427
Internal Balances (Note 8)	39,936	(39,936)	-
Inventories	-	6,480	6,480
Prepaid Insurance	18,048	1,033	19,081
Net Pension Asset (Note 9)	411,069	10,326	421,395
Capital Assets (Note 4):			
Land	24,544	-	24,544
Other Capital Assets	10,276,614	-	10,276,614
Equipment, Net of Depreciation	-	8,244	8,244
<b>TOTAL ASSETS</b>	<b>12,612,860</b>	<b>(13,400)</b>	<b>12,599,460</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Pension Related Deferred Outflows of Resources (Note 9)	757,258	19,022	776,280
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 13,370,118</b>	<b>\$ 5,622</b>	<b>\$ 13,375,740</b>
<b><u>LIABILITIES</u></b>			
Accounts Payable and Accrued Expenses	\$ 269,175	\$ -	\$ 269,175
Long-Term Liabilities (Note 5):			
Due within One Year	373,000	575	373,575
Due in More than One Year	3,898,022	-	3,898,022
<b>TOTAL LIABILITIES</b>	<b>4,540,197</b>	<b>575</b>	<b>4,540,772</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Taxes Levied for Future Period (Note 2)	741,048	-	741,048
Pension Related Deferred Inflows (Note 9)	606,540	15,236	621,776
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>1,347,588</b>	<b>15,236</b>	<b>1,362,824</b>
<b><u>NET POSITION</u></b>			
Net Investment in Capital Assets	6,266,158	8,244	6,274,402
Restricted for:			
Pension Tax	130,811	-	130,811
Pension-SDRS (Note 9)	561,787	14,112	575,899
Music, Athletics, and Library (Note 6)	3,446	-	3,446
Unrestricted (Deficit)	520,131	(32,545)	487,586
<b>TOTAL NET POSITION (DEFICIT)</b>	<b>7,482,333</b>	<b>(10,189)</b>	<b>7,472,144</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 13,370,118</b>	<b>\$ 5,622</b>	<b>\$ 13,375,740</b>

The accompanying notes are an integral part of this statement.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business- Type Activities	Total
<i>Governmental Activities:</i>						
Instruction	\$ 2,282,231	\$ -	\$ 479,640	\$ (1,802,591)	\$ -	\$ (1,802,591)
Support Services	1,522,557	-	-	(1,522,557)	-	(1,522,557)
Community Services	9,515	-	-	(9,515)	-	(9,515)
Co-Curricular Activities	170,981	36,134	-	(134,847)	-	(134,847)
Interest on Long-Term Debt *	95,672	-	-	(95,672)	-	(95,672)
<b>Total Governmental Activities</b>	<b>4,080,956</b>	<b>36,134</b>	<b>479,640</b>	<b>(3,565,182)</b>	<b>-</b>	<b>(3,565,182)</b>
<i>Business-Type Activities:</i>						
Food Service	158,473	44,075	95,458	-	(18,940)	(18,940)
<b>Total Primary Government</b>	<b>\$ 4,239,429</b>	<b>\$ 80,209</b>	<b>\$ 575,098</b>	<b>(3,565,182)</b>	<b>(18,940)</b>	<b>(3,584,122)</b>
<i>General Revenues</i>						
Taxes:						
Property Taxes				1,632,547	-	1,632,547
Gross Receipts Taxes				121,685	-	121,685
Revenue from State Sources:						
State Aid				1,328,437	-	1,328,437
Other				13,441	-	13,441
Revenue from Federal Sources				35,426	-	35,426
Unrestricted Investment Earnings				94	-	94
Other General Revenues				142,975	-	142,975
<b>Total General Revenues</b>				<b>3,274,605</b>	<b>-</b>	<b>3,274,605</b>
<b>Change in Net Position</b>				<b>(290,577)</b>	<b>(18,940)</b>	<b>(309,517)</b>
Net Position -- Beginning				7,772,910	8,751	7,781,661
<b>Net Position (Deficit) -- Ending</b>				<b>\$ 7,482,333</b>	<b>\$ (10,189)</b>	<b>\$ 7,472,144</b>

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

The accompanying notes are an integral part of this statement.



NEWELL SCHOOL DISTRICT NO. 9-2

GOVERNMENTAL FUNDS BALANCE SHEET  
JUNE 30, 2016

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Tax Fund	Total Governmental Funds
<b>ASSETS</b>					
Cash and Investments	\$ 724,544	\$ -	\$ -	\$ 127,992	\$ 852,536
Taxes Receivable -- Current (Note 2)	292,000	295,266	138,775	29,527	755,568
Taxes Receivable -- Delinquent (Note 2)	37,830	23,183	11,240	2,318	74,571
Due from Other Funds (Note 8)	57,737	-	-	-	57,737
Due from State Government (Note 3)	124,691	-	35,283	-	159,974
Prepaid Insurance	16,187	-	1,861	-	18,048
Advance to Other Funds (Note 8)	187,319	-	-	-	187,319
<b>Total Assets</b>	<b>\$ 1,440,308</b>	<b>\$ 318,449</b>	<b>\$ 187,159</b>	<b>\$ 159,837</b>	<b>\$ 2,105,753</b>
<b>LIABILITIES</b>					
Accounts Payable and Accrued Expenses	\$ 228,596	\$ -	\$ 40,579	\$ -	\$ 269,175
Due To Other Funds (Note 8)	-	-	17,801	-	17,801
Advance From Other Funds (Note 8)	-	187,319	-	-	187,319
<b>Total Liabilities</b>	<b>228,596</b>	<b>187,319</b>	<b>58,380</b>	<b>-</b>	<b>474,295</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Taxes Levied for Future Periods (Note 2)	285,346	290,256	136,420	29,026	741,048
Unavailable Revenue - Property Taxes (Note 2)	37,830	23,183	11,240	2,318	74,571
<b>Total Deferred Inflows of Resources</b>	<b>323,176</b>	<b>313,439</b>	<b>147,660</b>	<b>31,344</b>	<b>815,619</b>
<b>FUND BALANCES</b>					
Nonspendable - Prepaid Assets	16,187	-	1,861	-	18,048
Nonspendable - Advance to Other Funds	187,319	-	-	-	187,319
Restricted - Pension Tax	-	-	-	128,493	128,493
Restricted - Music, Athletics, and Library (Note 6)	3,446	-	-	-	3,446
Unassigned (Deficit)	681,584	(182,309)	(20,742)	-	478,533
<b>Total Fund Balances (Deficit)</b>	<b>888,536</b>	<b>(182,309)</b>	<b>(18,881)</b>	<b>128,493</b>	<b>815,839</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances (Deficit)</b>	<b>\$ 1,440,308</b>	<b>\$ 318,449</b>	<b>\$ 187,159</b>	<b>\$ 159,837</b>	<b>\$ 2,105,753</b>

The accompanying notes are an integral part of this statement.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO GOVERNMENT-WIDE  
STATEMENT OF NET POSITION  
JUNE 30, 2016**

Total Fund Balances - Governmental Funds \$ 815,839

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. 10,301,158

Long-term liabilities, including capital outlay certificates payable, ASBSD Assessment and accrued leave payable, are not due in the current period and therefore are not reported in the funds. (4,271,022)

Assets, such as taxes receivable, that are not available to pay for current period expenditures are deferred in the funds. 74,571

Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds. 411,069

Pension related deferred outflows are components of pension asset and therefore are not reported in the funds. 757,258

Pension related deferred inflows are components of pension asset and therefore are not reported in the funds. (606,540)

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Net Position - Governmental Funds \$ **7,482,333**

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The accompanying notes are an integral part of this statement.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2016**

	<b>General Fund</b>	<b>Capital Outlay Fund</b>	<b>Special Education Fund</b>	<b>Pension Tax Fund</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>					
<i>1000 Revenue from Local Sources:</i>					
1110 Ad Valorem Taxes	\$ 593,923	\$ 626,160	\$ 300,250	\$ 62,616	\$ 1,582,949
1120 Prior Years' Ad Valorem Taxes	19,459	10,610	5,257	1,061	36,387
1140 Gross Receipts Taxes	121,685	-	-	-	121,685
1190 Penalties and Interest on Taxes	5,629	2,046	1,002	206	8,883
1500 Earnings on Investments and Deposits	94	-	-	-	94
<i>1700 Cocurricular Activities:</i>					
1710 Admissions	13,432	-	-	-	13,432
1790 Other Pupil Activity	22,702	-	-	-	22,702
<i>1900 Other Revenue from Local Sources:</i>					
1910 Rentals	400	-	-	-	400
1920 Contributions and Donations	1,000	-	-	-	1,000
1990 Other	18,776	-	19,013	-	37,789
2110 County Apportionment	39,418	-	-	-	39,418
<i>3000 Revenue from State Sources:</i>					
3110 Unrestricted Grants-in-Aid	1,328,437	-	-	-	1,328,437
3120 Restricted Grants-In-Aid	-	-	177,126	-	177,126
3900 Other State Revenue	13,441	-	-	-	13,441
<i>4000 Revenue from Federal Sources:</i>					
4120 Unrestricted Grants-in-Aid Received from Federal Government Through State	35,426	-	-	-	35,426
4150-4199 Restricted Grants-in-Aid Received from Federal Government through State	232,458	-	70,056	-	302,514
<b>Total Revenues</b>	<b>2,446,280</b>	<b>638,816</b>	<b>572,704</b>	<b>63,883</b>	<b>3,721,683</b>

**Expenditures:**

<i>1100 Instruction - Regular Programs:</i>					
1110 Elementary	371,632	155,142	-	16,309	543,083
1120 Middle/Junior High	282,483	93,513	-	12,991	388,987
1130 High School	556,442	38,444	-	23,173	618,059
<i>1200 Instruction - Special Programs:</i>					
1220 Programs for Special Education	-	-	485,474	-	485,474
1270 Educationally Deprived	196,861	-	-	-	196,861
<i>2100 Support Services - Pupils:</i>					
2130 Health	35,556	-	58,267	-	93,823
2170 Student Therapy Services	-	-	36,061	-	36,061
<i>2200 Support Services - Instructional Staff:</i>					
2220 Educational Media	159,108	-	-	-	159,108
<i>2300 Support Services - General:</i>					
2310 Board of Education	139,422	-	-	-	139,422
2320 Executive Administration	225,879	-	-	-	225,879
<i>2400 Support Services - School:</i>					
2410 Office of the Principal	127,458	-	-	-	127,458

NEWELL SCHOOL DISTRICT NO. 9-2

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2016**

	<b>General Fund</b>	<b>Capital Outlay Fund</b>	<b>Special Education Fund</b>	<b>Pension Tax Fund</b>	<b>Total Governmental Funds</b>
<i>2500 Support Services - Business:</i>					
2520 Fiscal Services	107,424	-	-	-	107,424
2530 Facilities Acquisition and Construction	-	11,343	-	-	11,343
2540 Operation and Maintenance of Plant	365,338	-	-	-	365,338
2550 Pupil Transportation	152,480	16,100	-	-	168,580
2570 Internal Services	-	3,906	-	-	3,906
<i>2600 Support Services - Central:</i>					
2633 Public Information Services	5,660	-	-	-	5,660
<i>2700 Support Services - Special Education:</i>					
2730 Transportation Costs	-	-	2,099	-	2,099
2750 Other Special Education Costs	-	-	55,266	-	55,266
<i>3000 Community Services:</i>					
3500 Custody and Care of Children	9,742	-	-	-	9,742
5000 Debt Service	-	465,672	-	-	465,672
<i>6000 Cocurricular Activities:</i>					
6900 Combined Activities	166,272	7,500	-	-	173,772
7000 Capital Outlay	134,166	-	-	-	134,166
<b>Total Expenditures</b>	<b>3,035,923</b>	<b>791,620</b>	<b>637,167</b>	<b>52,473</b>	<b>4,517,183</b>
<b>Excess of Revenues over (under) Expenditures</b>	<b>(589,643)</b>	<b>(152,804)</b>	<b>(64,463)</b>	<b>11,410</b>	<b>(795,500)</b>
<b>Other Financing Sources</b>					
5125 Capital Outlay Certificates Issued	-	200,000	-	-	200,000
5130 Sale of Surplus Property	6,140	655	-	-	6,795
5140 Compensation for Loss of General Capital Assets	57,573	-	-	-	57,573
<b>Total Other Financing Sources</b>	<b>63,713</b>	<b>200,655</b>	<b>-</b>	<b>-</b>	<b>264,368</b>
<b>Net Change in Fund Balances</b>	<b>(525,930)</b>	<b>47,851</b>	<b>(64,463)</b>	<b>11,410</b>	<b>(531,132)</b>
Fund Balances -- Beginning	1,414,466	(230,160)	45,582	117,083	1,346,971
<b>Fund Balances (Deficit) -- Ending</b>	<b>\$ 888,536</b>	<b>\$ (182,309)</b>	<b>\$ (18,881)</b>	<b>\$ 128,493</b>	<b>\$ 815,839</b>

The accompanying notes are an integral part of this statement.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR YEAR ENDED JUNE 30, 2016**

Net Change in Fund Balances - Total Governmental Funds	\$ (531,132)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	134,166
The fund financial statement property tax accruals differ from the government wide statement property tax accruals as the fund financial statements require the amounts to be "available."	4,328
Governmental funds recognize expenditures for amounts of compensated absences with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the governmental funds. In the Statement of Activities, expenses for these benefits are recognized when the employees earn leave credits.	(4,275)
Borrowings on long-term debt is an other financing source in the governmental funds, but increases long-term liabilities in the Government-wide statements.	(200,000)
ASBSD Assessment is not due in the current period and therefore is not reported in the governmental funds but increases long-term liabilities in the Government-wide statements.	(135,080)
Payment of principal on long-term debt is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Government-wide statements.	370,000
Changes in the pension related deferred outflows/inflows are direct components of pension asset and are not reflected in the governmental funds.	112,456
Pension revenues in the Statement of Activities do not provide current financial resources and are not reported as revenues in the funds.	(41,040)
<b>Change in Net Position of Governmental Activities</b>	<b>\$ (290,577)</b>

The accompanying notes are an integral part of this statement.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**PROPRIETARY FUNDS BALANCE SHEET  
JUNE 30, 2016**

	<b>Food Service Fund</b>
<b>ASSETS</b>	
Current Assets:	
Accounts Receivable	\$ 453
Inventory of Supplies	1,220
Inventory of Food Purchased for Resale	1,510
Inventory of Donated Food	3,750
Prepaid Insurance	1,033
<b>Total Current Assets</b>	<b>7,966</b>
Noncurrent Assets:	
Net Pension Asset (Note 9)	10,326
Capital Assets (Note 4):	
Equipment	57,436
Less Accumulated Depreciation	(49,192)
<b>Total Noncurrent Assets</b>	<b>18,570</b>
<b>TOTAL ASSETS</b>	<b>26,536</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension Related Deferred Outflows (Note 9)	19,022
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 45,558</b>
<b>LIABILITIES</b>	
Current Liabilities:	
Accrued Leave Payable (Note 5)	\$ 575
Due to General Fund (Note 8)	39,936
<b>Total Liabilities</b>	<b>40,511</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension Related Deferred Inflows (Note 9)	15,236
<b>NET POSITION</b>	
Net Investment in Capital Assets	8,244
Restricted Pension (Note 9)	14,112
Deficit Net Position	(32,545)
<b>Total Net Position (Deficit)</b>	<b>(10,189)</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 45,558</b>

The accompanying notes are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN FUND NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2016

	<b>Food Service Fund</b>
<b>Operating Revenue</b>	
<i>Sales:</i>	
To Pupils	\$ 35,387
To Adults	7,134
Miscellaneous	1,554
<b>Total Operating Revenue</b>	<b>44,075</b>
<b>Operating Expenses</b>	
Cost of Sales - Purchased Food	66,631
Salaries	46,330
Purchased Services	13,088
Supplies	11,829
Employee Benefits	11,156
Cost of Sales - Donated Food	7,612
Depreciation - Local Funds (Note 4)	1,827
<b>Total Operating Expenses</b>	<b>158,473</b>
<b>Operating Loss</b>	<b>(114,398)</b>
<b>Nonoperating Revenue</b>	
<i>Federal Sources:</i>	
Cash Reimbursements	75,875
Donated Food	11,182
Fresh Fruits and Vegetables	8,401
<b>Total Nonoperating Revenue</b>	<b>95,458</b>
<b>Change in Net Position</b>	<b>(18,940)</b>
Net Position -- Beginning	8,751
<b>Net Position (Deficit) -- Ending</b>	<b>\$ (10,189)</b>

The accompanying notes are an integral part of this statement.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**PROPRIETARY FUNDS STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2016**

	<b>Food Service Fund</b>
<b>Cash Flows from Operating Activities</b>	
Receipts from Customers	\$ 42,521
Other Cash Receipts	1,554
Payments to Suppliers	(91,620)
Payments to Employees	(60,477)
<b>Net Cash Used in Operating Activities</b>	<b>(108,022)</b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Operating Subsidies	84,276
Payments to General Fund	(16,190)
Receipts from General Fund	39,936
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>108,022</b>
<b>Net Change in Cash</b>	<b>-</b>
Cash -- Beginning	-
<b>Cash -- Ending</b>	<b>\$ -</b>
<b>Reconciliation of Operating Loss to Net Cash Flows Used in Operating Activities</b>	
Operating Loss	\$ (114,398)
<i>Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:</i>	
Cost of Sales - Donated Food	7,612
Depreciation Expense	1,827
<i>Change in Assets and Liabilities:</i>	
Inventories	(745)
Pension Asset	6,145
Pension Related Deferred Outflows	(4,208)
Accrued Leave and Payroll Deductions Payable	(414)
Pension Related Deferred Inflows	(3,841)
<b>Net Cash Used in Operating Activities</b>	<b>\$ (108,022)</b>
<b>Noncash Investing, Capital and Financing Activities</b>	
Value of Commodities Received	\$ 11,182

The accompanying notes are an integral part of this statement.



**NEWELL SCHOOL DISTRICT NO. 9-2**

**STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2016**

	<b>Private-Purpose Trust Fund</b>	<b>Agency Funds</b>
<b><u>ASSETS</u></b>		
Cash and Investments	<u>\$ 10,557</u>	<u>\$ 88,285</u>
<b><u>LIABILITIES</u></b>		
Amounts Held for Others	-	<u>\$ 88,285</u>
<b><u>NET POSITION</u></b>		
Restricted for Scholarships	<u>\$ 10,557</u>	

The accompanying notes are an integral part of this statement.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Private- Purpose Trust Fund</u>
<b>ADDITIONS</b>	
Interest Earnings	\$ 8
<b>REDUCTIONS</b>	
Scholarships	-
<b>Change in Net Position</b>	<b>8</b>
Net Position - Beginning	10,549
<b>Net Position - Ending</b>	<b>\$ 10,557</b>

The accompanying notes are an integral part of this statement.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**(1) Summary of Significant Accounting Policies**

**Reporting Entity**

The reporting entity of the 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.

The funds included in this report are controlled by or dependent upon the District's Board of Education. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments.

**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. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

The Statement of Net Position reports all financial and capital resources in a balance sheet form (assets equal liabilities plus 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 District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues 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. 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 District or it meets the following criteria:

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

**NEWELL SCHOOL DISTRICT NO. 9-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016**

**(1) Summary of Significant Accounting Policies (Continued)**

**Basis of Presentation (Continued)**

*Fund Financial Statements (Continued):*

The funds of the 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. The General Fund is always a major fund. It is used to account for all financial resources except those accounted for in another fund.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are restricted or committed to expenditure for specific purposes. Fund equity of these funds is restricted by law.

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

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

Pension Tax 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 District's share of retirement plan contributions, and for funding early retirement benefits to qualifying employees. This fund is financed by property taxes. This is a major fund.

Proprietary Funds:

Enterprise Funds – Enterprise funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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 and is the only enterprise fund maintained by the District.

Fiduciary Funds:

Fiduciary funds are never considered to be major funds.

Private-Purpose Trust Funds – Private-purpose trust funds are used to account for trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The District maintains one private-purpose trust fund, which is a scholarship fund that was established by a donation made to the District for payment of scholarships to District students.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016**

**(1) Summary of Significant Accounting Policies (Continued)**

**Basis of Presentation (Concluded)**

*Fund Financial Statements (Concluded):*

Fiduciary Funds (Continued):

Agency Funds - Agency funds are used to account for resources held by the District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature, they do not involve the measurement of results of operations. The District maintains a variety of agency funds. Agency funds are established to account for the monies earned by student organizations for various expenditures.

**Measurement Focus and Basis of Accounting**

Measurement focus is a term 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 funds.

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, and expenses and related liabilities are recorded when an obligation is incurred.

*Fund Financial Statements:*

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the District, the length of that cycle is 60 days.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016**

**(1) Summary of Significant Accounting Policies (Continued)**

**Measurement Focus and Basis of Accounting (Continued)**

Basis of Accounting (Continued):

*Fund Financial Statements (Continued):*

Under the modified accrual basis of accounting, receivables may be measurable but not available. Reported deferred inflows 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 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.

*Fund Financial Statements:*

Noncurrent portions of long-term interfund receivables (reported in Advances to asset accounts) are equally offset by a non-spendable fund balance designation, which indicates that they do not constitute available spendable resources since they are not a component of net current assets. Current portions of interfund loans receivable (reported in Due from asset accounts) are considered available, spendable resources.

**Capital Assets**

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

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

*Government-wide Statements:*

The District does not have subsidiary records to support its governmental capital asset balance. In addition, capital asset additions and deletions have not been consistently or accurately recorded since 1994. No accumulated depreciation or depreciation expense is recorded in the government-wide statements for governmental activities.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016**

**(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 the proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

The estimated useful lives of equipment reported in the proprietary funds are 5 to 15 years.

**Long-Term Liabilities**

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

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

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

Compensated absences consist of sick leave earned. Sick leave is earned by certified and classified employees at the rate of 15 days per year and 1.25 days per month of employment, respectively. The number of days accumulated is limited to a maximum of 70 days for certified employees and 40 days for classified employees. Upon termination, some employees are entitled to receive compensation for their accrued sick leave balance. Those with three years of service or more will receive compensation at the rate of \$60 and \$20 per day of accumulated leave for certified and classified employees, respectively.

Full-time teachers and administrators may participate in an early retirement program. Upon meeting certain criteria, cash benefits equal to four percent of the employee's salary per year of employment up to a maximum of 75 percent of their current salary may be paid to eligible employees upon termination. The benefit is paid in 18 equal monthly installments. At June 30, 2016 there are no early retirement commitments.

Funding for compensated absences is expended in the general, special revenue, and food service funds. Early retirement is expended in the pension tax fund.

## **NEWELL SCHOOL DISTRICT NO. 9-2**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2016**

#### **(1) Summary of Significant Accounting Policies (Continued)**

##### **Program Revenues**

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

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program. There were none during 2016.

##### **Proprietary Funds Revenue and Expense Classifications**

In the proprietary fund 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 non-capital financing activities are not reported as components of operating revenues or expenses.

##### **Inventory**

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

Inventory in the enterprise fund consists of food and supplies held for consumption. Inventory is recorded at the time individual inventory items are purchased and expensed when consumed.

There are no significant amounts of governmental supplies inventory maintained by the District.

##### **Deposits and Investments**

The 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 District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts that 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 better, or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.



**NEWELL SCHOOL DISTRICT NO. 9-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016**

**(1) Summary of Significant Accounting Policies (Continued)**

**Deposits and Investments (Continued)**

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

As of June 30, 2016, the District’s cash and investments consisted of checking accounts and non-negotiable certificates of deposit. The bank balances at June 30, 2016 are as follows:

	<u>Bank Balance</u>
Insured - FDIC	\$ 250,000
Uninsured, collateralized in accordance with SDCL 4-6A-3	738,892
<u>Total Deposits</u>	<u>\$ 988,892</u>

*Credit Risk:*

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

*Interest Rate Risk:*

The 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.

*Custodial Credit Risk:*

The risk that, in the event of a depository failure, the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2016, none of the District’s deposits were exposed to custodial credit risk.

State law allows income from deposits to be credited to either the General Fund or the fund making the investment. The District’s policy is to credit all income from deposits to the fund making the investment.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016**

**(1) Summary of Significant Accounting Policies (Continued)**

**Deferred Inflows and Outflows of Resources**

In 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 of property taxes and pension activity.

**Pensions**

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 SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. District contributions and net pension asset are recognized on an accrual basis of accounting.

**Cash and Cash Equivalents**

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

**Equity Classifications**

*Government-wide Statements:*

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

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

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

*Fund Financial Statements:*

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 restricted net position held in trust for other purposes.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016**

**(1) Summary of Significant Accounting Policies (Concluded)**

**Equity Classification (Continued)**

The District classifies governmental fund balances as follows:

Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the School Board, Superintendent and Business Manager.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories.

The 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 District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

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

**(2) Property Taxes**

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, become due and payable 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 District's taxes and remits them to the District.

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 is not susceptible to accrual, has been reported as deferred inflows 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 fiscal period or within the "availability period."

**(3) Due from State Government**

Amounts due from state governments include grant reimbursements due from the State of South Dakota.

NEWELL SCHOOL DISTRICT NO. 9-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

(4) Changes in Capital Assets

Changes in capital assets used in governmental activities were as follows (see Note 1):

Governmental Activities	Balance	Additions	Transfers/ Retirements	Balance
	June 30, 2015			June 30, 2016
Land	\$ 24,544	\$ -	\$ -	\$ 24,544
Buildings	4,555,073	134,166	-	4,689,239
Improvements Other than Building	4,314,589	-	-	4,314,589
Equipment -- Local Funds	1,272,786	-	-	1,272,786
<b>Governmental Activities Capital Assets</b>	<b>\$ 10,166,992</b>	<b>\$ 134,166</b>	<b>\$ -</b>	<b>\$ 10,301,158</b>

Changes in capital assets used in business-type activities were as follows:

Business-Type Activities	Balance	Additions	Transfers/ Retirements	Balance
	June 30, 2015			June 30, 2016
Equipment	\$ 57,436	\$ -	\$ -	\$ 57,436
Less Accumulated Depreciation	(47,365)	(1,827)	-	(49,192)
<b>Business -Type Activities Capital Assets, Net</b>	<b>\$ 10,071</b>	<b>\$ (1,827)</b>	<b>\$ -</b>	<b>\$ 8,244</b>

(5) Long-Term Debt

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2016:

Governmental Activities	Balance	Additions	Reductions	Balance	Due Within
	June 30, 2015			June 30, 2016	One Year
Capital Outlay Certificates	\$ 3,230,000	\$ 200,000	\$ (345,000)	\$ 3,085,000	\$ 270,000
Energy Efficient Loan	975,000	-	(25,000)	950,000	75,000
ASBSD Assessment	-	135,080	-	135,080	-
Compensated Absences Payable	96,667	31,778	(27,503)	100,942	28,000
<b>Governmental Activities Long-Term Liabilities</b>	<b>\$ 4,301,667</b>	<b>\$ 366,858</b>	<b>\$ (397,503)</b>	<b>\$ 4,271,022</b>	<b>\$ 373,000</b>
<b>Business-Type Activities</b>					
Compensated Absences Payable	\$ 40	\$ 575	\$ (40)	\$ 575	\$ 575

The governmental compensated absences will be paid from the General Fund and Special Education Fund.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016**

**(5) Long Term Debt (Continued)**

Long-term debt, other than compensated absences, is comprised of the following at June 30, 2016:

*Capital Outlay Certificates:*

2014 General Obligation Limited Tax Series due in variable payments beginning in 2018, including interest at 1.20 to 4.25 percent through December 2033; paid from the Capital Outlay Fund.	\$ 2,000,000
2012 Crossover Refunding Capital Outlay Certificates, require variable semi-annual payments starting December 2015; fixed interest a 0.90 to 2.75 percent, through January 2027; paid from the Capital Outlay Fund.	810,000
2012 Refunding Capital Outlay Certificates, require variable semi-annual payments, including fixed interest at 0.54 to 1.65 percent, through June 2017; paid from the Capital Outlay Fund.	140,000
2015 General Obligation Capital Outlay Certificates require three variable annual payments including interest at 2.30 percent through July 2018; paid from the Capital Outlay Fund.	135,000
<b><i>Total Capital Outlay Certificates</i></b>	<b><u>3,085,000</u></b>

*Contract Payable:*

South Dakota Energy Efficiency School Loan, requires variable annual installments, is non-interest bearing through July 2024; paid from the Capital Outlay Fund.	950,000
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*ASBSD Assessment:*

The Associated School Boards of South Dakota Assessment due in one lump sum payment in August 2017. This is a non-interest bearing assessment. Assessment to be paid from the General and Special Education Funds. (See Note 7)	135,080
	<b><u>\$ 4,170,080</u></b>

The annual requirements to amortize all debt outstanding as of June 30, 2016, excluding compensated absences, are as follows:

Year Ending June 30,	Capital Outlay Certificates		Contract Payable	ASBSD Assessment
	Principal	Interest	Principal	
2017	\$ 270,000	\$ 85,135	\$ 75,000	-
2018	245,000	80,615	75,000	135,080
2019	175,000	76,835	100,000	-
2020	175,000	23,948	125,000	-
2021	180,000	70,885	150,000	-
2022-2026	965,000	289,884	425,000	-
2027-2031	760,000	150,677	-	-
2032-2033	315,000	20,188	-	-
	<b><u>\$ 3,085,000</u></b>	<b><u>\$ 798,167</u></b>	<b><u>\$ 950,000</u></b>	<b><u>\$ 135,080</u></b>

**NEWELL SCHOOL DISTRICT NO. 9-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016**

**(6) Donor Restrictions**

The restricted fund balance in the General Fund at June 30, 2016 of \$3,446 is restricted for music, athletics, and library in accordance with donor restrictions.

**(7) Risk Management**

The 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 year ended June 30, 2016, the District managed its risks as follows:

*Property/Liability Insurance*

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

*Workmen's Compensation*

The 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.

*Health Insurance*

The District joined the South Dakota School District 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 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. During the year ended June 30, 2016, the coverage provided a deductible of \$2,500 per person up to \$5,000 per family. The plan also provides for coinsurance of 80 percent up to \$10,000. The coverage also includes a \$2,000,000 lifetime maximum payment per person.

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

The Associated School Board of South Dakota issued an assessment to the participating members. The purpose of the assessment is to eliminate the on-going health fund deficit. The District anticipates paying this assessment in one lump sum during the fiscal year ended June 30, 2018. See Note 5.

*Unemployment Benefits*

The 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, 2016, no claims for unemployment benefits were paid. At June 30, 2016, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

## NEWELL SCHOOL DISTRICT NO. 9-2

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2016

#### (8) Interfund Activity

There were no interfund transfers during the year ended June 30, 2016. The Food Service Fund, Special Education Fund and Capital Outlay Fund borrowed \$39,936, \$17,801, and \$187,319, respectively, from the General Fund for operations at June 30, 2016.

#### (9) Pension Plan

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

##### Benefits Provided:

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

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

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

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

##### Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent 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, 2016, 2015, and 2014 were **\$115,391**, \$108,837, and \$99,761, respectively, equal to the required contributions each year.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016**

**(9) Pension Plan (Continued)**

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

At June 30, 2015, SDRS is 104.1 percent 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, 2015 are as follows:

Proportionate Share of Net Position Restricted for Pension Benefits	\$	10,707,079
Less: Proportionate Share of Total Pension Liability		10,285,684
<b>Proportionate Share of Net Pension Asset</b>	<b>\$</b>	<b>421,395</b>

At June 30, 2016, the District reported an asset of \$421,395 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015 and the total pension asset used to calculate the net pension asset was based on a projection of the District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the District's proportion was 0.0993555%.

For the year ended June 30, 2016, the District recognized pension expense of \$42,071. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ 86,283	\$ -
Changes in Assumption	334,139	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	257,423	621,776
Changes in Proportion and Difference between District Contributions and Proportionate Share of Contributions	(16,956)	-
District Contributions Subsequent to the Measurement Date	115,391	-
<b>Total</b>	<b>\$ 776,280</b>	<b>\$ 621,776</b>

Deferred outflow of resources includes \$115,391 resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension revenue by the District in 2017 through 2020, and by the Plan as follows:

2016	\$ 15,039
2017	15,039
2018	(58,647)
2019	67,682
	<b>\$ 39,113</b>



**NEWELL SCHOOL DISTRICT NO. 9-2**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016**

**(9) Pension Plan (Continued)**

Actuarial Assumptions:

The total pension asset in the June 30, 2015 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, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	61.0%	4.5%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.2%
Cash	2.0%	0.0%
	<u>100.0%</u>	

Discount Rate:

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

**NEWELL SCHOOL DISTRICT NO. 9-2**

**NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)  
JUNE 30, 2016**

**(9) Pension Plan (Concluded)**

Sensitivity of Asset to Changes in the Discount Rate:

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

District's Proportionate Share of the Net Pension Asset	Current Discount		
	1% Decrease	Rate	1% Increase
	\$ (1,060,647)	\$ 421,395	\$ 1,629,872

Pension Plan Fiduciary Net Position:

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

**(10) Operating Lease**

During the year ended June 30, 2016, the District entered into an operating lease agreement for a telephone system. Monthly payments of \$485 will be made from the general fund through 2022. The future minimum lease payments are as follows:

Year Ending June 30,	Future Minimum Lease Payment
2017	\$ 5,821
2018	5,821
2019	5,821
2020	5,821
2021	5,821
Thereafter	2,914
	<b>\$ 32,019</b>

REQUIRED SUPPLEMENTARY INFORMATION

**NEWELL SCHOOL DISTRICT NO. 9-2**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2016**

	<b>Budgeted Amounts</b>		<b>(Budgetary</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>	<b>Basis) Actual</b>	
<b>Revenues:</b>				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 620,000	\$ 620,000	\$ 593,923	\$ (26,077)
1120 Prior Years' Ad Valorem Taxes	20,000	20,000	19,459	(541)
1140 Gross Receipts Taxes	110,000	110,000	121,685	11,685
1190 Penalties and Interest on Taxes	5,500	5,500	5,629	129
1500 Earnings on Investments and Deposits	120	120	94	(26)
<i>1700 Cocurricular Activities:</i>				
1710 Admissions	20,000	20,000	13,432	(6,568)
1720 Concessions	20,000	20,000	-	(20,000)
1790 Other Pupil Activity	4,200	4,200	22,702	18,502
<i>1900 Other Revenue from Local Sources:</i>				
1910 Rentals	500	500	400	(100)
1920 Contributions and Donations	-	-	1,000	1,000
1990 Other	11,000	11,000	18,776	7,776
1973 Medicaid Indirect Admn. Services	10,000	10,000	-	(10,000)
2110 County Apportionment	35,000	35,000	39,418	4,418
<i>3000 Revenue from State Sources:</i>				
3110 Unrestricted Grants-in-Aid	1,307,279	1,307,279	1,328,437	21,158
3900 Other State Revenue	6,845	6,845	13,441	6,596
<i>4000 Revenue from Federal Sources:</i>				
4120 Unrestricted Grants-in-Aid Received from Federal Government Through State	135,000	135,000	35,426	(99,574)
4150-4199 Restricted Grants-in-Aid Received from Federal Government Through State	223,503	223,503	232,458	8,955
<b>Total Revenues</b>	<b>2,528,947</b>	<b>2,528,947</b>	<b>2,446,280</b>	<b>(82,667)</b>
<b>Expenditures:</b>				
<i>1100 Instruction - Regular Programs:</i>				
1110 Elementary	398,986	398,986	371,632	27,354
1120 Middle/Junior High	315,286	315,286	282,483	32,803
1130 High School	558,276	558,276	556,442	1,834
1150 Title II Part A	48,690	48,690	-	48,690
<i>1200 Instruction - Special Programs:</i>				
1270 Educationally Deprived	174,813	174,813	196,861	(22,048)
<i>1500 Post Secondary Occupational Programs:</i>				
1512 CTE	47,001	47,001	-	47,001
<i>2100 Support Services - Pupils:</i>				
2130 Health	41,974	41,974	35,556	6,418
<i>2200 Support Services - Instructional Staff:</i>				
2220 Educational Media	126,417	126,417	159,108	(32,691)

NEWELL SCHOOL DISTRICT NO. 9-2

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - BUDGETARY BASIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		(Budgetary Basis)	Variance
	Original	Final	Actual	
<i>2300 Support Services - General:</i>				
2310 Board of Education	162,360	162,360	139,422	22,938
2320 Executive Administration	150,703	150,703	225,879	(75,176)
<i>2400 Support Services - School:</i>				
2410 Office of the Principal	135,001	135,001	127,458	7,543
2490 Other	1,000	1,000	-	1,000
<i>2500 Support Services - Business:</i>				
2520 Fiscal Services	116,304	116,304	107,424	8,880
2540 Operation and Maintenance of Plant	386,745	386,745	499,504	(112,759)
2550 Pupil Transportation	156,332	156,332	152,480	3,852
<i>2600 Support Services - Central:</i>				
2633 Public Information Services (newsletters)	-	-	5,660	(5,660)
<i>3000 Community Services:</i>				
3500 Custody and Care of Children	10,115	10,115	9,742	373
<i>6000 Cocurricular Activities:</i>				
6900 Combined Activities	159,966	159,966	166,272	(6,306)
<b>Total Expenditures</b>	<b>2,989,969</b>	<b>2,989,969</b>	<b>3,035,923</b>	<b>(45,954)</b>
<b>Excess of Revenue over (under) Expenditures</b>	<b>(461,022)</b>	<b>(461,022)</b>	<b>(589,643)</b>	<b>(128,621)</b>
<b>Other Financing Sources</b>				
5130 Sale of Surplus Property	-	-	6,140	6,140
5140 Compensation for Loss of Capital Assets	-	-	57,573	57,573
<b>Total Other Financing Sources</b>	<b>-</b>	<b>-</b>	<b>63,713</b>	<b>63,713</b>
<b>Change in Fund Balance</b>	<b>(461,022)</b>	<b>(461,022)</b>	<b>(525,930)</b>	<b>(64,908)</b>
Fund Balance -- Beginning	1,414,466	1,414,466	1,414,466	-
<b>Fund Balance -- Ending</b>	<b>\$ 953,444</b>	<b>\$ 953,444</b>	<b>\$ 888,536</b>	<b>\$ (64,908)</b>

The accompanying notes to required supplementary information are an integral part of this statement.

## NEWELL SCHOOL DISTRICT NO. 9-2

BUDGETARY COMPARISON SCHEDULE - CAPITAL OUTLAY FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		(Budgetary Basis)	Variance
	Original	Final	Actual	
<b>Revenues:</b>				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 493,000	\$ 493,000	\$ 626,160	\$ 133,160
1120 Prior Years' Ad Valorem Taxes	10,000	10,000	10,610	610
1190 Penalties and Interest on Taxes	2,000	2,000	2,046	46
<b>Total Revenues</b>	<b>505,000</b>	<b>505,000</b>	<b>638,816</b>	<b>133,816</b>
<b>Expenditures:</b>				
<i>1100 Instruction - Regular Programs:</i>				
1110 Elementary	25,000	25,000	21,809	3,191
1120 Middle/Junior High	37,000	37,000	26,846	10,154
1130 High School	60,000	60,000	38,444	21,556
<i>2200 Support Services - Instructional Staff:</i>				
2227 Technology in School	200,000	200,000	200,000	-
<i>2500 Support Services - Business:</i>				
2530 Facilities Acquisition and Construction	-	-	11,343	(11,343)
2540 Operation and Maintenance of Plant	20,000	20,000	-	20,000
2550 Pupil Transportation	20,000	20,000	16,100	3,900
2570 Internal Services	5,000	5,000	3,906	1,094
5000 Debt Service	556,799	556,799	465,672	91,127
6900 Combined Activities	7,500	7,500	7,500	-
<b>Total Expenditures</b>	<b>931,299</b>	<b>931,299</b>	<b>791,620</b>	<b>139,679</b>
<b>Excess of Revenues under Expenditures</b>	<b>(426,299)</b>	<b>(426,299)</b>	<b>(152,804)</b>	<b>273,495</b>
<b>Other Financing Sources</b>				
5125 Capital Outlay Certificates Issued	200,000	200,000	200,000	-
5130 Sale of Surplus Property	-	-	655	655
<b>Total Other Financing Sources</b>	<b>200,000</b>	<b>200,000</b>	<b>200,655</b>	<b>655</b>
<b>Change in Fund Balance</b>	<b>(226,299)</b>	<b>(226,299)</b>	<b>47,851</b>	<b>274,150</b>
Fund Balance -- Beginning	(230,160)	(230,160)	(230,160)	-
<b>Fund Balance (Deficit) -- Ending</b>	<b>\$ (456,459)</b>	<b>\$ (456,459)</b>	<b>\$ (182,309)</b>	<b>\$ 274,150</b>

The accompanying notes to required supplementary information are an integral part of this statement.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**BUDGETARY COMPARISON SCHEDULE - SPECIAL EDUCATION FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		(Budgetary Basis)	Variance
	Original	Final	Actual	
<b>Revenues:</b>				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 237,000	\$ 237,000	\$ 300,250	\$ 63,250
1120 Prior Years' Ad Valorem Taxes	5,000	5,000	5,257	257
1190 Penalties and Interest on Taxes	1,000	1,000	1,002	2
<i>1900 Other Revenue from Local Sources:</i>				
1990 Other	3,000	3,000	19,013	16,013
<i>3000 Revenue from State Sources:</i>				
3120 Restricted Grants-in-Aid	322,780	322,780	177,126	(145,654)
4150-4199 Restricted Grants-in-Aid Received from Federal Government Through State	93,779	93,779	70,056	(23,723)
<b>Total Revenues</b>	<b>662,559</b>	<b>662,559</b>	<b>572,704</b>	<b>(89,855)</b>
<b>Expenditures:</b>				
<i>1200 Instruction - Special Programs:</i>				
1220 Programs for Special Education	712,086	712,086	485,474	226,612
<i>2100 Support Services - Pupils:</i>				
2130 Health	-	-	58,267	(58,267)
2170 Student Therapy Services	-	-	36,061	(36,061)
<i>2700 Support Services - Special Education:</i>				
2730 Transportation Costs	-	-	2,099	(2,099)
2750 Other Special Education Costs	-	-	55,266	(55,266)
<b>Total Expenditures</b>	<b>712,086</b>	<b>712,086</b>	<b>637,167</b>	<b>74,919</b>
<b>Change in Fund Balance</b>	<b>(49,527)</b>	<b>(49,527)</b>	<b>(64,463)</b>	<b>(14,936)</b>
Fund Balance -- Beginning	45,582	45,582	45,582	-
<b>Fund Balance (Deficit) -- Ending</b>	<b>\$ (3,945)</b>	<b>\$ (3,945)</b>	<b>\$ (18,881)</b>	<b>\$ (14,936)</b>

The accompanying notes to required supplementary information are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

**BUDGETARY COMPARISON SCHEDULE - PENSION TAX FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		(Budgetary Basis)	Variance
	Original	Final	Actual	
<b>Revenues:</b>				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 47,500	\$ 47,500	\$ 62,616	\$ 15,116
1120 Prior Years' Ad Valorem Taxes	1,000	1,000	1,061	61
1190 Penalties and Interest on Taxes	200	200	206	6
<b>Total Revenues</b>	<b>48,700</b>	<b>48,700</b>	<b>63,883</b>	<b>15,183</b>
<b>Expenditures:</b>				
<i>1100 Instruction - Regular Programs:</i>				
1110 Elementary	16,192	16,192	16,309	(117)
1120 Middle/Junior High	13,650	13,650	12,991	659
1130 High School	23,278	23,278	23,173	105
<b>Total Expenditures</b>	<b>53,120</b>	<b>53,120</b>	<b>52,473</b>	<b>647</b>
<b>Change in Fund Balance</b>	<b>(4,420)</b>	<b>(4,420)</b>	<b>11,410</b>	<b>15,830</b>
Fund Balance -- Beginning	117,083	117,083	117,083	-
<b>Fund Balance -- Ending</b>	<b>\$ 112,663</b>	<b>\$ 112,663</b>	<b>\$ 128,493</b>	<b>\$ 15,830</b>

The accompanying notes to required supplementary information are an integral part of this statement.



**NEWELL SCHOOL DISTRICT NO. 9-2**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION ASSET  
JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Asset	0.0993555%	0.0941112%
District's Proportionate Share of Net Pension Asset	\$ 421,395	\$ 678,032
District's Covered-Employee Payroll	\$ 1,813,933	\$ 1,642,017
District's Proportionate Share of the Net Pension Asset as a Percentage of its Covered-Employee Payroll	23.23%	41.29%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset	104%	107%

**NEWELL SCHOOL DISTRICT NO. 9-2**

**SCHEDULE OF THE DISTRICT CONTRIBUTIONS  
JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 115,391	\$ 108,837
Contributions in Relation to the Contractually Required Contribution	115,391	108,837
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 1,967,630	\$ 1,813,933
Contributions as a Percentage of Covered- Employee Payroll	6%	6%

**NEWELL SCHOOL DISTRICT NO. 9-2**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2016**

**(1) Basis of Presentation**

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

**(2) Budgetary Legal Requirements**

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

1. Prior to the first regular board meeting in May of each year, the School Board prepares a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the School Board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the School Board, the operating budget is legally binding at the fund level, and actual expenditures of each fund cannot exceed the amounts budgeted for that fund, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total 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 the adoption of supplemental budgets when monies are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board. The District does not employ encumbrance accounting as an extension of formal budgetary integration.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds. Generally accepted accounting principles prescribe that budgetary information be presented for the General Fund and major special revenue funds of the District only.
11. The financial statements prepared in conformity with US GAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new bus would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary Required Supplementary Information Schedule, the purchase of a bus would be reported as an expenditure of the Support Services/Pupil Transportation function of government, along with all other current Pupil Transportation related expenditures.

## OTHER REPORTS



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

School Board  
Newell School District No. 9-2  
Newell, South Dakota

We have audited, in accordance with the 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 **NEWELL SCHOOL DISTRICT NO. 9-2** (the District) as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 25, 2017, in which an adverse opinion was expressed on the governmental activities and an unmodified opinion on the business-type activities, each major fund, and the aggregate remaining fund information. The governmental activities are adverse due to a lack of recording certain capital assets and depreciation expense.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as Findings 2016-001, 2016-002, 2016-003, and 2016-004 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as 2016-005, 2016-006, 2016-007 and 2016-008 to be significant deficiencies.

School Board

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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as Findings 2016-006, 2016-007, and 2016-008.

**District's Response to Findings**

The District's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

**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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District'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.



KETEL THORSTENSON, LLP  
Certified Public Accountants

January 25, 2017

**NEWELL SCHOOL DISTRICT NO. 9-2**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2016**

The recommendations reported in the prior audit of Newell School District No. 9-2 as Findings No. 2015-001, 2015-002, 2015-003, and 2015-004 will be restated on the accompanying Schedule of Findings, and Corrective Action Plan as Findings No. 2016-001, 2016-002, 2016-003, and 2016-004. Finding 2015-005 has been restated and added to Finding 2016-001. The District is working on implementing corrective actions on certain findings or is accepting the risk associated with other findings.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**SCHEDULE OF FINDINGS  
JUNE 30, 2016**

**Material Weaknesses**

2016-001 FINDING: Segregation of Duties

Condition and Cause: An adequate system of accounting duties and functions has not been achieved to assure adequate internal control over safeguarding of assets and the reliability of financial records and reporting. Segregation of duties also encompasses a review function of all phases of the District's financial operations. The following are specific areas of inadequate segregation of duties:

- a. The assistant business manager or business manager receives cash and checks, posts the cash/check and electronic payments, prepares the deposit slip, takes the deposit to the bank, and has access to online bank statements.
- b. The Food Service Director receives cash or cash equivalents from the student's for meals, prepares the receipt and posts the money to the food service system. The cash receipts were not agreed to the deposit report from the food service module by the business manager.
- c. The assistant business manager generates the vendor checks, prepares the disbursement listing for the School Board meetings, has access to the signature stamp and blank check stock, and can access online bank statements. In addition, the assistant business manager is an authorized check signer for the fiduciary checking accounts.
- d. The assistant business manager enters all payroll information, generates the payroll, initiates the online payment, and receives the bank statement. The direct deposit listing is reviewed by the School Board's Vice Chair; however, the report does not include hours worked or employees' pay rates. Salaries expenditures represent over half of the District's expenditures.
- e. Both the assistant business manager and the business manager post journal entries, but only those of the assistant business manager are reviewed.
- f. Bank reconciliations are not reviewed on a monthly basis for accuracy.
- g. The District does not monitor suspended/debarred vendors in relation to compliance with federal programs.

Criteria: Internal controls should be in place to provide reasonable assurance that all financial transactions are reviewed and approved before payments are made and reports are generated. Controls also need to be in place to ensure all revenue is processed and recorded correctly. Compliance with all grant terms and related cost principles must be part of any effective internal control system.

Effect: The effectiveness of the internal control system relies on enforcement by management. Small problems can lead to more severe problems, and even make the District more susceptible to fraud.

Recommendation: Under these circumstances, the most effective controls lie in (1) management and the Board of Education's knowledge of the District's financial operations and (2) striving to obtain as much segregation of duties as possible so that no one person has complete control of any type of financial transaction. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. Supervision and review functions must be done continually during all phases of the accounting cycle.



**NEWELL SCHOOL DISTRICT NO. 9-2**

**SCHEDULE OF FINDINGS (CONTINUED)**

**JUNE 30, 2016**

**Material Weaknesses (Continued)**

2016-001 FINDING: Segregation of Duties (Continued)

Specifically:

- a. The assistant business manager or business manager should not directly receive any cash/check payments, if that same person posts them into the general ledger. The business manager should review the weekly deposits by comparing them to receipt books from other locations.
- b. The business manager should compare the deposit report from the food service module to the actual cash receipts received and bank deposit slip.
- c. The Board members who review invoices before the Board meeting should also review the checks. These reviewed checks should then go to the high school secretary for mailing. The assistant business manager should not be an authorized check signer of the fiduciary checking account.
- d. The superintendent or a School Board member should review the direct deposit listing before it is submitted to the bank, which includes hours worked and pay rates of District employees.
- e. All journal entries posted by the business manager should be reviewed by the superintendent or the assistant business manager.
- f. The business manager should obtain monthly bank reconciliations from the external consultant and should review for accuracy.
- g. We recommend that the business manager or assistant business manager review all vendors to which the District pays amounts of \$25,000 or more with federal funds for active exclusions per [www.sam.gov](http://www.sam.gov).

Response/Corrective Action Plan: Management is in agreement with the finding. See attached Corrective Action Plan.

2016-002 FINDING: Capital Asset Records

Condition and Cause: Capital asset records were not properly maintained to support the amounts reported for governmental activities capital assets, resulting in lack of control over public assets and inaccurate financial statements.

Criteria: Accounting principles generally accepted in the United States of America require that capital assets be recorded as assets and depreciated.

Effect: These conditions result in unreliable data being reported for capital assets for governmental activities and lack of safeguards for these assets. In addition, the District's audit report for governmental activities expresses an adverse opinion.

Recommendation: The District needs to establish and maintain adequate capital assets accounting records. The general ledger capital asset balance should be reconciled to the accounting records established.

Response/Corrective Action Plan: Management is in agreement with the finding. See attached Corrective Action Plan.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**SCHEDULE OF FINDINGS (CONTINUED)  
JUNE 30, 2016**

**Material Weaknesses (Continued)**

2016-003 FINDING: Preparation of Financial Statements

Condition and Cause: As in prior years, we were requested to draft the audited financial statements, and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the District at the same time in connection with our audit. This is not unusual for us to do with organizations of the District's size.

Criteria and Effect: It is our responsibility to inform the School Board that this deficiency could result in a material misstatement to the financial statements that would have not been prevented or detected by the District's management.

Recommendation: As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the District's financial statements. We are satisfied that the appropriate steps have been taken to provide the District with the completed financial statements. It is the responsibility of management and the School Board to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response/Corrective Action Plan: Management is in agreement with the finding. See attached Corrective Action Plan.

2016-004 FINDING: Audit Adjustments

Condition and Cause: During the course of our engagement, we proposed material audit adjustments. The adjustments included:

- a. Adjusting net position to properly rollforward in the food service fund
- b. Reversing duplicate entries made for the purchase and allocation of computer equipment
- c. Adjusting Title I and special education (SPED) revenue and receivable to actual
- d. Adjusting property tax revenue and deferred revenue
- e. Adjusting governmental debt
- f. Reclassifying donated commodities to the appropriate general ledger account
- g. Reclassifying payroll deductions from the SPED fund to the general fund; recording adjustments to the payroll deduction account in the food service fund
- h. Adjusting depreciation in the food service fund
- i. Reversing the receivable recorded in the prior year for insurance proceeds from hail damage
- j. Recording accrued contract payable for the previous superintendent
- k. Recording current year SDRS Pension activity
- l. Recording assessment from ASBSD

Other entries were proposed as part of the audit, but were not recorded due to the overall insignificance on the financial statements.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**SCHEDULE OF FINDINGS (CONTINUED)  
JUNE 30, 2016**

**Material Weaknesses (Concluded)**

2016-004 FINDING: Audit Adjustments

Criteria and Effect: These adjustments were not recorded through the District's existing internal controls, and therefore, resulted in a material misstatement of the District's financial statements. As in past audits, these adjustments were made by us as part of our audit process.

Recommendation: We recommend management adjust all significant accounts at year end. This will provide the District with accurate financial information. Specifically:

- a. Adjusting entries should not be made directly to fund net position during the year
- b. Entries should not be duplicated in order to avoid over/understatement of account balances
- c. Revenue and receivables from federal and state grants should be adjusted at least annually
- d. Property and equipment should be recorded and adjusted at least annually
- e. Property tax revenue and receivable should be adjusted at least annually
- f. Governmental debt balances should be adjusted at least annually; accrual accounts should be adjusted to actual as necessary
- g. Payroll deductions should be reviewed to ensure that deductions are being recorded in the appropriate fund for the employee
- h. Depreciation on food service capital assets should be recorded annually
- i. Prior year accrual for insurance proceeds receivable should have been reversed when cash payment is received
- j. Accrued payroll and contracts should be recorded as applicable
- k. Current year SDRS pension activity should be adjusted in accordance with GASB 68
- l. The assessment from ASBSD should be recorded in the long-term debt fund

Response/Corrective Action Plan: Management is in agreement with the finding. See attached Corrective Action Plan.

**Significant Deficiencies**

2016-005 FINDING: Activity Ticket Reconciliation

Condition and Cause: During our testing of a sample of activity transactions, we were unable to reconcile the number of ticket sales to the cash deposit for the girls and boys basketball games on February 1, 2016. We were able to agree the cash deposit to the general ledger posting and bank statement deposit.

Criteria and Effect: The number of tickets sold and cash collected should agree to the amount of cash deposited.

Recommendation: We recommend that the ticket activity sheets are reconciled to the cash deposited from activity ticket sales. If discrepancies are noted, the business manager should investigate.

Response/Corrective Action Plan: Management is in agreement with the finding. See attached Corrective Action Plan.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**SCHEDULE OF FINDINGS (CONCLUDED)  
JUNE 30, 2016**

**Significant Deficiencies (Continued)**

2016-006 FINDING: Expenditure Bidding - Compliance

Condition and Cause: When testing a sample of disbursements, we noted the District had three instances of expenditures for goods/services in excess of the \$25,000 bid requirement threshold as prescribed by State of South Dakota. We noted that the District does not have a proper bidding process in place to obtain bids and obtain a vendor/provider through approved methods.

Criteria and Effect: The District did not follow State law. In addition, the District may not be getting the most competitive pricing available.

Recommendation: We recommend that the District procure bids for purchases over the bid requirement threshold of \$25,000. The bidding process shall promote the selection of the most appropriate vendor/provider measured by cost and quality among other factors.

Response/Corrective Action Plan: Management is in agreement with the finding. See attached Corrective Action Plan.

2016-007 FINDING: Teacher Certification - Compliance

Condition and Cause: When testing a sample of payroll transactions, one employee charged to the special education (SPED) program did not have documentation indicating she should be appropriately charged to the SPED program.

Criteria and Effect: Employees charged to federal programs should have appropriate documentation.

Recommendation: We recommend that the District prepare and obtain semi-annual certification or other supporting documentation for employees being charged to certain federal programs.

Response/Corrective Action Plan: Management is in agreement with the finding. See attached Corrective Action Plan.

2016-008 FINDING: Budgetary Overdraft

Condition and Cause: The District approved a budget for the Special Education fund which created a fund balance deficit, and the District approved a budget for the Capital Outlay Fund, which increase the fund's deficit.

Criteria and Effect: According to South Dakota Law, the District cannot budget to create or increase a deficit fund balance. This caused the District to be in violation of state law.

Recommendation: We recommend that the District review budgets before passing to ensure they are consistent and comply with all applicable laws.

Response/Corrective Action Plan: Management is in agreement with the finding. See attached Corrective Action Plan.

## NEWELL SCHOOL DISTRICT NO. 9-2

### CORRECTIVE ACTION PLAN JUNE 30, 2016

#### 2015-001 FINDING: Segregation of Duties:

The District strives to attain as much segregation of duties as possible with the staff available. The business manager is responsible for the corrective action plan for this finding.

Specifically:

- a. The duties of receiving payments whether cash or check are made by several individual staff members and the Cash Receipt Report is checked over and signed by the business manager before posting. The Business Office personnel, HS Secretary and E/MS Secretary all share duties of reconciling campus deposits to receipt books. The business manager assumes responsibility of these personnel.
- b. The business office will oversee the lunch tracker on a quarterly basis to check a random account through food service.
- c. A School Board member and the Superintendent has started reviewing the cancelled checks and overall account activity for propriety, including reasonable amounts, recognizable vendors, and proper authorized signatures. Check stubs are included in the reviewing process.
- d. The Superintendent will continue reviewing the payroll reports monthly.
- e. The Superintendent or assistant business manager will begin reviewing any journal entries made by the business manager during fiscal year 2015.
- f. The business manager will request bank reconciliations from the preparer of the reconciliation and review on a monthly basis.

2016-002 FINDING: Capital Asset Records: Business Office is currently verifying existing records and updating newer purchases with a five year goal to accommodate/include whole campus. The business manager is responsible for the corrective action plan for this finding.

#### 2016-003 FINDING: Preparation of Financial Statements:

Both management and the School Board have been informed of this process and are confident that the information is accurate and are willing to accept this risk. The business manager is responsible for the corrective action plan for this finding.

#### 2016-004 FINDING: Internal Control over Significant Accounts:

The District will continue to work towards having all adjustments made prior to each annual audit. The business manager is responsible for the corrective action plan for this finding.

#### 2016-005 FINDING: Activity Ticket Reconciliation:

The Business Office will strive to more thoroughly reconcile records of ticket sales for activities to the cash deposited.

#### 2016-006 FINDING: Expenditure Bidding – Compliance:

School Board members each have a copy of SD Local Government Guide (Bid Booklet) at their disposal. The Business Manager along with Board Members will be more aware of expenditures for goods/services in excess of bid requirements.

#### 2016-007 FINDING: Teacher Certification – Compliance:

The staff member in question, suddenly terminated employment, leaving the state before probationary period pass. Obtaining a semi-annual certification report was difficult. The Business Office will strive to obtain semi-annual certifications from all employees charged to certain federal programs in the exit process, should they terminate employment mid-year.

#### 2016-008 FINDING: Budgetary Overdraft:

The District will make efforts to create budgets in compliance with state law.