



NEWELL SCHOOL DISTRICT NO. 9-2

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2017



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, 2017, 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, 2017, 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year ended in accordance 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 (Liability), and Schedule of the District Contributions on pages 3 through 11 and 40 through 46, 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 March 12, 2018 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

March 12, 2018

NEWELL SCHOOL DISTRICT NO. 9-2

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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, 2017. 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 increased \$167,650 for the year ended June 30, 2017, primarily due to an increase in student enrollment which increased operating grants and contributions, plus increases in property taxes with a decrease in operational expenses.
- The total cost of the District's programs decreased by approximately seven percent during fiscal year 2017, which is primarily due to working towards trying to reach the state recommended teacher to student ratio for reimbursement.
- The general fund reported a current year fund balance of \$606,691.

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.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2017**

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.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2017**

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, 2017**

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.

Figure A-1				
	Government-Wide Statements	Fund Statements		
Scope	Entire District government (except fiduciary funds)	Governmental Funds	Proprietary Funds	Fiduciary Funds
		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
Required Financial Statements	Statements of Net Position and 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
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/ Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets although they can
Type of Inflow/ Outflow Information	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, 2017

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.

Table A-1						
COMPARATIVE SUMMARIZED STATEMENT OF NET POSITION						
	Governmental		Business-Type		Total	
	Activities		Activities			
	2016	2017	2016	2017	2016	2017
Current and Other Assets	\$ 2,311,702	\$ 1,818,809	\$ (21,644)	\$ (48,229)	\$ 2,290,058	\$ 1,770,580
Capital Assets	10,301,158	10,338,570	8,244	6,417	10,309,402	10,344,987
Total Assets	12,612,860	12,157,379	(13,400)	(41,812)	12,599,460	12,115,567
Pension Related Deferred Outflows of Resources	\$ 19,022	\$ 819,459	\$ 19,022	\$ 20,316	\$ 38,044	\$ 839,775
Long-Term Debt	\$ 4,271,022	\$ 4,346,129	\$ 575	\$ 8,803	\$ 4,271,597	\$ 4,354,932
Other Liabilities	269,175	224,353	-	-	269,175	224,353
Total Liabilities	\$ 4,540,197	\$ 4,570,482	\$ 575	\$ 8,803	\$ 4,540,772	\$ 4,579,285
Taxes Levied for Future Period	\$ 741,048	\$ 736,263	\$ -	\$ -	\$ 741,048	\$ 736,263
Pension Related Deferred Inflows	606,540	-	15,236	-	621,776	-
Total Deferred Inflows	1,347,588	736,263	15,236	-	1,362,824	736,263
Net Position						
Net Investment in						
Capital Assets	6,266,158	6,573,570	8,244	6,417	6,274,402	6,579,987
Restricted	696,044	702,800	14,112	13,190	710,156	715,990
Unrestricted (Deficit)	520,131	393,723	(32,545)	(49,906)	487,586	343,817
Total Net Position	\$ 7,482,333	\$ 7,670,093	\$ (10,189)	\$ (30,299)	\$ 7,472,144	\$ 7,639,794
Beginning Net Position	\$ 7,772,910	\$ 7,482,333	\$ 8,751	\$ (10,189)	\$ 7,781,661	\$ 7,472,144
Change in Net Position	(290,577)	187,760	(18,940)	(20,110)	(309,517)	167,650
Percentage of Change in Net Position	-3.74%	2.51%	-216.43%	197.37%	-3.98%	2.24%

NEWELL SCHOOL DISTRICT NO. 9-2

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Governmental Activities

The increase in net position for the governmental activities from 2016 to 2017 is due to an increase in net Investment in Capital Assets.

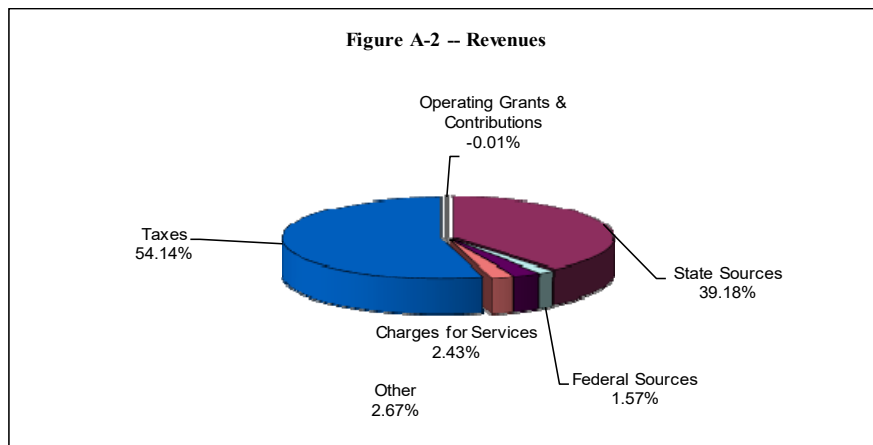
Business-Type Activities

The decrease in net position for business-type activities from 2016 to 2017 is due to expenditures related to the Food Service Fund exceeding revenue related to the fund.

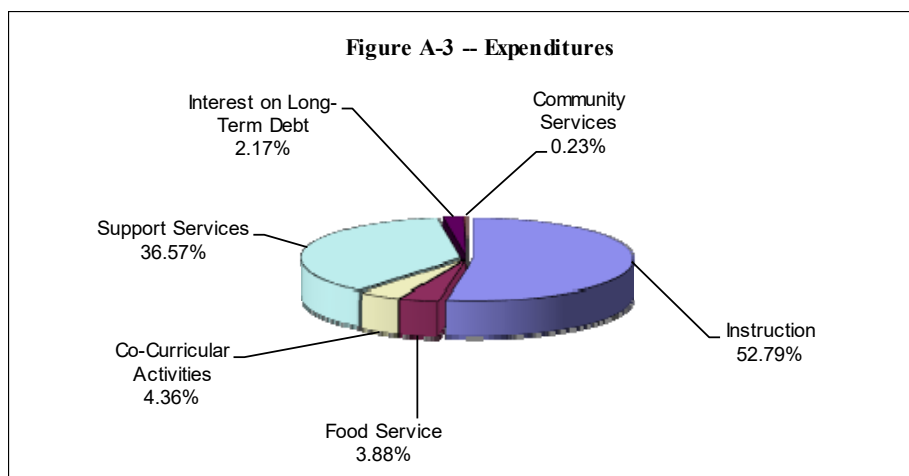
Changes in Net Position

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

The District’s revenues totaled \$4,121,233 for the year ended June 30, 2017. (See Table A-2.) Approximately half of the District’s revenue comes from property and other taxes, with 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 decreased during fiscal year 2017. 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).



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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONCLUDED)

Changes in Net Position (Continued)

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	
	2016	2017	2016	2017	2016	2017
Revenues						
<i>Program Revenues</i>						
Charges for Services	\$ 36,134	\$ 41,503	\$ 44,075	\$ 43,110	\$ 80,209	\$ 84,613
Operating Grants and Contributions	479,640	543,242	95,458	90,006	575,098	633,248
<i>General Revenues</i>						
Property Taxes	1,632,547	1,768,331	-	-	1,632,547	1,768,331
Gross Receipts Taxes	121,685	120,299	-	-	121,685	120,299
Revenue State Sources	1,341,878	1,366,888	-	-	1,341,878	1,366,888
Revenue Federal Sources	35,426	54,748	-	-	35,426	54,748
Unrestricted Investment Earnings	94	59	-	-	94	59
Other General Revenues	142,975	93,047	-	-	142,975	93,047
Total Revenues	3,790,379	3,988,117	139,533	133,116	3,929,912	4,121,233
Expenses						
Instruction	2,282,231	2,087,237	-	-	2,282,231	2,087,237
Support Services	1,522,557	1,445,996	-	-	1,522,557	1,445,996
Community Services	9,515	9,225	-	-	9,515	9,225
Co-Curricular Activities	170,981	172,219	-	-	170,981	172,219
Interest on Long-Term Debt	95,672	85,680	-	-	95,672	85,680
Food Service	-	-	158,473	153,226	158,473	153,226
Total Expenses	4,080,956	3,800,357	158,473	153,226	4,239,429	3,953,583
Change in Net Position	(290,577)	187,760	(18,940)	(20,110)	(309,517)	167,650
Ending Net Position	\$ 7,482,333	\$ 7,670,093	\$ (10,189)	\$ (30,299)	\$ 7,472,144	\$ 7,639,794

Governmental Activities

The District experienced an increase in general revenue during the 2017 year as compared to the 2016 year. The increase in general revenues was due to an increase in enrollment which increased operating grants and contributions, plus an increase in property tax revenue.

Business-Type Activities

Revenues of the District's business-type activities decreased by approximately five percent, and expenses decreased by approximately three percent. The decrease was due to a decrease in operating grants.

NEWELL SCHOOL DISTRICT NO. 9-2

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

The General Fund’s fund balance decreased by \$281,845, primarily due to an increase in expenditures related to instruction and support and general maintenance. The Special Education Fund’s fund balance increased by \$3,270, primarily due to an increase in taxes and restricted grants revenue. The Capital Outlay fund balance increased by \$305,905 due to limited capital outlay expenditures and decreased debt service payments in the current year.

BUDGETARY HIGHLIGHTS

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

CAPITAL ASSET ADMINISTRATION

By the end of 2017, 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.

	Governmental Activities		Business-Type Activities	
	2016	2017	2016	2017
Land	\$ 24,544	\$ 24,544	\$ -	\$ -
Buildings	4,689,239	4,689,239	-	-
Improvements Other than Buildings	4,314,589	4,314,589	-	-
Equipment	1,272,786	1,310,198	8,244	6,417
Total Capital Assets (Net)	\$ 10,301,158	\$ 10,338,570	\$ 8,244	\$ 6,417

NEWELL SCHOOL DISTRICT NO. 9-2

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONCLUDED)
JUNE 30, 2017**

LONG-TERM DEBT

At year-end, the District had \$4,005,391 in long-term obligations. This is a decrease of six percent as shown on Table A-4 below.

Table A-4 Outstanding Debt and Obligations				
	<u>2016</u>	<u>2017</u>	<u>Total Dollar Change</u>	<u>Total Percentage Change</u>
Compensated Absences	\$ 101,517	\$ 105,311	\$ 3,794	4%
ASBSD Assessment	135,080	135,080	-	N/A
Energy Efficient Loan	950,000	950,000	-	N/A
Capital Outlay Certificates	3,085,000	2,815,000	(270,000)	-9%
Total Outstanding Debt and Obligations	\$ 4,271,597	\$ 4,005,391	\$ (266,206)	-6%

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 \$224,172,413 to \$250,282,103. 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 student to staff ratio allocation from the State of South Dakota. The state aid formula for the current year ensures that property taxes plus state aid will equal \$1,868,361.

The District has experienced a small increase in ADM from 2016 to 2017. This small increase in ADM will result in the District receiving little to no overall increase in revenue from the State of South Dakota. The District’s enrollment increased from 288 to 297 (K-12) between fiscal year 2016 and 2017.

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, 2017

	<u>Primary Government</u>		Total
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
<u>ASSETS</u>			
Cash and Investments	\$ 649,443	\$ -	\$ 649,443
Taxes Receivable (Note 2)	818,526	-	818,526
Receivables (Note 3)	278,397	453	278,850
Internal Balances (Note 8)	54,395	(54,395)	-
Inventories	-	4,680	4,680
Prepaid Insurance	18,048	1,033	19,081
Capital Assets (Note 4):			
Land	24,544	-	24,544
Other Capital Assets	10,314,026	-	10,314,026
Equipment, Net of Depreciation	-	6,417	6,417
TOTAL ASSETS	12,157,379	(41,812)	12,115,567
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Pension Related Deferred Outflows of Resources (Note 9)	819,459	20,316	839,775
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 12,976,838	\$ (21,496)	\$ 12,955,342
<u>LIABILITIES</u>			
Accounts Payable and Accrued Expenses	\$ 224,353	\$ -	\$ 224,353
Long-Term Liabilities (Note 5):			
Due within One Year	390,080	1,677	391,757
Due in More than One Year	3,613,634	-	3,613,634
Net Pension Liability (Note 9)	342,415	7,126	349,541
TOTAL LIABILITIES	4,570,482	8,803	4,579,285
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Taxes Levied for Future Period (Note 2)	736,263	-	736,263
<u>NET POSITION</u>			
Net Investment in Capital Assets	6,573,570	6,417	6,579,987
Restricted for:			
Pension Tax	77,108	-	77,108
Capital Outlay	145,202	-	145,202
Pension-SDRS (Note 9)	477,044	13,190	490,234
Music, Athletics, and Library (Note 6)	3,446	-	3,446
Unrestricted (Deficit)	393,723	(49,906)	343,817
TOTAL NET POSITION (DEFICIT)	7,670,093	(30,299)	7,639,794
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 12,976,838	\$ (21,496)	\$ 12,955,342

NEWELL SCHOOL DISTRICT NO. 9-2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business- Type Activities	
<i>Governmental Activities:</i>						
Instruction	\$ 2,087,237	\$ -	\$ 543,242	\$ (1,543,995)	\$ -	\$ (1,543,995)
Support Services	1,445,996	-	-	(1,445,996)	-	(1,445,996)
Community Services	9,225	-	-	(9,225)	-	(9,225)
Co-Curricular Activities	172,219	41,503	-	(130,716)	-	(130,716)
Interest on Long-Term Debt *	85,680	-	-	(85,680)	-	(85,680)
Total Governmental Activities	3,800,357	41,503	543,242	(3,215,612)	-	(3,215,612)
<i>Business-Type Activities:</i>						
Food Service	153,226	43,110	90,006	-	(20,110)	(20,110)
Total Primary Government	\$ 3,953,583	\$ 84,613	\$ 633,248	(3,215,612)	(20,110)	(3,235,722)
<i>General Revenues</i>						
Taxes:						
Property Taxes				1,768,331	-	1,768,331
Gross Receipts Taxes				120,299	-	120,299
Revenue from State Sources:						
State Aid				1,366,888	-	1,366,888
Revenue from Federal Sources				54,748	-	54,748
Unrestricted Investment Earnings				59	-	59
Other General Revenues				93,047	-	93,047
Total General Revenues				3,403,372	-	3,403,372
Change in Net Position				187,760	(20,110)	167,650
Net Position (Deficit) -- Beginning				7,482,333	(10,189)	7,472,144
Net Position (Deficit) -- Ending				\$ 7,670,093	\$ (30,299)	\$ 7,639,794

* 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, 2017

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Tax Fund	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 456,542	\$ 118,232	\$ -	\$ 74,669	\$ 649,443
Taxes Receivable -- Current (Note 2)	283,993	304,639	161,324	-	749,956
Taxes Receivable -- Delinquent (Note 2)	34,493	21,606	10,310	2,161	68,570
Due from Other Funds (Note 8)	54,395	-	-	-	54,395
Due from State Government (Note 3)	127,139	-	151,258	-	278,397
Prepaid Insurance	16,187	-	1,861	-	18,048
Advance to Other Funds (Note 8)	127,513	-	-	-	127,513
Total Assets	\$ 1,100,262	\$ 444,477	\$ 324,753	\$ 76,830	\$ 1,946,322
LIABILITIES					
Accounts Payable and Accrued Expenses	\$ 180,446	\$ -	\$ 43,907	\$ -	\$ 224,353
Advance From Other Funds (Note 8)	-	-	127,513	-	127,513
Total Liabilities	180,446	-	171,420	-	351,866
DEFERRED INFLOWS OF RESOURCES					
Taxes Levied for Future Periods (Note 2)	278,632	299,275	158,634	(278)	736,263
Unavailable Revenue - Property Taxes (Note 2)	34,493	21,606	10,310	2,161	68,570
Total Deferred Inflows of Resources	313,125	320,881	168,944	1,883	804,833
FUND BALANCES					
Nonspendable - Prepaid Assets	16,187	-	1,861	-	18,048
Nonspendable - Advance to Other Funds	127,513	-	-	-	127,513
Restricted - Capital Outlay	-	123,596	-	-	123,596
Restricted - Pension Tax	-	-	-	74,947	74,947
Restricted - Music, Athletics, and Library (Note 6)	3,446	-	-	-	3,446
Unassigned (Deficit)	459,545	-	(17,472)	-	442,073
Total Fund Balances (Deficit)	606,691	123,596	(15,611)	74,947	789,623
Total Liabilities, Deferred Inflows of Resources and Fund Balances (Deficit)	\$ 1,100,262	\$ 444,477	\$ 324,753	\$ 76,830	\$ 1,946,322

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, 2017**

Total Fund Balances - Governmental Funds \$ 789,623

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. 10,338,570

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. (4,003,714)

Assets, such as taxes receivable, that are not available to pay for current period expenditures are deferred in the funds. 68,570

Net pension liability reported in governmental activities is not an available financial resource and therefore is not reported in the funds. (342,415)

Pension related deferred outflows are components of pension liability and therefore are not reported in the funds. 819,459

Net Position - Governmental Funds \$ 7,670,093

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, 2017**

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Tax Fund	Total Governmental Funds
Revenues:					
<i>1000 Revenue from Local Sources:</i>					
1110 Ad Valorem Taxes	\$ 640,109	\$ 681,719	\$ 347,100	\$ 27,937	\$ 1,696,865
1120 Prior Years' Ad Valorem Taxes	28,907	15,088	7,251	1,509	52,755
1130 Tax Deed Revenues	7,396	2,755	1,459	-	11,610
1140 Gross Receipts Taxes	120,299	-	-	-	120,299
1190 Penalties and Interest on Taxes	7,771	3,455	1,571	305	13,102
1500 Earnings on Investments and Deposits	59	-	-	-	59
<i>1700 Cocurricular Activities:</i>					
1710 Admissions	13,967	-	-	-	13,967
1790 Other Pupil Activity	27,536	-	-	-	27,536
<i>1900 Other Revenue from Local Sources:</i>					
1910 Rentals	900	-	-	-	900
1920 Contributions and Donations	5,550	-	-	-	5,550
1990 Other	19,246	-	15,822	-	35,068
2110 County Apportionment	33,394	-	-	-	33,394
<i>3000 Revenue from State Sources:</i>					
3110 Unrestricted Grants-in-Aid	1,366,888	-	-	-	1,366,888
3120 Restricted Grants-In-Aid	-	-	152,944	-	152,944
<i>4000 Revenue from Federal Sources:</i>					
4110 Unrestricted Direct Federal	1,340	-	-	-	1,340
4120 Unrestricted Grants-in-Aid Received from Federal Government Through State	53,408	-	-	-	53,408
4150-4199 Restricted Grants-in-Aid Received from Federal Government through State	202,836	-	187,462	-	390,298
Total Revenues	2,529,606	703,017	713,609	29,751	3,975,983

Expenditures:

<i>1100 Instruction - Regular Programs:</i>					
1110 Elementary	355,811	7,395	-	-	363,206
1120 Middle/Junior High	319,879	7,273	-	-	327,152
1130 High School	549,521	12,255	-	-	561,776
<i>1200 Instruction - Special Programs:</i>					
1220 Programs for Special Education	-	-	597,615	-	597,615
1270 Educationally Deprived	174,369	-	-	-	174,369
<i>2100 Support Services - Pupils:</i>					
2130 Health	-	-	58,830	-	58,830
2170 Student Therapy Services	-	-	44,428	-	44,428
<i>2200 Support Services - Instructional Staff:</i>					
2220 Educational Media	108,218	-	-	-	108,218
<i>2300 Support Services - General:</i>					
2310 Board of Education	146,152	-	-	-	146,152
2320 Executive Administration	200,181	-	-	-	200,181
<i>2400 Support Services - School:</i>					
2410 Office of the Principal	122,158	-	-	-	122,158

NEWELL SCHOOL DISTRICT NO. 9-2

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Tax Fund	Total Governmental Funds
<i>2500 Support Services - Business:</i>					
2520 Fiscal Services	123,607	-	-	-	123,607
2540 Operation and Maintenance of Plant	435,889	-	-	-	435,889
2550 Pupil Transportation	165,453	-	-	-	165,453
2570 Internal Services	-	4,557	-	-	4,557
<i>2600 Support Services - Central:</i>					
2633 Public Information Services	5,660	-	-	-	5,660
<i>2700 Support Services - Special Education:</i>					
2750 Other Special Education Costs	-	-	9,466	-	9,466
<i>3000 Community Services:</i>					
3500 Custody and Care of Children	8,951	-	-	-	8,951
5000 Debt Service	-	355,680	-	-	355,680
<i>6000 Cocurricular Activities:</i>					
6900 Combined Activities	167,952	1,622	-	-	169,574
7000 Capital Outlay	26,922	10,490	-	-	37,412
Total Expenditures	2,910,723	399,272	710,339	-	4,020,334
Excess of Revenues over (under) Expenditures	(381,117)	303,745	3,270	29,751	(44,351)
Other Financing Sources (Uses)					
5130 Sale of Surplus Property	15,975	2,160	-	-	18,135
5150 Transfer In (Out) (Note 8)	83,297	-	-	(83,297)	-
Total Other Financing Sources (Uses)	99,272	2,160	-	(83,297)	18,135
Net Change in Fund Balances	(281,845)	305,905	3,270	(53,546)	(26,216)
Fund Balances (Deficit) -- Beginning	888,536	(182,309)	(18,881)	128,493	815,839
Fund Balances (Deficit) -- Ending	\$ 606,691	\$ 123,596	\$ (15,611)	\$ 74,947	\$ 789,623

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, 2017**

Net Change in Fund Balances - Total Governmental Funds	\$ (26,216)
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.	37,412
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."	(6,001)
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.	(2,692)
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.	270,000
Changes in the pension related deferred outflows are direct components of pension liability and are not reflected in the governmental funds.	119,271
Pension revenues in the Statement of Activities do not provide current financial resources and are not reported as revenues in the funds.	(204,014)
Change in Net Position of Governmental Activities	\$ 187,760

The accompanying notes are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

**PROPRIETARY FUNDS BALANCE SHEET
JUNE 30, 2017**

	Food Service Fund
ASSETS	
Current Assets:	
Accounts Receivable	\$ 453
Inventory of Supplies	604
Inventory of Food Purchased for Resale	1,306
Inventory of Donated Food	2,770
Prepaid Insurance	1,033
Total Current Assets	6,166
Noncurrent Assets:	
Capital Assets (Note 4):	
Equipment	57,436
Less Accumulated Depreciation	(51,019)
Total Noncurrent Assets	6,417
TOTAL ASSETS	12,583
DEFERRED OUTFLOWS OF RESOURCES	
Pension Related Deferred Outflows (Note 9)	20,316
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 32,899
LIABILITIES	
Current Liabilities:	
Accrued Leave Payable (Note 5)	\$ 1,677
Long-Term Liabilities:	
Advance from General Fund (Note 8)	54,395
Net Pension Liability (Note 9)	7,126
Total Liabilities	63,198
NET POSITION	
Net Investment in Capital Assets	6,417
Restricted Pension (Note 9)	13,190
Deficit Net Position	(49,906)
Total Net Position (Deficit)	(30,299)
TOTAL LIABILITIES AND NET POSITION	\$ 32,899

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, 2017

	Food Service Fund
	<hr/>
Operating Revenue	
<i>Sales:</i>	
To Pupils	\$ 37,173
To Adults	5,752
Miscellaneous	185
Total Operating Revenue	<hr/> 43,110 <hr/>
Operating Expenses	
Cost of Sales - Purchased Food	62,862
Salaries	41,589
Employee Benefits	20,780
Supplies	12,404
Purchased Services	7,628
Cost of Sales - Donated Food	6,136
Depreciation - Local Funds (Note 4)	1,827
Total Operating Expenses	<hr/> 153,226 <hr/>
Operating Loss	<hr/> (110,116) <hr/>
Nonoperating Revenue	
<i>Federal Sources:</i>	
Cash Reimbursements	77,688
Fresh Fruits and Vegetables	7,162
Donated Food	5,156
Total Nonoperating Revenue	<hr/> 90,006 <hr/>
Change in Net Position	(20,110)
Net Position (Deficit) -- Beginning	<hr/> (10,189) <hr/>
Net Position (Deficit) -- Ending	<hr/> \$ (30,299) <hr/>

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, 2017

	Food Service Fund
Cash Flows from Operating Activities	
Receipts from Customers	\$ 42,925
Other Cash Receipts	185
Payments to Suppliers	(90,450)
Payments to Employees	(51,969)
Net Cash Used in Operating Activities	(99,309)
Cash Flows from Noncapital Financing Activities	
Operating Subsidies	84,850
Internal Activity - Net Receipts from General Fund	14,459
Net Cash Provided by Noncapital Financing Activities	99,309
Net Change in Cash	-
Cash -- Beginning	-
Cash -- Ending	\$ -
Reconciliation of Operating Loss to Net Cash Flows Used in Operating Activities	
Operating Loss	\$ (110,116)
<i>Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:</i>	
Cost of Sales - Donated Food	6,136
Depreciation Expense	1,827
<i>Change in Assets and Liabilities:</i>	
Inventories	820
Pension Asset	10,326
Pension Liability	7,126
Pension Related Deferred Outflows	(1,294)
Accrued Leave and Payroll Deductions Payable	1,102
Pension Related Deferred Inflows	(15,236)
Net Cash Used in Operating Activities	\$ (99,309)
Noncash Investing, Capital and Financing Activities	
Value of Commodities Received	\$ 5,156

The accompanying notes are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

**STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017**

	Private-Purpose Trust Fund	Agency Funds
<u>ASSETS</u>		
Cash and Investments	\$ 10,667	\$ 81,943
<u>LIABILITIES</u>		
Amounts Held for Others	-	\$ 81,943
<u>NET POSITION</u>		
Restricted for Scholarships	\$ 10,667	

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, 2017**

	Private- Purpose Trust Fund
ADDITIONS	
Interest Earnings	\$ 110
REDUCTIONS	
Scholarships	-
Change in Net Position	110
Net Position - Beginning	10,557
Net Position - Ending	\$ 10,667

The accompanying notes are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

(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, 2017**

(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, 2017**

(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, 2017**

(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, 2017**

(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.

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

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 2017.

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.

NEWELL SCHOOL DISTRICT NO. 9-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

(1) Summary of Significant Accounting Policies (Continued)

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.

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, 2017, the District’s cash and investments consisted of checking accounts and non-negotiable certificates of deposit. The bank balances at June 30, 2017 are as follows:

	<u>Bank Balance</u>
Insured - FDIC	\$ 250,000
Uninsured, collateralized in accordance with SDCL 4-6A-3	533,932
Total Deposits	\$ 783,932

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.

NEWELL SCHOOL DISTRICT NO. 9-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2017

(1) Summary of Significant Accounting Policies (Continued)

Deposits and Investments (Continued)

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, 2017, 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.

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.

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 liability 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.

NEWELL SCHOOL DISTRICT NO. 9-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

(1) Summary of Significant Accounting Policies (Concluded)

Equity Classifications (Continued)

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.

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.

Emerging Accounting Standard

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which requires the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the terms of the lease. The statement requires a lessee to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The District has not yet determined the specific impact of this statement on the financial statements. The statement is effective for the District's year ending December 31, 2020.

NEWELL SCHOOL DISTRICT NO. 9-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

(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.

(4) Changes in Capital Assets

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

	Balance June 30, 2016	Additions	Transfers/ Retirements	Balance June 30, 2017
Governmental Activities				
Land	\$ 24,544	\$ -	\$ -	\$ 24,544
Buildings	4,689,239	-	-	4,689,239
Improvements Other than Building	4,314,589	-	-	4,314,589
Equipment -- Local Funds	1,272,786	37,412	-	1,310,198
Governmental Activities Capital Assets	\$ 10,301,158	\$ 37,412	\$ -	\$ 10,338,570

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

	Balance June 30, 2016	Additions	Transfers/ Retirements	Balance June 30, 2017
Business-Type Activities				
Equipment	\$ 57,436	\$ -	\$ -	\$ 57,436
Less Accumulated Depreciation	(49,192)	(1,827)	-	(51,019)
Business -Type Activities Capital Assets, Net	\$ 8,244	\$ (1,827)	\$ -	\$ 6,417

NEWELL SCHOOL DISTRICT NO. 9-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

(5) Long-Term Debt

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2017:

	Balance			Balance	
	June 30, 2016	Additions	Reductions	June 30, 2017	Due Within One Year
Governmental Activities					
Capital Outlay Certificates	\$ 3,085,000	\$ -	\$ (270,000)	\$ 2,815,000	\$ 140,000
Energy Efficient Loan	950,000	-	-	950,000	75,000
ASBSD Assessment	135,080	-	-	135,080	135,080
Compensated Absences Payable	100,942	42,590	(39,898)	103,634	40,000
Governmental Activities Long-Term Liabilities	\$ 4,271,022	\$ 42,590	\$ (309,898)	\$ 4,003,714	\$ 390,080
Business-Type Activities					
Compensated Absences Payable	\$ 575	\$ 1,120	\$ (18)	\$ 1,677	\$ 1,677

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

Long-term debt, other than compensated absences, is comprised of the following at June 30, 2017:

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. 745,000

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. 70,000

Total Capital Outlay Certificates **2,815,000**

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

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

\$ 3,900,080

NEWELL SCHOOL DISTRICT NO. 9-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

(5) Long Term Debt (Continued)

The annual requirements to amortize all debt outstanding as of June 30, 2017, excluding compensated absences, are as follows:

Year Ending June 30,	Capital Outlay Certificates		Contract Payable	ASBSD
	Principal	Interest	Principal	Assessment
2018	\$ 140,000	\$ 17,625	\$ 75,000	135,080
2019	175,000	78,095	75,000	-
2020	175,000	75,785	100,000	-
2021	175,000	82,722	125,000	-
2022	185,000	69,485	150,000	-
2023-2027	1,100,000	279,623	425,000	-
2028-2032	705,000	149,508	-	-
2033	160,000	20,188	-	-
	<u>\$ 2,815,000</u>	<u>\$ 773,031</u>	<u>\$ 950,000</u>	<u>\$ 135,080</u>

(6) Donor Restrictions

The restricted fund balance in the General Fund at June 30, 2017 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, 2017, 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, 2017, 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.

NEWELL SCHOOL DISTRICT NO. 9-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

(7) Risk Management (Continued)

The Associated School Board of South Dakota issued an assessment to the participating members in the fiscal year ending June 30, 2016. The purpose of the assessment was 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, 2017, no claims for unemployment benefits were paid. At June 30, 2017, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

(8) Interfund Activity

During the fiscal year, the following amounts were transferred between funds:

Fund	Transfer In	Transfer Out
General Fund	\$ 83,297	\$ -
Pension Tax Fund	-	83,297
Total Transfers	\$ 83,297	\$ 83,297

Transfers during the year pertained to transferring funds to pay for the pension plan out of the general fund instead of the pension tax fund. The Food Service Fund and Special Education Fund borrowed \$54,395 and \$127,513, respectively, from the General Fund for operations at June 30, 2017.

(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.

NEWELL SCHOOL DISTRICT NO. 9-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

(9) Pension Plan (Continued)

Benefits Provided (Continued):

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 89.9% 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, 2017, 2016, and 2015 were **\$119,928**, \$115,391, and \$108,837, respectively, equal to the required contributions each year.

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

At June 30, 2016, SDRS is 96.89 percent funded and accordingly has a net pension liability. The proportionate shares of the components of the net pension liability of South Dakota Retirement System, for the School District as of June 30, 2017 are as follows:

Proportionate Share of Net Position Restricted for Pension Benefits	\$ 10,879,194
Less: Proportionate Share of Total Pension Liability	11,228,735
Proportionate Share of Net Pension Liability	\$ (349,541)

At June 30, 2017, the District reported a liability of \$349,541 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was based on a projection of the District’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2016, the District’s proportion was 0.1034787%.

NEWELL SCHOOL DISTRICT NO. 9-2

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

(9) Pension Plan (Continued)

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

For the year ended June 30, 2017, the District recognized pension expense of \$208,259. At June 30, 2017, 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	\$ 121,681	\$ -
Changes in Assumption	209,358	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	388,808	-
District Contributions Subsequent to the Measurement Date	119,928	-
Total	\$ 839,775	\$ -

Deferred outflow of resources includes \$119,928 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, 2018. 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 2018 through 2021, and by the Plan as follows:

2017	\$ 194,239
2018	117,495
2019	246,193
2020	161,920
	<u>\$ 719,847</u>

Actuarial Assumptions:

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

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 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, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

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

NEWELL SCHOOL DISTRICT NO. 9-2

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

(9) Pension Plan (Concluded)

Actuarial Assumptions (Continued):

These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
	<u>100.0%</u>	

Discount Rate:

The discount rate used to measure the total pension liability 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.

Sensitivity of Liability to Changes in the Discount Rate:

The following presents the District's proportionate share of net pension asset/(liability) 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/(liability) 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:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
District's Proportionate Share of the Net Pension Liability	\$ (1,956,026)	\$ (349,541)	\$ 960,720

Pension Plan Fiduciary Net Position:

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

NEWELL SCHOOL DISTRICT NO. 9-2

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
JUNE 30, 2017

(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
2018	\$ 5,821
2019	5,821
2020	5,821
2021	5,821
2022	2,914
	\$ 26,198

REQUIRED SUPPLEMENTARY INFORMATION

NEWELL SCHOOL DISTRICT NO. 9-2

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		(Budgetary Basis)	Variance
	Original	Final	Actual	
Revenues:				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 660,000	\$ 610,000	\$ 640,109	\$ 30,109
1120 Prior Years' Ad Valorem Taxes	20,000	20,000	28,907	8,907
1130 Tax Deed Revenues	-	-	7,396	7,396
1140 Gross Receipts Taxes	120,000	120,000	120,299	299
1190 Penalties and Interest on Taxes	6,000	6,000	7,771	1,771
1500 Earnings on Investments and Deposits	100	100	59	(41)
<i>1700 Cocurricular Activities:</i>				
1710 Admissions	15,000	15,000	13,967	(1,033)
1720 Concessions	20,000	20,000	-	(20,000)
1790 Other Pupil Activity	1,000	1,000	27,536	26,536
<i>1900 Other Revenue from Local Sources:</i>				
1910 Rentals	1,000	1,000	900	(100)
1920 Contributions and Donations	-	-	5,550	5,550
1990 Other	10,000	10,000	19,246	9,246
1973 Medicaid Indirect Admn. Services	6,000	6,000	-	(6,000)
2110 County Apportionment	35,000	35,000	33,394	(1,606)
<i>3000 Revenue from State Sources:</i>				
3110 Unrestricted Grants-in-Aid	1,600,000	1,600,000	1,366,888	(233,112)
<i>4000 Revenue from Federal Sources:</i>				
4110 Unrestricted Direct Federal	-	-	1,340	1,340
4120 Unrestricted Grants-in-Aid Received from Federal Government Through State	90,000	90,000	53,408	(36,592)
4150-4199 Restricted Grants-in-Aid Received from Federal Government Through State	239,275	239,275	202,836	(36,439)
Total Revenues	2,823,375	2,773,375	2,529,606	(243,769)
Expenditures:				
<i>1100 Instruction - Regular Programs:</i>				
1110 Elementary	348,993	348,993	355,811	(6,818)
1120 Middle/Junior High	341,302	341,302	319,879	21,423
1130 High School	528,428	528,428	549,521	(21,093)
1150 Title II Part A	48,107	48,107	-	48,107
<i>1200 Instruction - Special Programs:</i>				
1270 Educationally Deprived	191,168	191,168	174,369	16,799
<i>1500 Post Secondary Occupational Programs:</i>				
1512 CTE	48,869	48,869	-	48,869
<i>2200 Support Services - Instructional Staff:</i>				
2220 Educational Media	156,842	156,842	108,218	48,624

NEWELL SCHOOL DISTRICT NO. 9-2

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - BUDGETARY BASIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		(Budgetary Basis)	Variance
	Original	Final	Actual	
<i>2300 Support Services - General:</i>				
2310 Board of Education	186,036	186,036	146,152	39,884
2320 Executive Administration	206,186	206,186	200,181	6,005
<i>2400 Support Services - School:</i>				
2410 Office of the Principal	130,791	130,791	122,158	8,633
<i>2500 Support Services - Business:</i>				
2520 Fiscal Services	126,242	126,242	123,607	2,635
2540 Operation and Maintenance of Plant	448,754	448,754	437,489	11,265
2550 Pupil Transportation	215,208	215,208	185,453	29,755
<i>2600 Support Services - Central:</i>				
2633 Public Information Services (newsletters)	6,000	6,000	5,660	340
<i>3000 Community Services:</i>				
3500 Custody and Care of Children	18,986	18,986	8,951	10,035
<i>6000 Cocurricular Activities:</i>				
6900 Combined Activities	175,356	175,356	173,274	2,082
Total Expenditures	3,177,268	3,177,268	2,910,723	266,545
Excess of Revenue over (under) Expenditures	(353,893)	(403,893)	(381,117)	22,776
Other Financing Sources				
5130 Sale of Surplus Property	-	-	15,975	15,975
5150 Transfer In	-	-	83,297	83,297
Total Other Financing Sources	-	-	99,272	99,272
Change in Fund Balance	(353,893)	(403,893)	(281,845)	122,048
Fund Balance -- Beginning	888,536	888,536	888,536	-
Fund Balance -- Ending	\$ 534,643	\$ 484,643	\$ 606,691	\$ 122,048

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, 2017

	Budgeted Amounts		(Budgetary Basis)	Variance
	Original	Final	Actual	
Revenues:				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 575,000	\$ 550,000	\$ 681,719	\$ 131,719
1120 Prior Years' Ad Valorem Taxes	10,000	10,000	15,088	5,088
1130 Tax Deed Revenues	-	-	2,755	2,755
1190 Penalties and Interest on Taxes	2,000	2,000	3,455	1,455
Total Revenues	587,000	562,000	703,017	141,017
Expenditures:				
<i>1100 Instruction - Regular Programs:</i>				
1110 Elementary	25,000	25,000	7,395	17,605
1120 Middle/Junior High	42,000	42,000	7,273	34,727
1130 High School	65,000	65,000	12,255	52,745
<i>2500 Support Services - Business:</i>				
2530 Facilities Acquisition and Construction	-	-	10,490	(10,490)
2540 Operation and Maintenance of Plant	10,000	10,000	-	10,000
2570 Internal Services	5,000	5,000	4,557	443
5000 Debt Service	354,778	354,778	355,680	(902)
6900 Combined Activities	7,500	7,500	1,622	5,878
Total Expenditures	509,278	509,278	399,272	110,006
Excess of Revenues under Expenditures	77,722	52,722	303,745	251,023
Other Financing Sources				
5130 Sale of Surplus Property	-	-	2,160	2,160
Change in Fund Balance	77,722	52,722	305,905	253,183
Fund Balance (Deficit) -- Beginning	(182,309)	(182,309)	(182,309)	-
Fund Balance (Deficit) -- Ending	\$ (104,587)	\$ (129,587)	\$ 123,596	\$ 253,183

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, 2017**

	Budgeted Amounts		(Budgetary Basis)	Variance
	Original	Final	Actual	
Revenues:				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 251,000	\$ 237,000	\$ 347,100	\$ 110,100
1120 Prior Years' Ad Valorem Taxes	5,000	5,000	7,251	2,251
1130 Tax Deed Revenues	-	-	1,459	1,459
1190 Penalties and Interest on Taxes	1,000	1,000	1,571	571
<i>1900 Other Revenue from Local Sources:</i>				
1990 Other	13,500	13,500	15,822	2,322
<i>3000 Revenue from State Sources:</i>				
3120 Restricted Grants-in-Aid	177,126	175,626	152,944	(22,682)
<i>4000 Revenue from Federal Sources:</i>				
4150-4199 Restricted Grants-in-Aid Received from Federal Government Through State	92,884	92,884	187,462	94,578
Total Revenues	540,510	525,010	713,609	188,599
Expenditures:				
<i>1200 Instruction - Special Programs:</i>				
1220 Programs for Special Education	586,711	586,711	597,615	(10,904)
<i>2100 Support Services - Pupils:</i>				
2130 Health	-	-	58,830	(58,830)
2170 Student Therapy Services	-	-	44,428	(44,428)
<i>2700 Support Services - Special Education:</i>				
2730 Transportation Costs	126,200	126,200	-	126,200
2750 Other Special Education Costs	92,884	92,884	9,466	83,418
Total Expenditures	805,795	805,795	710,339	95,456
Change in Fund Balance	(265,285)	(280,785)	3,270	284,055
Fund Balance (Deficit) -- Beginning	(18,881)	(18,881)	(18,881)	-
Fund Balance (Deficit) -- Ending	\$ (284,166)	\$ (299,666)	\$ (15,611)	\$ 284,055

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 (LIABILITY)
JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>
District's Proportion of the Net Pension Asset (Liability)	0.1034787%	0.0993555%
District's Proportionate Share of Net Pension Asset (Liability)	\$ (349,541)	\$ 421,395
District's Covered-Employee Payroll	\$ 1,967,630	\$ 1,813,933
District's Proportionate Share of the Net Pension Asset (Liability) as a Percentage of its Covered-Employee Payroll	-17.76%	23.23%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset (Liability)	97%	104%

NEWELL SCHOOL DISTRICT NO. 9-2

**SCHEDULE OF THE DISTRICT CONTRIBUTIONS
JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>
Contractually Required Contribution	\$ 119,928	\$ 115,391
Contributions in Relation to the Contractually Required Contribution	<u>119,928</u>	<u>115,391</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 2,003,303	\$ 1,967,630
Contributions as a Percentage of Covered- Employee Payroll	6%	6%

NEWELL SCHOOL DISTRICT NO. 9-2

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

(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. The District did not budget for the Pension Fund. 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, 2017 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 12, 2018, 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 and Questioned Costs, 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 2017-001, 2017-002, 2017-003, and 2017-004 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 2017-005 and 2017-006 to be significant deficiencies.

School Board

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 2017-005.

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

March 12, 2018

NEWELL SCHOOL DISTRICT NO. 9-2

**SCHEDULE OF FINDINGS
JUNE 30, 2017**

Material Weaknesses

2017-001 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 students 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.

Criteria and Effect: 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. 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.

Repeat Finding from Prior Year: Yes, prior year finding 2016-001.

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.

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.

NEWELL SCHOOL DISTRICT NO. 9-2

SCHEDULE OF FINDINGS (CONTINUED)

JUNE 30, 2017

Material Weaknesses (Continued)

2017-001 FINDING: Segregation of Duties (Continued)

- 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.

Response/Corrective Action Plan: The District agrees with the above finding. See Corrective Action Plan.

2017-002 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 and Effect: Accounting principles generally accepted in the United States of America require that capital assets be recorded as assets and depreciated. 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.

Repeat Finding from Prior Year: Yes, prior year finding 2016-002.

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: The District agrees with the above finding. See Corrective Action Plan.

2017-003 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.

Repeat Finding from Prior Year: Yes, prior year finding 2016-003.

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: The District agrees with the above finding. See Corrective Action Plan.

NEWELL SCHOOL DISTRICT NO. 9-2

SCHEDULE OF FINDINGS (CONTINUED)

JUNE 30, 2017

Material Weaknesses (Concluded)

2017-004 FINDING: Audit Adjustments

Condition and Cause: During the course of our engagement, we assisted with adjusting SDRS pension activity and we proposed material audit adjustments. The adjustments included:

- a. Adjusting capital assets
- b. Adjusting accrued leave balances
- c. Adjusting inventory at year end
- d. Adjusting net position to properly rollforward in the private purpose trust fund
- e. Reversing duplicate entries made for the purchase of supplies
- f. Adjusting special education (SPED) revenue and receivable to actual
- g. Adjusting property tax revenue and deferred revenue
- h. Adjusting governmental debt
- i. Reclassifying donated commodities to the appropriate general ledger account
- j. Reclassifying health insurance expense on behalf of the employer from payroll deduction to health insurance expense
- k. Adjusting restricted cash balances of the District that were held in the Agency fund

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

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.

Repeat Finding from Prior Year: yes, prior year finding 2016-004.

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

- a. Property and equipment should be recorded and adjusted at least annually.
- b. Accrued leave balances should be monitored and recorded on an annual basis.
- c. Periodic inventory adjustments should be made reflecting food purchases and sales.
- d. Adjusting entries should not be made directly to fund net position during the year.
- e. Entries should not be duplicated in order to avoid over/understatement of account balances.
- f. Revenue and receivables from federal and state grants should be adjusted at least annually.
- g. Property tax revenue and receivable should be adjusted at least annually.
- h. Governmental debt balances should be adjusted at least annually; accrual accounts should be adjusted to actual as necessary.
- i. Donated commodities should be tracked on a separate subsidiary from purchased foods.
- j. Payroll deductions should be reviewed to ensure that employee deductions are being properly maintained and not over drawn through employer portion of health insurance expense.
- k. Cash balances of the District that are restricted for a certain purpose should be maintained in the governmental funds.

Response/Corrective Action Plan: The District agrees with the above finding. See Corrective Action Plan.

NEWELL SCHOOL DISTRICT NO. 9-2

**SCHEDULE OF FINDINGS (CONCLUDED)
JUNE 30, 2017**

Significant Deficiencies

2017-005 FINDING: Budgetary Overdraft

Condition and Cause: The District approved a budget for the Special Education and Capital Outlay fund which created a fund balance 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.

Repeat Finding from Prior Year: Yes, prior year finding 2016-008

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: The District agrees with the above finding. See Corrective Action Plan.

2017-006 FINDING: Disbursement Testing

Condition and Cause: We noted one instance in our disbursement testing in which there were missing invoices or receipts to support the disbursement.

Criteria and Effect: Adequate documentation should be maintained to support all expenditures.

Repeat Finding from Prior Year: No.

Recommendation: We recommend that the District maintains adequate documentation to support expenditures.

Response/Corrective Action Plan: The District agrees with the above finding. See Corrective Action Plan.

MANAGEMENT RESPONSE

OFFICE OF BUSINESS MANAGER
NEWELL SCHOOL DISTRICT #9-2
P.O. BOX 99
NEWELL SD 57760
Phone: 605-456-2393
Fax: 605-456-2395

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017

Newell School District No. 9-2 (the District) respectfully submits the following summary schedule of prior audit findings from the June 30, 2016 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2016 Schedule of Findings.

2016-001 FINDING: Segregation of Duties

Status: The District made efforts to implement better internal controls as it related to segregation of duties, however there still segregation of duties issues.

Initial Year Report: Originally issued years ago.

Reason for Recurrence and Corrective Action Plan: Due to the limited staff at the District's business office, it is difficult to achieve complete segregation of duties. Comment is repeated in 2017, see Corrective Action Plan.

2016-002 FINDING: Capital Asset Records

Status: The District did not track capital assets in the current year.

Initial Year Report: Originally issued years ago.

Reason for Recurrence and Corrective Action Plan: Due to turnover within the business office capital assets were not tracked. Comment is repeated in 2017, see Corrective Action Plan.

2016-003 FINDING: Preparation of Financial Statements

Status: It is more cost effective for the District to hire Ketel Thorstenson, LLP, a public accounting firm, to prepare the full disclosure financial statements as a part of the annual audit process. The District has designated a member of management to review the draft financial statements and accompanying notes to the financial statements.

Initial Year Report: Originally issued years ago.

Reason for Recurrence and Corrective Action Plan: As the District has accepted the risk associated with the auditor's preparing of the financial statements, it will be repeated in 2017, see Corrective Action Plan.

2016-004 FINDING: Audit Adjustments

Status: The District made efforts to record all year-end entries, but several audit adjustments were made.

Initial Year Report: Originally issued years ago.

Reason for Recurrence and Corrective Action Plan: The finding is altered based on specific audit adjustments each year, is repeated in the Schedule of Findings. See Corrective Action Plan.

2016-005 FINDING: Activity Ticket Reconciliation

Status: The District implemented a process of tracking tickets in which all sold tickets are pre-numbered, counted before and after an event and reconciled to the monies collected from the event. Finding was resolved in the current year.

Initial Year Report: Originally issued 2016.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
JUNE 30, 2017

2016-006 FINDING: Expenditure Bidding – Compliance

Status: The District implemented an appropriate bidding process for federal expenditures. Finding was resolved in the current year.

Initial Year Report: Originally issued 2016.

2016-007 FINDING: Teacher Certification – Compliance

Status: The District implemented controls to ensure all teachers had appropriate teacher certifications throughout the year. Finding was resolved in the current year.

Initial Year Report: Originally issued 2016.

2016-008 FINDING: Budgetary Overdraft

Status: Comment is repeated as finding 2017-005 in the current year.

Initial Year Report: Originally issued years ago.

Reason for Recurrence and Corrective Action Plan: The District attempted to create a balanced budget in the current year, however due to unforeseen expenditures, had a budgetary overdraft. See Corrective Action Plan.

OFFICE OF BUSINESS MANAGER

NEWELL SCHOOL DISTRICT #9-2

P.O. BOX 99

NEWELL SD 57760

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CORRECTIVE ACTION PLAN

JUNE 30, 2017

Newell School District No. 9-2 (the District) respectfully submits the following corrective action plan regarding findings from the June 30, 2017 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

2017-001 FINDING: Segregation of Duties

Responsible Individuals: Sophie Burditt, Business Manager; Robin Dutt, Superintendent

Corrective Action Plan:

- a. Cash and checks will be received by the high school office. Two individuals (the person providing the cash and the secretary receiving the payment) will verify the dollar amount received by initially receipt documentation. The high school secretary will take the money and a copy of the receipt to business office. The business office will prepare a deposit slip. The high school secretary will take the deposit to the bank. The business manager will post payments into the accounting software attaching the copy of the receipt, the deposit slip from the bank and the posting entry for that day. Electronic payments are posted based on the date bank shows for deposit. The electronic payment supporting documentation (example: pull document from grant management/state website) will be printed and attached to the posting entry for that day. The superintendent will submit supporting documentation for requesting these reimbursements. The bank statements are reconciled by an external consultant and will be reviewed by the Superintendent.
- b. The Business Office will require two initials on receipts for meals. Every Thursday the receipts and money will be brought to the business office for deposit. Once the deposit is made and the posting matches the bank deposit, the Superintendent will print a report from Infinite Campus matching to the receipts, the general ledger posting, and the deposit.
- c. The Business Office will no longer have access to signature stamps. The Business Office will ask the board for recommendation on what should be done about assistant business manager being authorized check signer of the agency bank account.
- d. The Business Office will print the Pay Period Entries Listing Summary for hours worked/employee pay rate and that amount is matched to the Payroll Register Totals and the Direct Deposit submitted for processing by the financial institution review form. The Business Office is looking into a time management program to move away from entering all payroll information.
- e. Manual journal entries will be reviewed and initialed by two individuals.
- f. All monthly bank reconciliations will be reviewed by superintendent. The superintendent will be given the cash receipt and book (revenue), Vendor Warrants book (expense), manual journal entry book, bank statements and bank reconciliations. The superintendent will then be able to randomly pick transactions to verify for accuracy.

Anticipated Completion Date: January 31, 2018

2017-002 FINDING: Capital Asset Records

Responsible Individuals: Sophie Burditt, Business Manager; Robin Dutt, Superintendent

Corrective Action Plan: The Superintendent is going to work in the SUI Fixed Asset Inventory Module and start entering current Assets. The Business Manager will learn the process once it is setup to help maintain inventory list. The Operation and Maintenance and Business Manager have a paper list of current inventory of buses, vehicles and other large maintenance equipment initiated in November 2017. A folder was setup in November 2017 in the business office to start tracking surplus items and will include any future purchases of fixed assets, real property, plant, or equipment.

Anticipated Completion Date: February 28, 2018

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CORRECTIVE ACTION PLAN (CONTINUED)
JUNE 30, 2017

2017-003 FINDING: Preparation of Financial Statements

Responsible Individuals: Sophie Burditt, Business Manager

Corrective Action Plan: The District agrees with the above finding, and the District has accepted the risk associated with the auditor's preparing of the financial statements, it will be repeated in 2018. It is more cost effective for the District to hire Ketel Thorstenson, LLP, a public accounting firm, to prepare the full disclosure financial statements as a part of the annual audit process. The District has designated a member of management to review the draft financial statements and accompanying notes to the financial statements.

Anticipated Completion Date: Ongoing

2017-004 FINDING: Audit Adjustments

Responsible Individuals: Sophie Burditt, Business Manager

Corrective Action Plan: The District agrees with the above finding, and will make the audit adjustments per the auditor's recommendations.

Anticipated Completion Date: February 28, 2018

2017-005 FINDING: Budgetary Overdraft

Responsible Individuals: Sophie Burditt, Business Manager; Robin Dutt, Superintendent

Corrective Action Plan: The Business Manager and Superintendent will work to propose a balanced budget for fiscal year 2018.

Anticipated Completion Date: Fiscal year 2018

2017-006 FINDING: Disbursement Testing

Responsible Individuals: Sophie Burditt, Business Manager

Corrective Action Plan: The Business Office will staple invoices and receipts to the check stub and place information in appropriate vendor/warrants book.

Anticipated Completion Date: January 31, 2018