



Financial Statements  
June 30, 2015

Northwestern Area School District 56-7



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## Independent Auditor's Report

The School Board  
Northwestern Area School District 56-7  
Mellette, 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 the Northwestern Area School District 56-7 (the School District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion 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.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2015, and the respective changes in financial position and, where, applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Adoption of New Accounting Standard**

As discussed in Notes 1 and 15 to the financial statements, the School District has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of July 1, 2014. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress, budgetary comparison schedules, schedule of the School District's share of net pension asset, and schedule of the School District's contributions as listed on pages 3 through 9 and 45 through 54, respectively, 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 December 21, 2015 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 School District's internal control over financial reporting and compliance.



Aberdeen, South Dakota  
December 21, 2015

This section of Northwestern Area School District 56-7's annual financial report presents our discussion and analysis of the district's financial performance during the fiscal year ended on June 30, 2015. It is to be read in conjunction with the School Districts' financial statements which follow this section. The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999.

### **Financial Highlights**

- During the year, the School District's total revenues in governmental programs exceeded total expenditures by \$328,644. When compared to Fiscal Year 2014, revenues decreased overall by 1%, while expenditures decreased by 6% during the same period.

### **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 shown as Notes to the Financial Statements.

The first two statements are government-wide financial statements that provide both long-term and short-term information about the School District's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the School District's operations in more detail than the government-wide statements and are comprised of three separate and distinct sections:

- The governmental funds statements show how general government services were financed in the short-term as well as what remains for future spending in general fund and special revenue funds (capital outlay, special education, and pension fund).
- Proprietary funds statements offer short-and-long-term financial information about the activities the School District operates like businesses. The School District operates two proprietary fund: Food Service and Non-Credit Fund that includes preschool and drivers education.
- Fiduciary fund statements provide information about the financial relationships (i.e. scholarship funds for graduating students or class/club funds) in which the School District acts solely as a trustee or agent for the benefit of others, to whom the resources belong.

### **Government-Wide Statements**

The government-wide statements report information about the School 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 statements report the School District's net position and how they have changed. Net position, the difference between the School District's assets and liabilities, are one way to measure the School District's financial health or position. Over time, increases or decreases in the School District's net position is an indication of whether its financial health is improving or deteriorating, respectively. The School District's government-wide statement shows an increase in net position for Fiscal Year 2015.

The government-wide financial statements of the School District are divided into two categories:

- **Governmental Activities** – This category includes the School District's basic instructional services, such as elementary, middle school and high school educational programs, support services (guidance, executive administration, board of education, fiscal services, buildings and grounds, transportation, etc.), debt service payments, co-curricular activities (sports, oral interpretation, music, etc.) and capital equipment purchases. Property taxes, state grants, federal grants and miscellaneous local revenues finance most of these activities.
- **Business-Like Activities** – The School District operates a food service operation. In addition to charging for meals in food service, the operation also received federal program reimbursements. Besides the revenue received for user fees, the program also relies upon donations and private and governmental grants when available. Other business-like activities include a non-credit education program for driver's education and a preschool.

### **Fund Financial Statements**

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Funds are accounting devices that the School District uses to keep track of specific sources of funding and spending for particular purposes, some of which are required by state law or established by the School District's Board of Education.

The School District has three kinds of funds:

- **Governmental Funds** – All of the School 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 left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps stakeholders determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided that explains the relationship (or differences) between the fund financials and the government-wide statement.
- **Proprietary Funds** – Services for which the School District charges customers a fee, i.e. food service, are reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information.
- **Fiduciary Funds** – The School District is trustee, or fiduciary, for various external and internal parties. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. These activities are excluded from the School District's government-wide financial statements because the School District does not own and cannot use these assets to finance its operations. An internal audit of these funds is conducted at the end of each fiscal year.

### **Financial Analysis of the School District as A Whole**

The School District's total combined position was \$5,302,332 at June 30, 2015, an increase of \$326,360 from the previous year. A comparative computation of net position is detailed below in Table A-1.

Table  
A-1  
Statement of Net Position  
Fiscal Year Ended June 30, 2015

	Governmental		Business-Type		Total	
	Activities		Activities		School District	
	FY 2015	FY 2014*	FY 2015	FY 2014*	FY 2015	FY 2014*
Current & Other Assets	4,121,625	3,778,488	7,543	5,585	4,129,168	3,784,073
Net Pension Assets	577,713	-	21,569	-	599,282	-
Capital Assets	2,212,760	2,245,117	18,021	20,017	2,230,781	2,265,134
Total Assets	6,912,098	6,023,605	47,133	25,602	6,959,231	6,049,207
Deferred Outflows of Resources-Pension	508,672	-	19,037	-	527,709	-
Total Assets/DOF	7,420,770	6,023,605	66,170	25,602	7,486,940	6,049,207
Long-Term Debt Outstanding	139,303	104,039	-	-	139,303	104,039
Other Liabilities	188,192	203,040	6,290	-	194,482	203,040
Total Liabilities	327,495	307,079	6,290	-	333,785	307,079
Deferred Inflows of Resources	1,825,843	1,087,956	24,980	-	1,850,823	1,087,956
Net Position:						
Net Investment in Capital Assets	2,212,760	2,245,117	18,021	20,017	2,230,781	2,265,134
Restricted	1,681,009	828,623	15,626	-	1,696,635	828,623
Unrestricted	1,373,663	1,554,830	1,253	5,585	1,374,916	1,560,415
Total Net Position	5,267,432	4,628,570	34,900	25,602	5,302,332	4,654,172
Beginning Net Position	4,628,570	4,434,324	25,602	28,746	4,654,172	4,463,070
Restated Beginning Net Position	4,938,788	4,434,324	37,184	28,746	4,975,972	4,463,070
Increase (Decrease) in Net Position	328,644	194,246	(2,284)	(3,144)	326,360	191,102
Percentage of Increase (Decrease) in Net Position	7%	4%	(6%)	(11%)	7%	4%

\*Due to the implementation of GASB 68 in FY 2015, figures may not be comparable to prior year for some areas of the financial statements.

The Statement of Net Position reports all financial and capital resources of the School District. The statement presents the assets and liabilities in order of relative liquidity. Over 32% of the School District's assets are invested in capital assets (land, buildings, and equipment). 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 School District's long-term liabilities consist of OPEB (Other Postemployment Benefit) obligation and early retirement benefits payable. The difference between the School District's assets and liabilities is its net position.

The restricted net position in governmental funds are funds specifically designated for special revenue funds (capital outlay and special education) unemployment benefits. The net position in business-type activities enterprise funds are restricted for food service. Table A-2 below presents detailed information on how the change in net position was arrived at.

Table A-2  
Changes in Net Position  
Fiscal Year Ended June 30, 2015

Statement of Activities						
	Governmental		Business-Type		Total	
	Activities		Activities		School District	
	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014
Revenues						
Program Revenues:						
Charges for services	41,874	58,776	90,356	92,653	132,230	151,429
Operating grants and contributions	60,530	79,872	52,917	58,427	113,447	138,299
General Revenues						
Taxes & other intermediate revenues	2,358,359	2,203,906	-	-	2,358,359	2,203,906
Revenue State Sources	273,102	434,141	-	-	273,102	434,141
Revenue Federal Sources	11,783	18,771	-	-	11,783	18,771
Unrestricted Investment Earnings	9,136	5,331	248	800	9,384	6,131
Other General Revenues	79,667	55,445	911	-	80,578	55,445
Total Revenues	2,834,451	2,856,242	144,432	151,880	2,978,883	3,008,122
Percentage of Increase (Decrease)	(1%)	(1%)	(1%)	4%	(1%)	(1%)
Program Expenses						
Instruction	1,485,450	1,514,646	-	-	1,485,450	1,514,646
Support Services	869,363	1,004,545	-	-	869,363	1,004,545
Non-program Charges/Community	15,071	124	-	-	15,071	124
Interest on Long-Term Debt	-	2,970	-	-	-	2,970
Co-curricular Activities	112,923	125,011	-	-	112,923	125,011
Enterprise Activities	-	-	169,716	169,724	169,716	169,724
Total Expenses	2,482,807	2,647,296	169,716	169,724	2,652,523	2,817,020
Percentage of Increase (Decrease)	(6%)	9%	0%	(2%)	(6%)	8%
Excess (Deficiency) Before Special Items and Transfers	351,644	208,946	(25,284)	(17,844)	326,360	191,102
Transfers & Special Items	(23,000)	(14,700)	23,000	14,700	-	-
Increase (Decrease) in Net Position	328,644	194,246	(2,284)	(3,144)	326,360	191,102

The School District's total revenues (excluding special items) totaled \$2,978,883. This is a decrease of around 1% in governmental activities. The revenues in the business activities decreased by 1%. In the current year, approximately 79% of the School District's revenue comes from taxes, approximately 9% from state sources and the remainder from federal and local sources of revenue. Expenditures showed an overall decrease of 6%.

## **Financial Analysis of the School District's Funds**

Since net position shown on the government-wide statements does not reflect spendable resources, the truest picture of the School District's reserves comes from the fund balances on the fund financial statements.

On the fund financial statements General Fund reserves decreased by \$49,992 to a fund balance of \$1,503,162. We had predicted that we would be using some of our cash reserves when completing the June 30, 2015 budget. However, we did not use our cash reserves as we had predicted, having budgeted cash reserves applied of \$204,151, only using \$52,749 of cash reserves. This reserve balance is not regarded excessive accumulation of assessed revenues. It is incumbent on the administration and school board of the district to prepare for future reduction in program reserves expected from the projected decline in student enrollment. Therefore, even though reserves are very healthy, local property taxes continue to be assessed at maximum statutory rates to provide for this inevitability.

Capital Outlay increased by \$264,330 to a fund balance of \$696,551.

Special Education increased by \$20,116 to \$334,202. Reserves in special education are being allowed to increase significantly because of an increase in the numbers of students being serviced through individual education plans, including services to an increased number of pre-school students whose services will call for expansion as these children enter school and require more one-on-one instruction.

Pension Funds show a reserve of \$226,603, most of the revenues are expended to the General Fund to offset expenditures for employee retirement and early retirement benefits.

It is expected that reserves in all funds at June 30, 2015, together with anticipated revenues are adequate to meet future obligations.

## **Budgetary Highlights**

Over the course of the year, the School Board made no revisions to the fiscal year budget, beside budget supplements. The most significant of these is a \$6,000 increase to General Fund for other professional services.

## **Capital Asset Administration**

By the end of fiscal year 2015, the School District had invested \$2,230,781 in a broad range of capital assets including: land, buildings, various machinery and equipment in Governmental and Business-Type activities. (See Table A-3 below.) This amount represents a net decrease of \$34,353 over last year and results from current year depreciation expense and net difference between additions and deletions of equipment.

Table A-3  
 Capital Assets  
 Fiscal Year ended June 30, 2015

	Governmental Activities		Business-Type Activities		Total School District	
	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014
Land	765	\$765	-	-	765	\$765
Buildings	1,855,025	1,889,671	-	-	1,855,025	1,889,671
Machinery and Equipment	356,970	354,681	18,021	20,017	374,991	374,698
Total Assets	2,212,760	2,245,117	18,021	20,017	2,230,781	2,265,134

### Long-Term Debt

As of June 30, 2015, the School District had total outstanding debt of \$139,303, an increase of \$35,264 from the previous year. The increase is due from early retirement payout obligations. The debt is comprised of OPEB Obligations which are accounted for to show the cost of benefits for retired employees who meet certain criteria at the time of retirement and continue to be on our group insurance. Table A-4 details those transactions.

Table A-4  
 Long-Term Debt  
 Fiscal Year ended June 30, 2015

	Governmental Activities		Business-Type Activities		Total Dollar Change	Total Dollar Change
	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014
Early Retirement	82,000	48,000	-	-	34,000	48,000
OPEB Obligation	57,303	56,039	-	-	1,264	17,254
Capital Outlay Certificates	-	-	-	-	-	(130,000)
Total Outstanding Debt and Obligations	139,303	104,039	-	-	35,264	(64,746)

### Economic Factors and Next Year's Budgets and Rates

Since the primary sources of revenue to the School District in its operating budget is received from the State of South Dakota on a per-student basis, student census will continue to be a concern in years to come. The state aid formula for the current year (fiscal year 2015) calculation is property taxes plus state aid will equal approximately \$4,781.14, plus a small schools' adjustment of \$723.59 per student. State Aid for the FY2016 is equal to \$4,876.76 plus a small schools' adjustment of \$745.84. Long-term budget projections indicate that the School District will have positive net position in all funds for at least five years because of the healthy fund reserves. In the long range, and based on very preliminary data and pre-school screenings, class size is expected to level off at 15-18 students per grade or around 200 students during the next 6-10 years.

There is much uncertainty right now about the future of small schools in South Dakota. Much will depend on the impacting actions of the South Dakota Legislative and Department of Education. It will be interesting to see how much support the State Legislature will give education funding.

### **Contacting the School 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 School District's accountability for the money it receives. Questions about the report or requests for additional information may be directed to the Business Office, 221 3<sup>rd</sup> Street, Mellette, SD 57461, phone 605-887-3467, Ext 114.

Northwestern Area School District 56-7  
Statement of Net Position  
June 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 1,398,556	\$ 2,421	\$ 1,400,977
Investments	1,553,016	-	1,553,016
Taxes receivable	1,077,657	-	1,077,657
Accounts receivable	92,396	13	92,409
Inventories	-	5,109	5,109
Net pension asset	577,713	21,569	599,282
Capital assets:			
Land	765	-	765
Other capital assets, net of depreciation	2,211,995	18,021	2,230,016
	<u>6,912,098</u>	<u>47,133</u>	<u>6,959,231</u>
<b>Deferred Outflows of Resources</b>			
Pension related deferred outflows	508,672	19,037	527,709
	<u>\$ 7,420,770</u>	<u>\$ 66,170</u>	<u>\$ 7,486,940</u>
<b>Liabilities</b>			
Accounts payable	\$ 12,907	\$ -	\$ 12,907
Other current liabilities	175,285	6,290	181,575
Noncurrent liabilities:			
Due within one year	30,000	-	30,000
Due in more than one year	109,303	-	109,303
Total liabilities	<u>327,495</u>	<u>6,290</u>	<u>333,785</u>
<b>Deferred Inflows of Resources</b>			
Pension related deferred inflows	669,090	24,980	694,070
Taxes levied for future period	1,156,753	-	1,156,753
Total deferred inflows of resources	<u>1,825,843</u>	<u>24,980</u>	<u>1,850,823</u>
<b>Net Position</b>			
Net investment in capital assets	2,212,760	18,021	2,230,781
Restricted for:			
Capital outlay	699,870	-	699,870
Special education	336,296	-	336,296
Pension fund	227,548	-	227,548
SDRS pension purposes	417,295	15,626	432,921
Unrestricted	1,373,663	1,253	1,374,916
Total net position	<u>5,267,432</u>	<u>34,900</u>	<u>5,302,332</u>
	<u>\$ 7,420,770</u>	<u>\$ 66,170</u>	<u>\$ 7,486,940</u>

Northwestern Area School District 56-7  
Statement of Activities  
Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
<b>Primary Government</b>						
Governmental activities:						
Instruction	\$ 1,485,450	\$ 15,325	\$ 60,530	\$ (1,409,595)	\$ -	\$ (1,409,595)
Support services	869,363	-	-	(869,363)	-	(869,363)
Nonprogrammed charges	15,071	-	-	(15,071)	-	(15,071)
Cocurricular activities	112,923	26,549	-	(86,374)	-	(86,374)
Total governmental activities	<u>2,482,807</u>	<u>41,874</u>	<u>60,530</u>	<u>(2,380,403)</u>	<u>-</u>	<u>(2,380,403)</u>
Business-type activities:						
Other	27,847	14,450	-	-	(13,397)	(13,397)
Food service	141,869	75,906	52,917	-	(13,046)	(13,046)
Total business-type activities	<u>169,716</u>	<u>90,356</u>	<u>52,917</u>	<u>-</u>	<u>(26,443)</u>	<u>(26,443)</u>
Total primary government	<u>\$ 2,652,523</u>	<u>\$ 132,230</u>	<u>\$ 113,447</u>	<u>(2,380,403)</u>	<u>(26,443)</u>	<u>(2,406,846)</u>
<b>General Revenues</b>						
Taxes:						
Property taxes				2,266,174	-	2,266,174
Tax deed revenue				22	-	22
Gross receipts taxes				92,163	-	92,163
Revenue from state sources:						
State aid				273,102	-	273,102
Revenue from federal sources				11,783	-	11,783
Unrestricted investment earnings				9,136	248	9,384
Other general revenues				79,667	911	80,578
Transfers				(23,000)	23,000	-
Total general revenues				<u>2,709,047</u>	<u>24,159</u>	<u>2,733,206</u>
Change in Net Position				<u>328,644</u>	<u>(2,284)</u>	<u>326,360</u>
Net Position - Beginning				4,628,570	25,602	4,654,172
Change in Reporting, GASB 68				<u>310,218</u>	<u>11,582</u>	<u>321,800</u>
Net Position - Beginning, as Restated				<u>4,938,788</u>	<u>37,184</u>	<u>4,975,972</u>
Net Position - Ending				<u>\$ 5,267,432</u>	<u>\$ 34,900</u>	<u>\$ 5,302,332</u>

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

Northwestern Area School District 56-7  
Balance Sheet – Governmental Funds  
June 30, 2015

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 79,986	\$ 727,018	\$ 358,739	\$ 232,813	\$ 1,398,556
Investments	1,553,016	-	-	-	1,553,016
110 Taxes receivable - current	571,889	290,267	136,805	62,534	1,061,495
112 Taxes receivable - delinquent	9,804	3,319	2,094	945	16,162
120 Accounts receivable	48,211	-	-	-	48,211
130 Due from agency funds	373	-	-	-	373
140 Due from government	43,812	-	-	-	43,812
	<u>\$ 2,307,091</u>	<u>\$ 1,020,604</u>	<u>\$ 497,638</u>	<u>\$ 296,292</u>	<u>\$ 4,121,625</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
402 Accounts payable	\$ 6,422	\$ 3,246	\$ 3,239	\$ -	\$ 12,907
404 Contracts payable	136,658	-	6,138	-	142,796
450 Payroll deductions and withholdings and employer matching payable	30,567	-	1,922	-	32,489
Total liabilities	<u>173,647</u>	<u>3,246</u>	<u>11,299</u>	<u>-</u>	<u>188,192</u>
<b>Deferred Inflows of Resources</b>					
551 Unavailable revenue - delinquent property taxes	9,804	3,319	2,094	945	16,162
553 Taxes levied for future period	620,478	317,488	150,043	68,744	1,156,753
Total deferred inflows of resources	<u>630,282</u>	<u>320,807</u>	<u>152,137</u>	<u>69,689</u>	<u>1,172,915</u>
<b>Fund Balances</b>					
<b>Restricted:</b>					
Capital outlay	-	676,551	-	-	676,551
Special education	-	-	306,502	-	306,502
Pension fund	-	-	-	198,606	198,606
<b>Assigned:</b>					
Next year's budget	229,049	20,000	27,700	27,997	304,746
Unassigned	1,274,113	-	-	-	1,274,113
Total fund balances	<u>1,503,162</u>	<u>696,551</u>	<u>334,202</u>	<u>226,603</u>	<u>2,760,518</u>
	<u>\$ 2,307,091</u>	<u>\$ 1,020,604</u>	<u>\$ 497,638</u>	<u>\$ 296,292</u>	<u>\$ 4,121,625</u>

Northwestern Area School District 56-7  
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
Year Ended June 30, 2015

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Total Fund Balances - Governmental Funds	\$ 2,760,518
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and; therefore, are not reported in the funds.	2,212,760
Assets, such as delinquent taxes receivable that are not available to pay for current period expenditures, are deferred in the funds.	16,162
Some liabilities are not due and payable in the current period and; therefore, are not reported in the funds. Those liabilities consist of:	
OPEB and Early Retirement obligations	(139,303)
Pension related deferred outflows and inflows are components of pension liability (asset) and; therefore, are not reported in the funds.	<u>417,295</u>
Net Position - Governmental Funds	<u><u>\$ 5,267,432</u></u>

Northwestern Area School District 56-7  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2015

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
<b>Revenues</b>					
1000 Revenue from local sources					
1100 Taxes:					
1110 Ad valorem taxes	\$ 1,214,093	\$ 607,844	\$ 293,136	\$ 135,485	\$ 2,250,558
1120 Prior year's ad valorem taxes	5,235	2,171	1,129	495	9,030
1130 Tax deed revenue	22	-	-	-	22
1140 Gross receipts taxes	92,163	-	-	-	92,163
1190 Penalties and interest on taxes	2,812	1,325	693	289	5,119
1500 Earnings on investments and deposits	9,136	-	-	-	9,136
1700 Cocurricular activities:					
1710 Admissions	18,680	-	-	-	18,680
1740 Rentals, cocurricular activities	1,616	-	-	-	1,616
1790 Other pupil activity income	6,253	-	-	-	6,253
1900 Other revenue from local sources:					
1920 Contributions and donations	3,828	12,029	-	-	15,857
1960 Judgements	5,346	-	-	-	5,346
1970 Charges for services	3,593	-	11,732	-	15,325
1990 Other	8,692	5,000	38	-	13,730
2000 Revenue from intermediate sources					
2100 County sources:					
2110 County apportionment	14,778	-	-	-	14,778
2200 Revenue in lieu of taxes	3,216	1,296	712	330	5,554
3000 Revenue from state sources					
3100 Grants-in-aid:					
3110 Unrestricted grants-in-aid	267,102	-	-	-	267,102
3120 Restricted grants-in-aid	6,000	-	-	-	6,000
4000 Revenue from federal sources					
4100 Grants-in-aid:					
4150-4199 Restricted grants-in-aid received from federal government through the state	60,530	-	-	-	60,530
4900 Other federal revenue	11,783	-	-	-	11,783
Total revenues	<u>1,734,878</u>	<u>629,665</u>	<u>307,440</u>	<u>136,599</u>	<u>2,808,582</u>
<b>Expenditures</b>					
1000 Instruction					
1100 Regular programs:					
1110 Elementary	381,703	35,681	-	18,916	436,300
1120 Jr High School	199,517	23,444	-	10,138	233,099
1130 High school	370,416	59,933	-	17,203	447,552
1200 Special programs:					
1220 Programs for special education	-	-	270,623	-	270,623
1270 Educationally deprived	61,692	-	-	-	61,692
2000 Support services					
2100 Pupils:					
2120 Guidance	26,747	-	-	1,462	28,209
2140 Psychological	-	-	2,543	-	2,543
2150 Speech pathology	-	-	4,694	-	4,694

Northwestern Area School District 56-7  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2015

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
2200 Support services - instructional staff:					
2210 Improvement of instruction	54,735	-	-	126	54,861
2220 Educational media	31,697	2,404	-	1,579	35,680
2300 Support services - general administration:					
2310 Board of education	69,863	-	-	1,442	71,305
2320 Executive administration	83,204	-	-	4,401	87,605
2400 Support services - school administration:					
2410 Office of the principal	76,244	-	-	3,564	79,808
2490 Other support services	100	2,164	-	-	2,264
2500 Support services - business:					
2520 Fiscal services	71,500	2,650	-	2,457	76,607
2540 Operation and maintenance of plant	137,371	91,826	-	3,696	232,893
2550 Pupil transportation	114,895	44,939	-	1,516	161,350
2600 Support services - central:					
2640 Staff	382	-	-	-	382
2700 Support services - special education:					
2710 Administrative costs	-	-	3,155	-	3,155
2720 Speech/language costs	-	-	6,309	-	6,309
4000 Nonprogrammed charges					
4500 Early retirement payments	-	-	-	15,071	15,071
6000 Cocurricular activities					
6100 Male activities	28,770	-	-	517	29,287
6200 Female activities	27,983	-	-	813	28,796
6900 Combined activities	25,051	9,377	-	433	34,861
7500 Capital outlay	-	92,917	-	-	92,917
<b>Total expenditures</b>	<b>1,761,870</b>	<b>365,335</b>	<b>287,324</b>	<b>83,334</b>	<b>2,497,863</b>
<b>Excess of Revenues over Expenditures</b>	<b>(26,992)</b>	<b>264,330</b>	<b>20,116</b>	<b>53,265</b>	<b>310,719</b>
Other Financing Sources (Uses)					
8110 Transfers out	(23,000)	-	-	-	(23,000)
<b>Total other financing sources (uses)</b>	<b>(23,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(23,000)</b>
<b>Net Change in Fund Balances</b>	<b>(49,992)</b>	<b>264,330</b>	<b>20,116</b>	<b>53,265</b>	<b>287,719</b>
Fund Balance - Beginning	1,553,154	432,221	314,086	173,338	2,472,799
<b>Fund Balance - Ending</b>	<b>\$ 1,503,162</b>	<b>\$ 696,551</b>	<b>\$ 334,202</b>	<b>\$ 226,603</b>	<b>\$ 2,760,518</b>

Northwestern Area School District 56-7  
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-  
 Wide Statement of Activities  
 Year Ended June 30, 2015

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Net Change in Fund Balances - Total Governmental Funds	\$ 287,719
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. This is the amount by which depreciation (\$125,274) exceeded capital outlays (\$92,917) in the current period.	(32,357)
Governmental funds do not reflect the change in early retirement debt, but the effects of this debt is reflected in the statement of activities.	(34,000)
The accrual of OPEB costs are not reflected in governmental funds, but the statement of activities reflects the change in this liability from one year to the next.	(1,264)
In both the government-wide and fund financial statements, revenues from tax levies are applied to finance the budget of a particular period. Accounting for revenues from tax accruals in the fund's statements differs from the accounting in the government-wide statements in that the fund financial statements require the amounts to be "available". This amount reflects the application of both the application period and "availability criteria".	1,469
Revenues and reductions of expenses related to pensions do not provide current financial resources and; therefore, are not reported in the funds.	<u>107,077</u>
Change in Net Position of Governmental Activities	<u><u>\$ 328,644</u></u>

Northwestern Area School District 56-7  
Statement of Net Position – Proprietary Funds  
June 30, 2015

	Food Service Fund	Enterprise Other Education Programs Fund	Total
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 1,582	\$ 839	\$ 2,421
120 Accounts receivable	13	-	13
171 Inventory of stores purchased for resale	2,876	-	2,876
172 Inventory of donated food	2,233	-	2,233
Total current assets	<u>6,704</u>	<u>839</u>	<u>7,543</u>
<b>Noncurrent Assets</b>			
196 Net pension asset	14,989	6,580	21,569
200 Capital assets:			
204 Machinery and equipment - local funds	58,306	-	58,306
208 Accumulated depreciation - machinery and equipment - local funds	<u>(40,285)</u>	<u>-</u>	<u>(40,285)</u>
Total noncurrent assets	<u>33,010</u>	<u>6,580</u>	<u>39,590</u>
<b>Deferred Outflows of Resources</b>			
Pension related deferred outflows	<u>13,308</u>	<u>5,729</u>	<u>19,037</u>
	<u>\$ 53,022</u>	<u>\$ 13,148</u>	<u>\$ 66,170</u>
<b>Liabilities</b>			
475 Unearned revenue	<u>\$ 6,290</u>	<u>\$ -</u>	<u>\$ 6,290</u>
Total liabilities	<u>6,290</u>	<u>-</u>	<u>6,290</u>
<b>Deferred Inflows of Resources</b>			
554 Pension related deferred inflows	<u>\$ 17,360</u>	<u>\$ 7,620</u>	<u>\$ 24,980</u>
<b>Net Position</b>			
706 Net investment in capital assets	18,021	-	18,021
707 Restricted for SDRS pension purposes	10,937	4,689	15,626
708 Unrestricted net position	<u>414</u>	<u>839</u>	<u>1,253</u>
Total net position	<u>29,372</u>	<u>5,528</u>	<u>34,900</u>
	<u>\$ 53,022</u>	<u>\$ 13,148</u>	<u>\$ 66,170</u>

Northwestern Area School District 56-7  
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds  
Year Ended June 30, 2015

	Enterprise		Total
	Food Service Fund	Other Education Programs Fund	
<b>Operating Revenues</b>			
Tuition and fees			
1310 Student tuition	\$ -	\$ 14,450	\$ 14,450
Sales			
1610 To pupils	66,655	-	66,655
1620 To adults	9,251	-	9,251
Other			
2500 Pension revenue	633	278	911
Total operating revenues	<u>76,539</u>	<u>14,728</u>	<u>91,267</u>
<b>Operating Expenses</b>			
1120 Middle/Junior high			
100 Salaries	-	22,670	22,670
200 Employee benefits	-	4,967	4,967
2560 Food service			
100 Salaries	41,637	-	41,637
200 Employee benefits	4,740	-	4,740
300 Purchased services	3,063	-	3,063
400 Supplies	5,707	-	5,707
461 Cost of sales - purchased food	74,942	-	74,942
462 Cost of sales - donated food	9,574	-	9,574
600 Other	210	-	210
910 Depreciation - local funds	1,996	-	1,996
3500 Custody and care of children			
400 Equipment and materials	-	210	210
Total operating expenses	<u>141,869</u>	<u>27,847</u>	<u>169,716</u>
Operating Loss	<u>(65,330)</u>	<u>(13,119)</u>	<u>(78,449)</u>
<b>Nonoperating Revenues</b>			
Local sources			
1990 Other	248	-	248
State sources:			
3810 Cash reimbursements	800	-	800
Federal sources:			
4810 Cash reimbursements	41,309	-	41,309
4820 Donated food	10,808	-	10,808
Total nonoperating revenues	<u>53,165</u>	<u>-</u>	<u>53,165</u>
Loss Before Transfers	(12,165)	(13,119)	(25,284)
5110 Transfers in	<u>8,000</u>	<u>15,000</u>	<u>23,000</u>
Change in Net Position	<u>(4,165)</u>	<u>1,881</u>	<u>(2,284)</u>
Net Position - Beginning	25,488	114	25,602
Change in Reporting, GASB 68	<u>8,049</u>	<u>3,533</u>	<u>11,582</u>
Net Position - Beginning, as Restated	<u>33,537</u>	<u>3,647</u>	<u>37,184</u>
Net Position - Ending	<u>\$ 29,372</u>	<u>\$ 5,528</u>	<u>\$ 34,900</u>

Northwestern Area School District 56-7  
Statement of Cash Flows – Proprietary Funds  
Year Ended June 30, 2015

	Enterprise		Total
	Food Service Fund	Other Education Programs Fund	
Cash Flows used for Operating Activities			
Receipts from customers	\$ 82,183	\$ 14,450	\$ 96,633
Payments to suppliers	(83,719)	(210)	(83,929)
Payments to employees	(48,632)	(28,515)	(77,147)
Net Cash used for Operating Activities	<u>(50,168)</u>	<u>(14,275)</u>	<u>(64,443)</u>
Cash Flows from Noncapital Financing Activities			
Transfers in	8,000	15,000	23,000
Operating subsidies	42,109	-	42,109
Net Cash from Noncapital Financing Activities	<u>50,109</u>	<u>15,000</u>	<u>65,109</u>
Cash Flows from Investing Activities			
Interest Earnings	247	-	247
Net Cash from Investing Activities	<u>247</u>	<u>-</u>	<u>247</u>
Change in Cash and Cash Equivalents	188	725	913
Cash and Cash Equivalents Beginning of Year	<u>1,394</u>	<u>114</u>	<u>1,508</u>
Cash and Cash Equivalents End of Year	<u>\$ 1,582</u>	<u>\$ 839</u>	<u>\$ 2,421</u>
Reconciliation of Operating Loss to			
Net Cash used for Operating Activities			
Operating loss	\$ (65,330)	\$ (13,119)	\$ (78,449)
Adjustments to reconcile operating loss to			
net cash used for operating activities:			
Depreciation expense	1,996	-	1,996
Value of donated commodities used	9,574	-	9,574
Change in assets and liabilities:			
Inventories	203	-	203
Pension deferred inflows	17,360	7,620	24,980
Pension deferred outflows	(20,248)	(8,776)	(29,024)
Accounts receivable	(13)	-	(13)
Unearned revenue	6,290	-	6,290
Net Cash used for Operating Activities	<u>\$ (50,168)</u>	<u>\$ (14,275)</u>	<u>\$ (64,443)</u>
Noncash Investing, Capital, and Financing Activities			
Value of commodities received	\$ 10,808	\$ -	\$ 10,808

Northwestern Area School District 56-7  
Statement of Fiduciary Net Position – Fiduciary Funds  
June 30, 2015

	Private-Purpose Trust Funds	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 1,197	\$ 58,498
Investments, at fair value	78,857	-
Other assets	-	928
	\$ 80,054	\$ 59,426
<b>Liabilities</b>		
Amounts held for others	\$ -	\$ 59,053
Due to general fund	-	373
Total liabilities	-	59,426
<b>Net Position</b>		
Held in trust for scholarships	80,054	-
	\$ 80,054	\$ 59,426

Northwestern Area School District 56-7  
Statement of Changes in Fiduciary Net Position – Fiduciary Funds  
Year Ended June 30, 2015

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	<u>Private-Purpose Trust Funds</u>
Additions	
Contributions and donations	<u>\$ 2,424</u>
Total additions	<u>2,424</u>
Deductions	
Scholarships awarded	<u>1,900</u>
Total deductions	<u>1,900</u>
Change in Net Position	524
Net Position - Beginning	<u>79,530</u>
Net Position - Ending	<u><u>\$ 80,054</u></u>

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

The accounting policies of Northwestern Area School District 56-7 conform to generally accepted accounting principles applicable to government entities in the United States of America.

**Financial Reporting Entity**

The reporting entity of Northwestern Area School District 56-7 (the School District), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the School District's financial statements to be misleading or incomplete.

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

**Basis of Presentation**

The financial statements of the School District have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard setting body for governmental accounting and financial reporting.

**Government-Wide Financial Statements**

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

The statement of net position reports all financial and capital resources in a net position form (assets plus deferred outflows minus liabilities minus deferred inflows equals net position). Net position are displayed in three components, as applicable, invested in capital assets net of related debt, restricted (distinguishing between major categories of restrictions), and unrestricted.

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

## Fund Financial Statements

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

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

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principle activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary services.

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

### Governmental Funds

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

Special Revenue Fund Types - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The capital outlay, special education and pension funds are the special revenue funds maintained by the School District.

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

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

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

**Proprietary Funds**

Enterprise Fund Types - Enterprise funds are used to account for operations (a) that 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. The following are funds maintained by the School District:

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.

Other Education Programs Fund – A fund used to record financial transactions related to other enterprise fund operations. This fund is financed by user charges. This is a major fund.

**Fiduciary Funds**

Fiduciary Funds are never considered to be major funds.

Private-Purpose Trust Fund Types – Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations or other governments. The School District maintains only a private-purpose trust fund for scholarships.

Agency Fund Types - Agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The School District maintains an agency fund to hold assets in a trustee capacity for student funds generated within the School District by the students or other School District organizations.

**Measurement Focus and Basis of Accounting**

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

**Measurement Focus****Government-Wide Financial Statements**

In the government-wide statement of net position and statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

**Fund Financial Statements**

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

**Basis of Accounting****Government-Wide Financial Statements**

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

**Fund Financial Statements**

All governmental fund types and similar fiduciary 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 School District, the length of that cycle is 60 days. Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All proprietary fund and similar trust 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.

**Inventory**

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out (FIFO). Donated commodities are valued at estimated market value based on the USDA price list at date of receipt. In the government-wide financial statements and the proprietary funds in the fund financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the governmental fund financial statements, inventories in the general fund and special revenue funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a non-spendable fund balance which indicates that they do not constitute “available spendable resources” even though they are a component of net current assets. The School District did not have any material amounts of inventory in the general fund or special revenue funds.

**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 are reported as Nonspendable Fund Balance to the extent that the proceeds from the collection of those receivables are not Restricted, Committed, or Assigned. Current portions of interfund receivables are considered "available spendable resources" and are reported in the appropriate fund balance category.

### Capital Assets

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

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

### Government-Wide Statements

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

The total June 30, 2015 balance of capital assets for governmental activities and business-type activities are all valued at original cost.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land*	\$ 1,000	N/A	N/A
Buildings	25,000	Straight-Line	50 years
Machinery and equipment	5,000	Straight-Line	5-10 years
Food service equipment	300	Straight-Line	12 years

\*Land is an inexhaustible capital asset and is not depreciated.

### **Fund Financial Statements**

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

### **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 OPEB obligation and early retirements benefits.

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

### **Program Revenues**

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

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

### **Property Taxes**

Property taxes are levied on or before each October 1, attached as an enforceable lien on property as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. Approximately 50% is considered to be applied to finance the budget of the current fiscal year, and the remaining 50% is considered to be applied to finance the budget for the subsequent year. The county bills and collects the School District's taxes and remits them to the School District.

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

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

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

### **Cash and Cash Equivalents**

The School District pools its cash resources for deposit purposes. Accordingly, the enterprise fund has access to its cash resources on demand. Accordingly, all reported enterprise fund deposit 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".

### **Fund Financial Statements**

Governmental fund equity is classified as fund balance, and may distinguish between non-spendable, restricted, committed, assigned and unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net position held in trust for other purposes.

### **Application of Net Position**

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

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

The School District classifies governmental fund balances as follows:

- Nonspendable – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority, the School Board, 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 or Business Manager.
- Unassigned – Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

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

The purpose of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Capital Outlay	Property Taxes
Special Education	Property Taxes, Grants and State Aid
Pension	Property Taxes

**Pensions**

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

**Deferred Inflows of Resources**

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

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

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

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

**Rounding**

Computer generated rounding variances exist in the basic financial statements and supplementary information. The variances result from values being entered with cents rather than as whole numbers.

**Note 2 - Deposits and Investments Credit Risk, Concentrations of Credit Risk and Interest Rate Risk**

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

**Deposits**

The School District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota. As of June 30, 2015, the financial institution that holds the School District's deposits was properly collateralized.

Deposits are reported at cost plus interest, if the account is of the add-on type.

Custodial Credit Risk – Deposits: The risk that, in the event of a depository failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk.

The actual bank balances at June 30, 2015 were as follows:

	<u>Book Balance</u>
Insured (FDIC/NCUA)	\$ 750,000
Uninsured, collateral jointly held by State's/School District's agent in the name of the State and the pledging financial institution	2,265,853
	\$ 3,015,853
The School District's carrying amount of deposits at June 30, 2015 was:	\$ 2,916,909
Reconciliation of deposits to government-wide statement of net position:	
Cash and cash equivalents	\$ 1,400,977
Certificates of deposit reported as investments on statement of net position	1,553,016
Add: Fiduciary fund cash (not included in government-wide statement of net position)	59,695
Less: Money market investment account included in cash and cash equivalents	(96,779)
Total reconciled deposits	\$ 2,916,909

**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 may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of June 30, 2015, the School District's investments totaling \$96,779 were held in the South Dakota Public Fund Investment Trust (SD FIT). SD FIT is an unrated external investment pool created for South Dakota local government investing. It is regulated by a nine member board with representation from municipalities, school districts and counties.

The net asset value of the SD FIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis. Since the School District has ready access to the cash, it is reported as cash and cash equivalents.

**Custodial Credit Risk Investments:** The risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does not have an investment policy for custodial risk.

**Interest Rate Risk:** The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk:** State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices. As of June 30, 2015, the School District's investment in the SD FIT pool was unrated.

**Concentration of Credit Risk:** The School District places no limit on the amount that may be invested in any one issuer. One hundred percent of the School District's investments are in the SD FIT pool.

State law allows income from deposits and investments to be credited to either the general fund or the fund making the investment. The School District's policy is to credit all income from investments to the fund making the investment.

**Note 3 - Receivables and Payables**

The School District does not aggregate receivables and payables in the financial statements. The amount recorded as due from other governments consists of \$43,812 for utility tax revenues from the State. The School District also has accounts receivable from the County for utility tax revenues in the amount of \$48,211. The School District expects all receivables to be collected within one year. Based on the nature of the receivables, no allowances for estimated uncollectible have been established.

**Note 4 - Changes in Capital Assets**

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

<u>Primary Government Governmental Activities</u>	<u>Balance 07/01/14</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 06/30/15</u>
Capital assets not being depreciated:				
Land	\$ 765	\$ -	\$ -	\$ 765
Total capital assets not being depreciated	<u>765</u>	<u>-</u>	<u>-</u>	<u>765</u>
Capital assets being depreciated:				
Buildings	3,418,966	38,577	-	3,457,543
Machinery and equipment	822,685	54,340	-	877,025
Total capital assets being depreciated	<u>4,241,651</u>	<u>92,917</u>	<u>-</u>	<u>4,334,568</u>
Less accumulated depreciation for:				
Buildings	1,529,295	73,223	-	1,602,518
Machinery and equipment	468,004	52,051	-	520,055
Total accumulated depreciation	<u>1,997,299</u>	<u>125,274</u>	<u>-</u>	<u>2,122,573</u>
Total capital assets being depreciated, net	<u>2,244,352</u>	<u>(32,357)</u>	<u>-</u>	<u>2,211,995</u>
Governmental activity capital assets, net	<u>\$ 2,245,117</u>	<u>\$ (32,357)</u>	<u>\$ -</u>	<u>\$ 2,212,760</u>

Depreciation expense was charged to functions as follows:

Governmental activities:			
Instruction			\$ 59,654
Support services			43,872
Cocurricular activities			<u>21,748</u>
Total depreciation expense - governmental activities			<u>\$ 125,274</u>

<u>Business-Type Activities</u>	<u>Balance 07/01/14</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 06/30/15</u>
Capital assets being depreciated:				
Machinery and equipment	\$ 58,306	\$ -	\$ -	\$ 58,306
Total capital assets being depreciated	<u>58,306</u>	<u>-</u>	<u>-</u>	<u>58,306</u>
Less accumulated depreciation for:				
Machinery and equipment	38,289	1,996	-	40,285
Total accumulated depreciation	<u>38,289</u>	<u>1,996</u>	<u>-</u>	<u>40,285</u>
Total capital assets being depreciated, net	<u>20,017</u>	<u>(1,996)</u>	<u>-</u>	<u>18,021</u>
Business-type activities capital assets, net	<u>\$ 20,017</u>	<u>\$ (1,996)</u>	<u>\$ -</u>	<u>\$ 18,021</u>

Depreciation expense was charged to functions as follows:

Business-type activities:			
Food services			\$ 1,996
Total depreciation expense - business-type activities			<u>\$ 1,996</u>

**Note 5 - Long-Term Liabilities**

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

	Beginning Balance	Additions	Decreases	Ending Balance	Due Within One Year
Primary Government					
Governmental activities:					
OPEB obligation	\$ 56,039	\$ 11,934	\$ 10,670	\$ 57,303	\$ -
Early retirement benefits	48,000	48,000	14,000	82,000	30,000
Total governmental activities	<u>104,039</u>	<u>59,934</u>	<u>24,670</u>	<u>139,303</u>	<u>30,000</u>
Total primary government	<u>\$ 104,039</u>	<u>\$ 59,934</u>	<u>\$ 24,670</u>	<u>\$ 139,303</u>	<u>\$ 30,000</u>

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

Year Ending June 30:	Principal
2016	\$ 30,000
2017	30,000
2018	22,000
	<u>\$ 82,000</u>

**Note 6 - Restricted Net Position**

The following table shows the net position restricted for other purposes as shown on the statement of net position:

Fund	Restricted By	Amount
Capital Outlay	Law	\$ 699,870
Special Education	Law	336,296
Pension	Law	227,548
SDRS Pension Purposes	Law	432,921
Total restricted net assets		<u>\$ 1,696,635</u>

**Note 7 - Interfund Transfers**

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

Transfers From	Food Service Fund	Transfers To Other Education Programs Fund	Total
Major Funds:			
General Fund	\$ 8,000	\$ 15,000	\$ 23,000

SDCL 13-16-26 gives the School Board the authority to transfer all or part of any surplus of any School District fund, except the capital outlay fund provided by SDCL 13-16-6 to 13-16-9, inclusive, and the special education fund provided by SDCL 13-37-16 may be transferred to any other School District fund. The interfund transfer above is not a violation of the statutory restrictions on interfund transfers.

**Note 8 - Early Retirement**

Each teacher who accepts retirement after the age of 55 and prior to the age of 62 with at least 20 years of service in the School District will be given \$24,000 incentive pay, and can be paid out over a three, four, or five year period. As of June 30, 2015, there were four employees approved to receive the benefits.

**Note 9 - Joint Ventures**

The School District participates in two cooperative service units (Co-op), North Central Special Education Cooperative and Hub Area Technical School, formed for the purpose of providing special education and other services to the member school districts.

**North Central Special Education Cooperative**

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

Doland School District	12.5%
Northwestern Area School District	12.5%
Groton Area School District	12.5%
Hitchcock-Tulare School District	12.5%
Frederick Area School District	12.5%
Warner School District	12.5%
Leola School District	12.5%
Langford Area School District	12.5%

The Co-op's Governing Board is composed of one representative from each member school district, who is the superintendent of the member school district. The Board is responsible for adopting the Co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The School District retains no equity interest in the net position of the Co-op, but does have a responsibility to fund deficits of the Co-op in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from North Central Special Education Cooperative.

At June 30, 2015, this joint venture had total assets and fund equity of \$292,840.

### **Hub Area Technical School**

The members of the Hub Area Technical School Co-op and their relative percentage participation in the Co-op are as follows:

Aberdeen School District No. 6-1	89.88%
Frederick Area School District No. 6-2	4.46%
Northwestern Area School District No. 56-7	5.65%

The Co-op's Governing Board is composed of one to three representatives from each member school district. The board is responsible for adopting the Co-op's budget and setting service fees at a level adequate to fund the adopted budget.

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

At June 30, 2015, the Hub Area Technical School had fund equity of \$822,254. Separate financial statements for this joint venture are available from the Hub Area Technical School.

### **Note 10 - Risk Management**

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

#### **Employee Health Insurance**

The School District joined the South Dakota School District Health Benefits Fund. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local governmental entities. The School District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage provides for deductibles ranging from \$1,000 to \$2,000, and \$2,500 to \$5,000 for single and family policies, respectively, and 20% coinsurance.

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

At June 30, 2015, the South Dakota School District Health Benefits Fund had a deficit net position. The Fund is changing its third party administrator to gain network efficiencies and increasing premiums to recover this deficit. They do not currently do not plan to assess participants. The School District would have a liability for their share of the deficit, should they decide to leave the plan.

### **Liability Insurance**

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

### **Worker's Compensation**

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provided workers' compensation insurance coverage for participating members of the pool. The objective of the fund is to formulate, develop and administer, on behalf of the member organizations, a program of worker's compensation coverage to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the fund to resolve any worker's compensation claims. The School District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the fund members. The School District may also be responsible for additional assessments in the event the pool is determined by its Board of Trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$1,000,000 per individual per incident.

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

### **Unemployment Benefits**

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

During the year ended June 30, 2015, no claims for unemployment benefits were paid. At June 30, 2015, no claim had been filed for unemployment benefits. Subsequent to year end, one claim for unemployment benefits was filed in which the maximum benefit to be paid would be approximately \$4,030.

**Note 11 - Postemployment Healthcare Plan**

**Plan Description**

Northwestern Area School District Healthcare Plan is a single-employer defined benefit healthcare plan administered by the School District. The plan provides medical insurance benefits to eligible retirees and their spouses as permitted by South Dakota Codified Law 6-1-16 and 13-10-3. Benefit provisions were established and may be amended during the negotiated agreement process between district certified staff and the governing board. The health plan does not issue separately stated stand-alone financial statements.

**Funding Policy**

The contribution requirements of plan members and the School District are established and may be amended during the negotiated agreement process between district certified staff and the governing board. A teacher or administrator, who retires from the School District on or after the age of 55 and with at least 3 years of consecutive service with the School District, may be eligible for retiree health insurance coverage. Coverage ceases when the retiree attains the age of 65. The retiree is responsible for 100% of the full active premium rates for either single or family coverage.

**Annual OPEB Cost and Net OPEB Obligation**

The School District's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Accounting Standards Codification Topic ASC (previously GASB Statement 45). The School District has elected to calculate the ARC and related information using the alternative measurement method permitted by Topic ASC P50 for employers of plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the financial components of the plan:

Annual required contribution (ARC)	\$ 5,770
Interest on net OPEB Obligation	2,802
Adjustment to annual required contribution	3,362
Annual OPEB Cost	11,934
Contributions made	(10,670)
Increase (decrease) in net OPEB obligation	1,264
Net OPEB obligation - July 1, 2014	56,039
Net OPEB obligation - June 30, 2015	\$ 57,303

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

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
2015	\$ 11,934	89.4%	\$ 57,303
2014	17,254	0.0%	56,039
2013	22,248	15.8%	38,785

### Funded Status and Funding Process

As of June 30, 2015, the most recent actuarial valuation date, the plan's actuarial accrued liability (AAL) and the unfunded actuarial accrued liability (UAAL) for benefits was \$88,666. The School District's plan is considered to be unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because the plan is unfunded, the AAL and UAAL are equal. The covered payroll (annual payroll of active employees covered by the plan) and the UAAL to the covered payroll were not applicable.

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

### Actuarial Methods and Assumptions

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

In the June 30, 2015 valuation, an alternative measurement method of the entry age actuarial cost method was used. The simplifying assumptions included a 5.0% rate of return, assuming the School District will fund the retirement benefit on a pay-as-you-go basis, and an annual healthcare cost trend rate of 5.0% initially, reduced by decrements to an ultimate rate of 1.17%. Both rates include a 3.11% inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls over a thirty year time period.

**Note 12 - Operating Leases**

The School District has operating leases for three copy machines all with a maturity date of May 2017. Operating lease payments are made from the capital outlay fund. The following are the minimum payments required for existing operating leases:

Year Ending June 30:	Amount
2016	\$ 4,428
2017	4,059
	\$ 8,487

**Note 13 - Litigation**

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

**Note 14 - Pension Plan**

**Plan Information**

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

**Benefits Provided**

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

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

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

All benefits except those depending on the member's accumulated contributions are annually increased by the cost-of-living adjustment.

### Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2015, 2014, and 2013 were \$85,808, \$87,276 and \$80,127 respectively, equal to the required contributions each year.

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

At June 30, 2014, SDRS is 107% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of SDRS, for the School District as of June 30, 2015 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 8,823,427
Less proportionate share of total pension liability	<u>8,224,145</u>
Proportionate share of net pension asset	<u>\$ 599,282</u>

At June 30, 2015, the School District reported an asset of \$599,282 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015 and the total pension asset used to calculate the net pension asset was based on a projection of the School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2014, the School District's proportion was 0.0831806%.

For the year ended June 30, 2015, the School District recognized pension revenue of \$25,313. At June 30, 2015 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Inflows of Resources
Difference between expected and actual experience	\$ 50,707	\$ -
Changes in assumption	391,194	-
Net difference between projected and actual earnings on pension plan investments	-	694,070
School District contributions subsequent to the measurement date	85,808	-
Total	<u>\$ 527,709</u>	<u>\$ 694,070</u>

The \$85,808 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as an/a increase/reduction of the net pension asset (liability) in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension revenue as follows:

<u>Year Ended June 30:</u>	<u>Amount</u>
2016	\$ (47,620)
2017	(47,620)
2018	(47,620)
2019	(109,309)
	<u>\$ (252,169)</u>

### Actuarial Assumptions

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

Inflation	3.25%
Salary increases	5.83% at entry to 3.87% after 30 years of service
Investment rate of return	7.25% through 2016 and 7.50% thereafter, net of pension plan investment expense

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

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

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

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

### Discount Rate

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

### Sensitivity of Asset to Changes in the Discount Rate

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net pension asset (liability)	<u>\$ (592,204)</u>	<u>\$ 599,282</u>	<u>\$ 1,571,063</u>

**Pension Plan Fiduciary Net Position**

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

**Note 15 - Restatement of Beginning Net Position**

As of July 1, 2014, the School District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the cost and obligations associated with pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position was restated to retroactively report the beginning net pension asset and deferred outflows of resources related to contributions made after the measurement date.

	Governmental Activities	Business-Type Activities	Total
Net position at June 30, 2014, as previously stated	\$ 4,628,570	\$ 25,602	\$ 4,654,172
Net pension asset at June 30, 2014	226,083	8,441	234,524
Deferred outflows of resources related to contributions made during the year ended June 30, 2014	84,135	3,141	87,276
Net position at July 1, 2014, as restated	\$ 4,938,788	\$ 37,184	\$ 4,975,972

Funds within business-type activities each required a restatement as follows:

	Food Service Fund	Other Education Programs Fund	Business-Type Activities Total
Net position at June 30, 2014, as previously stated	\$ 25,488	\$ 114	\$ 25,602
Net pension asset at June 30, 2014	5,866	2,575	8,441
Deferred outflows of resources related to contributions made during the year ended June 30, 2014	2,183	958	3,141
Net position at July 1, 2014, as restated	\$ 33,537	\$ 3,647	\$ 37,184



Required Supplementary Information  
June 30, 2015

**Northwestern Area School District 56-7**

Northwestern Area School District 56-7  
 Schedule of Funding Progress  
 Year Ended June 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Unit Credit (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
6/30/2015	\$ -	\$ 88,666	\$ 88,666	0.00%	N/A	N/A
6/30/2014	-	147,152	147,152	0.00%	N/A	N/A
6/30/2013	-	193,335	193,335	0.00%	N/A	N/A

Northwestern Area School District 56-7  
 Budgetary Comparison Schedule – General Fund  
 Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 1,170,430	\$ 1,170,430	\$ 1,214,093	\$ 43,663
1120 Prior year's ad valorem taxes	12,500	12,500	5,235	(7,265)
1130 Tax deed revenue	-	-	22	22
1140 Gross receipts taxes	87,000	87,000	92,163	5,163
1190 Penalties and interest on taxes	5,000	5,000	2,812	(2,188)
1500 Earnings on investments and deposits	5,000	5,000	9,136	4,136
1700 Cocurricular activities:				
1710 Admissions	23,500	23,500	18,680	(4,820)
1740 Rentals	3,500	3,500	1,616	(1,884)
1790 Other pupil activity income	-	-	6,253	6,253
1900 Other revenue from local sources:				
1920 Contributions and donations	4,000	4,000	3,828	(172)
1960 Judgements	-	-	5,346	5,346
1970 Charges for services	-	-	3,593	3,593
1990 Other	-	-	8,692	8,692
2000 Revenue from intermediate sources				
2100 County sources:				
2110 County apportionment	12,000	12,000	14,778	2,778
2200 Revenue in lieu of taxes	-	-	3,216	3,216
3000 Revenue from state sources				
3100 Grants-in-aid:				
3110 Unrestricted grants-in-aid	252,543	252,543	267,102	14,559
3120 Restricted grants-in-aid	-	-	6,000	6,000
3900 Other	37,000	37,000	-	(37,000)
4000 Revenue from federal sources				
4100 Grants-in-aid:				
4150-4199 Restricted grants-in-aid received from federal government through the State	84,450	84,450	60,530	(23,920)
4900 Other federal revenue	-	-	11,783	11,783
Total revenues	<u>1,696,923</u>	<u>1,696,923</u>	<u>1,734,878</u>	<u>37,955</u>

Northwestern Area School District 56-7  
 Budgetary Comparison Schedule – General Fund  
 Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
1000 Instruction				
1100 Regular programs:				
1110 Elementary	423,950	423,950	381,703	42,247
1120 Jr High School	208,750	208,750	199,517	9,233
1130 High School	413,900	413,900	370,416	43,484
1200 Special programs:				
1270 Educationally deprived	64,400	64,400	61,692	2,708
2000 Support services				
2100 Pupils:				
2120 Guidance	30,650	30,650	26,747	3,903
2130 Health	2,000	2,000	-	2,000
2200 Support services - instructional staff:				
2210 Improvement of instruction	58,800	58,800	54,735	4,065
2213 Other professional services	-	6,000	-	6,000
2220 Educational media	34,950	34,950	31,697	3,253
2300 Support services - general administration:				
2310 Board of education	81,500	81,500	69,863	11,637
2320 Executive administration	83,200	83,250	83,204	46
2400 Support services - school administration:				
2410 Office of the principal	73,400	74,800	76,244	(1,444)
2490 Other support services	1,500	1,500	100	1,400
2500 Support services - business:				
2520 Fiscal services	75,350	75,350	71,500	3,850
2540 Operation and maintenance of plant	147,900	147,900	137,371	10,529
2550 Pupil transportation	136,850	136,850	114,895	21,955
2600 Support services - central:				
2640 Staff	400	400	382	18
3000 Community Services				
3900 Other non-program	500	500	-	500
6000 Cocurricular activities				
6100 Male activities	30,855	30,855	28,770	2,085
6200 Female activities	28,425	28,525	27,983	542
6900 Combined activities	32,450	32,450	25,051	7,399
Total expenditures	<u>1,929,730</u>	<u>1,937,280</u>	<u>1,761,870</u>	<u>175,410</u>
Excess of Revenues over (under) Expenditures	<u>(232,807)</u>	<u>(240,357)</u>	<u>(26,992)</u>	<u>213,365</u>
Other Financing Sources (Uses)				
8110 Transfers out	<u>(30,000)</u>	<u>(30,000)</u>	<u>(23,000)</u>	<u>7,000</u>
Total other financing sources	<u>(30,000)</u>	<u>(30,000)</u>	<u>(23,000)</u>	<u>7,000</u>
Net Change in Fund Balances	(262,807)	(270,357)	(49,992)	220,365
Fund Balance - Beginning	<u>1,553,154</u>	<u>1,553,154</u>	<u>1,553,154</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 1,290,347</u>	<u>\$ 1,282,797</u>	<u>\$ 1,503,162</u>	<u>\$ 220,365</u>

Northwestern Area School District 56-7  
 Budgetary Comparison Schedule – Capital Outlay Fund  
 Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 634,000	\$ 634,000	\$ 607,844	\$ (26,156)
1120 Prior year's ad valorem taxes	9,000	9,000	2,171	(6,829)
1190 Penalties and interest on taxes	2,000	2,000	1,325	(675)
1900 Other revenue from local sources:				
1920 Contributions and donations	-	-	12,029	12,029
1990 Other	5,000	5,000	5,000	-
2000 Revenue from intermediate sources				
2200 Revenue in lieu of taxes	-	-	1,296	1,296
Total revenues	<u>650,000</u>	<u>650,000</u>	<u>629,665</u>	<u>(20,335)</u>
<b>Expenditures</b>				
1000 Instruction				
1100 Regular programs:				
1110 Elementary	81,000	81,000	38,899	42,101
1120 Jr High School	67,500	67,500	25,231	42,269
1130 High school	119,000	119,000	62,078	56,922
1200 Special programs:				
1220 Programs for special education	1,000	1,000	-	1,000
2000 Support services				
2200 Support services - instructional staff:				
2220 Educational media	14,500	14,500	2,404	12,096
2300 Support services - general administration:				
2310 Board of education	200	200	-	200
2400 Support services - school administration:				
2490 Other	3,500	3,500	2,164	1,336
2500 Support services - business:				
2520 Fiscal services	3,100	3,100	2,650	450
2540 Operation and maintenance of plant	218,800	218,800	139,985	78,815
2550 Transportation	122,400	122,400	82,547	39,853
5100 Food service	1,000	1,000	-	1,000
6000 Cocurricular activities				
6900 Combined activities	18,000	18,000	9,377	8,623
Total expenditures	<u>650,000</u>	<u>650,000</u>	<u>365,335</u>	<u>284,665</u>
Net Change in Fund Balances	-	-	264,330	264,330
Fund Balance - Beginning	<u>432,221</u>	<u>432,221</u>	<u>432,221</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 432,221</u>	<u>\$ 432,221</u>	<u>\$ 696,551</u>	<u>\$ 264,330</u>

Northwestern Area School District 56-7  
 Budgetary Comparison Schedule – Special Education Fund  
 Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 298,700	\$ 298,700	\$ 293,136	\$ (5,564)
1120 Prior year's ad valorem taxes	1,500	1,500	1,129	(371)
1190 Penalties and interest on taxes	600	600	693	93
1900 Other revenue from local sources:				
1970 Charges for services	-	-	11,732	11,732
1990 Other	-	-	38	38
2000 Revenue from intermediate sources				
2200 Revenue in lieu of taxes	-	-	712	712
4000 Revenue from federal sources				
4100 Grants-in-aid:				
4150-4199 Restricted grants-in-aid received from federal government through the state	17,500	17,500	-	(17,500)
Total revenues	<u>318,300</u>	<u>318,300</u>	<u>307,440</u>	<u>(10,860)</u>
<b>Expenditures</b>				
1000 Instruction				
1200 Special programs:				
1220 Programs for special education	333,800	333,800	270,623	63,177
2000 Support services				
2100 Pupils:				
2140 Psychological	5,000	5,000	2,543	2,457
2150 Speech pathology	10,000	10,000	4,694	5,306
2700 Support services - special education				
2710 Administrative costs	9,500	9,500	3,155	6,345
2720 Speech/language costs	-	-	6,309	(6,309)
Total expenditures	<u>358,300</u>	<u>358,300</u>	<u>287,324</u>	<u>70,976</u>
Net Change in Fund Balances	(40,000)	(40,000)	20,116	60,116
Fund Balance - Beginning	<u>314,086</u>	<u>314,086</u>	<u>314,086</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 274,086</u>	<u>\$ 274,086</u>	<u>\$ 334,202</u>	<u>\$ 60,116</u>

Northwestern Area School District 56-7  
 Budgetary Comparison Schedule – Pension Fund  
 Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
1000 Revenue from local sources				
1100 Taxes:				
1110 Ad valorem taxes	\$ 144,756	\$ 144,756	\$ 135,485	\$ (9,271)
1120 Prior years' ad valorem taxes	-	-	495	495
1190 Penalties and interest on taxes	-	-	289	289
2000 Revenue from intermediate sources				
2200 Revenue in lieu of taxes	-	-	330	330
Total revenues	<u>144,756</u>	<u>144,756</u>	<u>136,599</u>	<u>(8,157)</u>
<b>Expenditures</b>				
1000 Instruction				
1100 Regular programs:				
1110 Elementary	21,000	21,000	18,916	2,084
1120 Jr High School	10,000	10,200	10,138	62
1130 High School	18,000	18,000	17,203	797
2000 Support services				
2100 Pupils:				
2120 Guidance	1,500	1,500	1,462	38
2200 Support services - instructional staff:				
2210 Improvement of instruction	-	150	126	24
2220 Educational media	1,700	1,700	1,579	121
2300 Support services - general administration:				
2310 Board of education	1,600	1,600	1,442	158
2320 Executive administration	4,500	4,500	4,401	99
2400 Support services - school administration:				
2410 Office of the Principal	3,600	3,600	3,564	36
2500 Support services - business:				
2520 Fiscal services	2,500	2,500	2,457	43
2540 Operation and maintenance of plant	3,700	3,700	3,696	4
2550 Pupil transportation	1,600	1,600	1,516	84
4000 Nonprogrammed charges				
4500 Early retirement payments	15,100	15,100	15,071	29
6000 Cocurricular activities				
6100 Male activities	1,300	1,300	517	783
6200 Female activities	1,050	1,050	813	237
6900 Combined activities	500	550	433	117
Total expenditures	<u>87,650</u>	<u>88,050</u>	<u>83,334</u>	<u>4,716</u>
Net Change in Fund Balances	57,106	56,706	53,265	(3,441)
Fund Balance - Beginning	<u>173,338</u>	<u>173,338</u>	<u>173,338</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 230,444</u>	<u>\$ 230,044</u>	<u>\$ 226,603</u>	<u>\$ (3,441)</u>

**Note 1 - Basis of Presentation**

The budgetary comparison schedules have been prepared on the modified accrual basis of accounting. The budgetary comparison schedules present expenditures for capital outlay purposes within each function while the governmental funds statement of revenues, expenditures, and changes in fund balance present capital outlay expenditures as a separate function.

**Note 2 - Budgetary Legal Requirements**

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

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

Northwestern Area School District 56-7  
 Schedule of Employer's Share of Net Pension Liability (Asset)  
 Year Ended June 30, 2015

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>Employer's Percentage of the Net Pension Asset</u>	<u>Employer's Proportionate Share of the Net Pension Asset (a)</u>	<u>Employer's Covered-Employee Payroll (b)</u>	<u>Employer's Proportionate Share of the Net Pension Asset as a Percentage of its Covered-Employee Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
SDRS	6/30/2014	<u>0.0831806%</u>	<u>\$ 599,282</u>	<u>\$ 1,454,591</u>	<u>41.20%</u>	<u>107.29%</u>

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

Northwestern Area School District 56-7  
 Schedule of Pension Contributions  
 Year Ended June 30, 2015

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered- Employee Payroll (d)	Contributions as a Percentage of Covered- Employee Payroll (b/d)
SDRS	6/30/2015	\$ 85,808	\$ 85,808	\$ (0)	\$ 1,430,130	6.0%

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

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



CPAs & BUSINESS ADVISORS

**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***

The School Board  
Northwestern Area School District 56-7  
Mellette, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Northwestern Area School District 56-7 (the School District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated December 21, 2015.

**Internal Control over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Response to Findings**

The School District's responses to the findings identified in our audit are described in the accompanying auditor's comments. The School 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 them.

### **Purpose of this Report**

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

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota  
December 21, 2015

## **Status of Prior Audit Recommendations**

### **Finding 2014-A**

There was a lack of segregation of duties that may result in internal control over financial reporting and compliance to be inadequate.

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

### **Finding 2014-B**

There was a lack of internal control in the preparation of the financial statements and footnotes and significant journal entries that may result in a misstatement of the School District's financial statements.

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

### **Finding 2014-C**

There was a lack of internal control in the bidding of certain school projects over certain thresholds as defined by SDCL.

Current Status: Due to the nature of the finding in prior year and no issues noted in current year testing, this finding is considered to be resolved.

## **Current Audit Findings and Recommendations**

### **Material Weakness**

#### **Finding 2015-A – Lack of Segregation of Duties**

Condition: Northwestern Area School District 56-7 has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures and payroll functions as well as check signing because of a lack of segregation of duties.

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

Cause: The School District has insufficient number of staff to adequately separate duties. It was also noted that the same person who signs checks handles the check signing stamp of the board chair.

Effect: This condition increases the risk that fraud or errors might occur in the financial reporting process.

Recommendation: Although it is recognized that number of office staff may not be large enough to permit an adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the School Board exercise adequate oversight of the accounting function. We also recommend someone other than the check signor control the signature stamp of the board chair.

Management's Response: Management accepts the risk associated with lack of segregation of duties in the School District. However, Management will have the superintendent handle control over the signature stamp.

### **2015-B – Preparation of Financial Statements, Footnotes and Significant Journal Entries**

Condition: Northwestern Area School District 56-7 requested the external auditors to assist in the preparation of the financial statements and related footnotes for the year ended June 30, 2015. As part of the financial statement preparation process, at times we propose material audit adjustments that are not identified as a result of the School District's existing internal controls and; therefore, could result in a misstatement of the School District's financial statements.

Criteria: The School District's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with generally accepted accounting principles.

Cause: The limited size of the School District's staff and resources cause the inability to prepare the financial statements and footnotes and could cause the need for auditors to, at times, propose material journal entries.

Effect: This condition may affect the School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure generally accepted accounting principles have been followed for each fund type, especially for transaction types infrequent in occurrence.

Management's Response: Management accepts the risk associated with preparation of the final audited financial statements by the independent auditor.