

**OELRICHS SCHOOL DISTRICT NO. 23-3**

INDEPENDENT AUDITORS' REPORTS,  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

JUNE 30, 2016

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**June 30, 2016**

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Gardner, Loutzenhiser and Ryan, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

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

To the School Board  
Oelrichs School District No 23-3  
OelrichsSouth Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Oelrichs School District No. 23-3, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Oelrichs School District No 23-3's basic financial statements and have issued our report thereon dated May 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Oelrichs School District No. 23-3'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 Oelrichs School District No. 23-3's internal control. Accordingly, we do not express an opinion on the effectiveness of Oelrichs School District No. 23-3's internal control.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weaknesses. However, material weaknesses may exist that have not been identified.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Oelrichs School District No. 23-3'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*.

### 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 Oelrichs School District No. 23-3's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Oelrichs School District No. 23-3'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.

*Gardner, Louzenhiser + Ryan PC*

Chadron, Nebraska  
May 31, 2017



Gardner, Loutzenhiser and Ryan, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report on Compliance for  
Each Major Program and on Internal Control  
Over Compliance Required by the Uniform Guidance

Board of Directors  
Oelrichs School District No. 23-3  
OelrichsSouth Dakota

Report on Compliance for Each Major Federal Program

We have audited Oelrichs School District No. 23-3's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of Oelrichs School District No. 23-3's major federal programs for the year ended June 30, 2016. Oelrichs School District No. 23-3's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Oelrichs School District No. 23-3's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Oelrichs School District No. 23-3's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Oelrichs School District No. 23-3's compliance.

Opinion on Each Major Federal Program

In our opinion, Oelrichs School District No 23-3 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

## Report on Internal Control Over Compliance

Management of Oelrichs School District No. 23-3 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Oelrichs School District No. 23-3's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Oelrichs School District No. 23-3's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

*Gardner, Louzenhiser + Ryan PC*

Chadron, Nebraska  
May 31, 2017

**Oelrichs School District No. 23-3  
Schedule of Findings and Questioned Costs  
June 30, 2016**

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**SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  yes  none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2CFR 200 516(a)?  yes  no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
84.041	Impact Aid

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?  yes  no

**FINDINGS - FINANCIAL STATEMENTS AUDIT**

No current year findings

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

U.S. DEPARTMENT OF EDUCATION  
IMPACT AID CFDA # 84.041

No current year findings

**Oelrichs School District No. 23-3**  
**Schedule of Prior Audit Findings and Questioned Costs**  
**June 30, 2016**

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**PRIOR AUDIT FINDINGS AND QUESTIONED COSTS**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Material Weakness and Noncompliance  
Internal Control Over Financial Reporting

2015-001 *Condition:* The small size of the District limits the ability of the Business Office to prepare the financial statements and schedule of expenditures of federal awards being audited.

*Criteria:* Establishing internal controls over the preparation of the financial statements and drafting the financial statements is the responsibility of management. The District should have an internal control system designed to provide for drafting the financial statements and schedule of expenditures of federal awards being audited. In addition, OMB Circular A-133 requires the auditee to prepare appropriate financial statements in accordance with Section .310.

*Cause:* This condition exists due to small staff size within the finance function of the District. These issues are common in a district of this size.

*Effect:* The District engages their auditor to draft the financial statements and the notes to the financial statements. The possibility of errors occurring and not being detected or corrected is present.

*Auditor's Recommendation:* It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the District's auditor drafting the financial statements, because of cost or other considerations. If the District chooses not to accept this risk, training should be provided to those employees responsible for drafting the financial statements.

*Current Status:* The District engaged Casey Peterson & Associates, LTD to assist in preparation and drafting of the financial statements and schedule of expenditures of federal awards which addressed the internal controls weaknesses.

Material Weakness  
Internal Control Over Financial Reporting

2015-002 *Condition:* The District does not have an appropriate system of internal controls to prepare closing entries or monitor reconciliations. It was noted that the bank account had not been reconciled for several months and several other year-end reconciliations were not properly performed.

*Criteria:* Establishing policies and procedures over risk assessment and monitoring are critical components of a good system of internal control. Bank accounts and other balances should be reconciled monthly to ensure accurate financial reports for management and the Board.

*Cause:* The Business Office had significant employee turnover during 2015 which resulted in reconciliations not being performed timely.

*Effect:* Numerous adjustments were required as a result of audit procedures performed.

*Auditor's Recommendation:* If the District is unable to retain staff in the Business Office, the District should consider contracting with a third party to help with accounting needs. In addition, the Board should receive monthly financial reports and should monitor reconciliations to ensure they are being properly performed. Journal entries should be reviewed and approved to ensure they are necessary and appropriate. District management

**Oelrichs School District No. 23-3**  
**Schedule of Prior Audit Findings and Questioned Costs**  
**June 30, 2016**

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should review the School Accounting Manual, as published by the SD Department of Legislative Audit, for suggested procedures.

*Current Status:* The District engaged Casey Peterson & Associates, LTD to assist in preparation of closing entries and to monitor reconciliations which addressed the internal controls weakness.

Material Weakness and Noncompliance  
Internal Control Over Financial Reporting

2015-003 *Condition:* The District has insufficient controls over receipts, disbursements, and journal entries. The lack of controls over these items has also resulted in noncompliance with several state statutes.

*Criteria:* A proper system of internal controls and state statutes requires the following:

- Each check should be documented with an itemized invoice that has been verified and is kept on file in the Business Office (SDCL 13-18-3).
- Records of receipts, expenditures, and balances for trust and agency accounts, including receipts issued in duplicate, an accounting for serially-printed admission tickets, and approval of expenditures are required to be maintained (SDCL 13-16-20). Each check or warrant is required to be approved by the Board (SDCL 13-16-20 and 13-8-26).
- Trust and agency account activity and balances are required to be submitted to the Board monthly and annually (SDCL 13-16-21).
- A detailed list of bills (including imprest) and a statement of receipts and balances on hand is required to be published (SDCL 13-8-35 and 13-18-17).
- Maintenance of documentation supporting receipts, disbursements, and adjustments to accounts in a manner that items can be located for future reference.

*Cause:* The Business Office had significant employee turnover during 2015 which resulted in documentation not being properly maintained. Due to a lack of training for personnel hired, statutory compliance was not properly monitored.

*Effect:* The District did not comply with the statutes listed above. The District also did not have all necessary documentation to support transactions recorded in the accounting records requiring reliance on external documentation.

*Auditor's Recommendation:* District management should review the School Accounting Manual, as published by the SD Department of Legislative Audit, for suggested procedures. Training should be provided to management and the Board on statutory requirements and proper internal control processes. It is also important to keep in mind that access to assets should be segregated, to the extent possible, from the responsibility for recordkeeping related to such assets.

*Current Status:* The District provided training to the business manager and Casey Peterson & Associates, LTD was engaged to assist with maintaining internal controls which addressed the internal controls weakness.

**Oelrichs School District No. 23-3**  
**Schedule of Prior Audit Findings and Questioned Costs**  
**June 30, 2016**

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FINDINGS AND RESPONSES FOR FEDERAL AWARD PROGRAMS

U.S. DEPARTMENT OF EDUCATION  
IMPACT AID CFDA # 84.041

Material Weakness and Noncompliance  
Internal Controls Over Compliance

2015-004 See Finding 2015-001 for a description of the condition, criteria, cause, effect, auditor's recommendation, and current status.

Material Weakness  
Internal Control Over Compliance

2015-005 See Finding 2015-002 for a description of the condition, criteria, cause, effect, auditor's recommendation and current status.

Material Weakness  
Internal Control Over Compliance

2015-006 See Finding 2015-003 for a description of the condition, criteria, cause, effect, auditor's recommendation and current status.

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Gardner, Loutzenhiser and Ryan, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

## Independent Auditor's Report

School Board  
Oelrichs School District No. 23-3  
OelrichsSouth 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 Oelrichs School District No. 23-3, as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Oelrichs School District No. 23-3, as of June 30, 2016, 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.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, and the schedules of pension net asset and contributions on pages 52 - 60 and 61 - 62, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing management's discussion and analysis.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Oelrichs School District No. 23-3's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is not a required part of the basic financial statements.

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

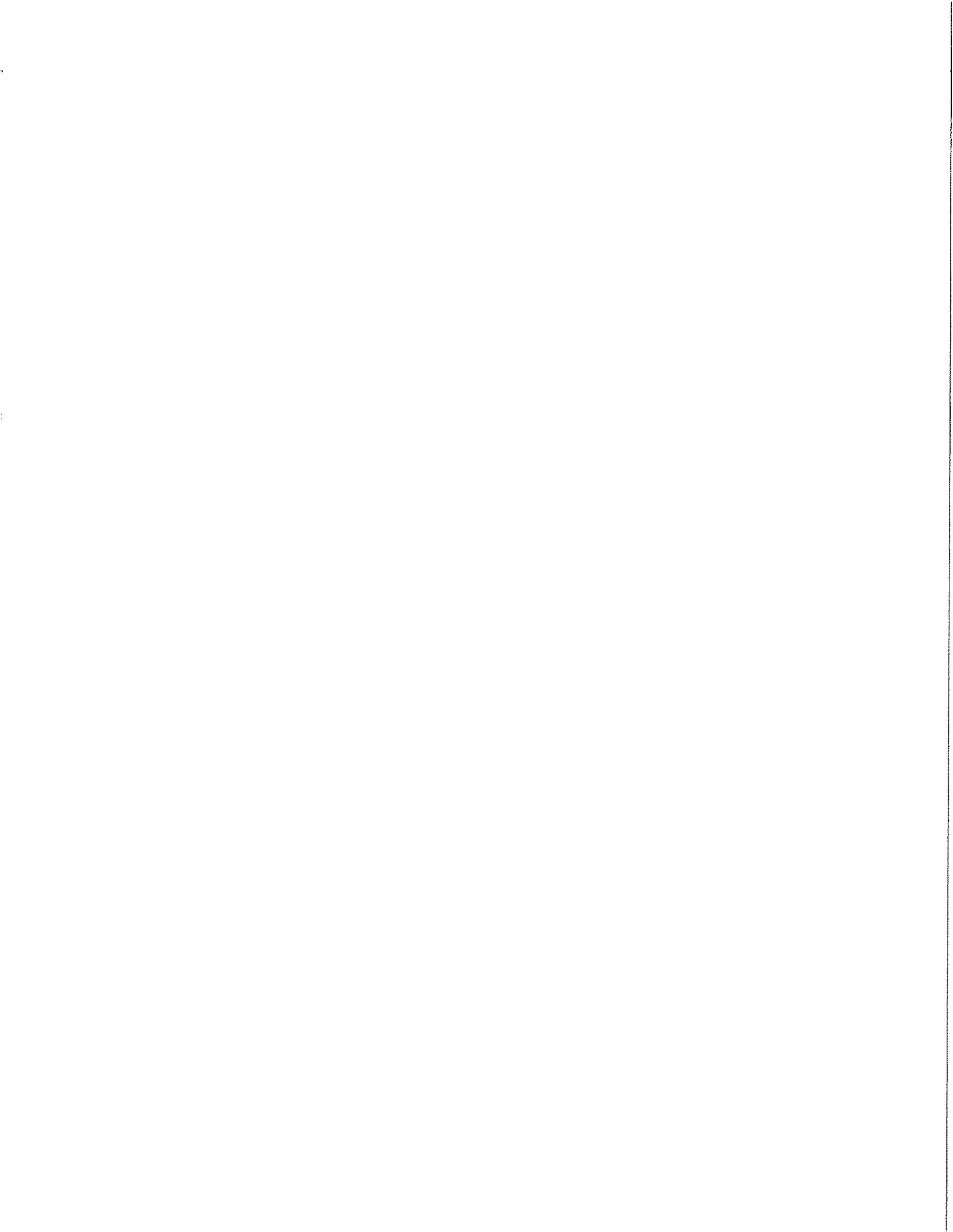
The list of school officials on page 64 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on the information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2017 on our consideration of Oelrichs School District No. 23-3'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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Oelrichs School District No 23-3's internal control over financial reporting and compliance.

*Gardner, Loutzenhiser + Ryan PC*

Chadron, Nebraska  
May 31, 2017



## BASIC FINANCIAL STATEMENTS

**Oelrichs School District No. 23-3**  
**Statement of Net Position**  
**June 30, 2016**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 3,434,921	\$ 13,756	\$ 3,448,677
Taxes Receivable	169,801	-	169,801
Due From Other Governments	194,754	293	195,047
Inventories	-	1,130	1,130
Capital Credits	49,044	-	49,044
Capital Assets:			
Land	123,500	-	123,500
Buildings	968,487	-	968,487
Improvements	17,775	-	17,775
Equipment	441,739	29,768	471,507
Less: Accumulated Depreciation	<u>(500,163)</u>	<u>(18,650)</u>	<u>(518,813)</u>
Total Capital Assets, Net of Depreciation	<u>1,051,338</u>	<u>11,118</u>	<u>1,062,456</u>
Restricted Assets:			
Net Pension Asset	<u>274,414</u>	<u>9,366</u>	<u>283,780</u>
<b>TOTAL ASSETS</b>	<u>5,174,272</u>	<u>35,663</u>	<u>5,209,935</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension-related Deferred Outflows	<u>518,291</u>	<u>17,690</u>	<u>535,981</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>518,291</u>	<u>17,690</u>	<u>535,981</u>
<b>LIABILITIES</b>			
Accrued Expenses	51,645	-	51,645
Long-term Liabilities:			
Due in More than One Year	<u>4,087</u>	<u>-</u>	<u>4,087</u>
<b>TOTAL LIABILITIES</b>	<u>55,732</u>	<u>-</u>	<u>55,732</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property Taxes Levied for Future Periods	180,885	-	180,885
Pension-related Deferred Inflows	<u>442,080</u>	<u>15,089</u>	<u>457,169</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>622,965</u>	<u>15,089</u>	<u>638,054</u>

See accompanying independent auditors' report and notes to the financial statements

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	1,051,338	11,118	1,062,456
Restricted for:			
Capital Outlay	217,609	-	217,609
Special Education	85,973	-	85,973
Proportionate Share of Net Pension Asset	350,625	11,967	362,592
Unrestricted	<u>3,308,321</u>	<u>15,179</u>	<u>3,323,500</u>
<b>TOTAL NET POSITION</b>	<u>\$ 5,013,866</u>	<u>\$ 38,264</u>	<u>\$ 5,052,130</u>

See accompanying independent auditors' report and notes to the financial statements

**Oelrichs School District No. 23-3  
Statement of Activities  
For the Year Ended June 30, 2016**

Functions/Programs	Expenses	Charges for Services
<b>GOVERNMENTAL ACTIVITIES</b>		
Instruction	\$ 1,374,669	\$ -
Support Services	1,303,152	3,300
Cocurricular Activities	<u>65,373</u>	<u>1,091</u>
Total Governmental Activities	<u>2,743,194</u>	<u>4,391</u>
<b>BUSINESS-TYPE ACTIVITIES</b>		
Food Service	<u>108,942</u>	<u>1,864</u>
Total Primary Government	<u>\$ 2,852,136</u>	<u>\$ 6,255</u>

See accompanying independent auditors' report and notes to the financial statements

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
		Governmental Activities	Business-type Activities	Total
598,922	\$ -	\$ (775,747)	\$ -	\$ (775,747)
8,011	-	(1,291,841)	-	(1,291,841)
799	-	(63,483)	-	(63,483)
<u>607,732</u>	<u>-</u>	<u>(2,131,071)</u>	<u>-</u>	<u>(2,131,071)</u>
<u>68,077</u>	<u>954</u>	<u>-</u>	<u>(38,047)</u>	<u>(38,047)</u>
<u>\$ 675,809</u>	<u>\$ 954</u>	<u>(2,131,071)</u>	<u>(38,047)</u>	<u>(2,169,118)</u>
<b>GENERAL REVENUES</b>				
Taxes:				
Property Taxes		351,377	-	351,377
Gross Receipts Taxes		23,641	-	23,641
Revenue From State Sources:				
State Aid		745,253	-	745,253
Other		368	-	368
Revenue From Federal Sources		870,857	-	870,857
Revenue From Intermediate Sources		3,113	-	3,113
Unrestricted Investment Earnings		12,505	-	12,505
Sale of Surplus Property		1,001	2	1,003
Other General Revenues		56,066	1,159	57,225
Transfers		(58,000)	58,000	-
Total General Revenues and Gain		<u>2,006,181</u>	<u>59,161</u>	<u>2,065,342</u>
<b>CHANGE IN NET POSITION</b>		<u>(124,890)</u>	<u>21,114</u>	<u>(103,776)</u>
<b>NET POSITION - BEGINNING AS RESTATED</b>		<u>5,138,756</u>	<u>17,150</u>	<u>5,155,906</u>
<b>NET POSITION - ENDING</b>		<u>\$ 5,013,866</u>	<u>\$ 38,264</u>	<u>\$ 5,052,130</u>

See accompanying independent auditors' report and notes to the financial statements

**Oelrichs School District No. 23-3**  
**Balance Sheet - Governmental Funds**  
**June 30, 2016**

	<u>General Fund</u>	<u>Capital Outlay Fund</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 3,150,034	\$ 221,437
Taxes Receivable, Current	57,145	75,396
Taxes Receivable, Delinquent	1,198	366
Due From Other Governments	167,739	-
Capital Credits Receivable	<u>49,044</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 3,425,160</u></b>	<b><u>\$ 297,199</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>		
Liabilities:		
Accrued Expenses	\$ 47,398	\$ 252
Payroll Liabilities	<u>1,175</u>	<u>-</u>
Total Liabilities	<u>48,573</u>	<u>252</u>
Deferred Inflows of Resources:		
Property Taxes Levied for Future Periods	64,179	79,338
Delinquent Taxes Not Available	1,198	366
Grant Receivables Not Available	36,551	-
Capital Credits Redeemable in Future Period	<u>49,044</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>150,972</u>	<u>79,704</u>
Fund Balances		
Restricted:		
For Capital Outlay	-	217,243
For Special Education	-	-
Unassigned	<u>3,225,615</u>	<u>-</u>
Total Fund Balances	<u>3,225,615</u>	<u>217,243</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b><u>\$ 3,425,160</u></b>	<b><u>\$ 297,199</u></b>

See accompanying independent auditors' report and notes to the financial statements

Special Education Fund	Total Governmental Funds
\$ 63,450	\$ 3,434,921
35,511	168,052
185	1,749
27,015	194,754
-	49,044
\$ 126,161	\$ 3,848,520

\$ -	\$ 47,650
2,820	3,995
2,820	51,645

37,368	180,885
185	1,749
-	36,551
-	49,044
37,553	268,229

-	217,243
85,788	85,788
-	3,225,615
85,788	3,528,646

\$ 126,161	\$ 3,848,520
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See accompanying independent auditors' report and notes to the financial statements

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**Oelrichs School District No. 23-3  
Reconciliation of the Governmental Funds Balance  
Sheet to the Statement of Net Position  
June 30, 2016**

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Total Fund Balances - Governmental Funds	\$ 3,528,646
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 governmental funds.	1,051,338
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Compensated Absences	(4,087)
Assets, including property taxes receivable and other receivables that are not available to pay for current period expenditures, are deferred in the governmental funds.	87,344
Net pension asset reported in the governmental activities is not an available financial resource and therefore is not reported in the funds.	274,414
Pension Related Deferred Outflows are components of pension asset and changes are not reported in the funds.	518,291
Pension Related Deferred Inflows are components of pension asset and changes are not reported in the funds.	<u>(442,080)</u>
Net Position - Governmental Activities	<u>\$ 5,013,866</u>

See accompanying independent auditors' report and notes to the financial statements

**Oelrichs School District No. 23-3**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balances - Governmental Funds**  
**For the Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Capital Outlay Fund</u>
<b>REVENUES</b>		
Revenue From Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 126,666	\$ 149,443
Gross Receipts Taxes	23,641	-
Penalties and Interest on Taxes	331	307
Cocurricular Activities	1,091	-
Earnings on Deposits	13,049	-
Other Local Revenue	<u>55,324</u>	<u>717</u>
Total Revenue From Local Sources	<u>220,102</u>	<u>150,467</u>
Revenue From Intermediate Sources:		
County Sources	<u>3,113</u>	<u>-</u>
Revenue From State Sources:		
Unrestricted Grants-in-Aid	664,518	-
Restricted Grants-in-Aid	-	-
Other State Revenue	<u>368</u>	<u>-</u>
Total Revenue From State Sources	<u>664,886</u>	<u>-</u>
Revenue From Federal Sources:		
Unrestricted Grants-in-Aid	934,498	239
Restricted Grants-in-Aid	<u>491,634</u>	<u>-</u>
Total Revenue From Federal Sources	<u>1,426,132</u>	<u>239</u>
Total Revenue	<u>2,314,233</u>	<u>150,706</u>

See accompanying independent auditors' report and notes to the financial statements

<u>Special Education Fund</u>	<u>Total Governmental Funds</u>
\$ 72,730	\$ 348,839
-	23,641
151	789
-	1,091
-	13,049
<u>3,325</u>	<u>59,366</u>
<u>76,206</u>	<u>446,775</u>
<u>-</u>	<u>3,113</u>
-	664,518
80,735	80,735
-	368
<u>80,735</u>	<u>745,621</u>
16,130	950,867
<u>31,388</u>	<u>523,022</u>
<u>47,518</u>	<u>1,473,889</u>
<u>204,459</u>	<u>2,669,398</u>

See accompanying independent auditors' report and notes to the financial statements

**Oelrichs School District No. 23-3**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balances - Governmental Funds (Continued)**  
**For the Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Capital Outlay Fund</u>
<b>EXPENDITURES</b>		
Instructional Services:		
Regular Programs	828,514	79,996
Special Programs	279,465	-
Total Instructional Services	<u>1,107,979</u>	<u>79,996</u>
Support Services:		
Pupils	70,322	-
Instructional Staff	168,021	844
General Administration	251,854	-
School Administration	92,008	2,709
Business	517,260	115,667
Central	6,043	-
Total Support Services	<u>1,105,508</u>	<u>119,220</u>
Cocurricular Activities:		
Male Activities	21,645	-
Female Activities	25,644	-
Transportation	1,249	-
Combined Activities	13,101	-
Total Cocurricular Activities	<u>61,639</u>	<u>-</u>
Total Expenditures	<u>2,275,126</u>	<u>199,216</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>39,107</u>	<u>(48,510)</u>
<b>OTHER FINANCING SOURCES</b>		
Transfer In (Out)	(178,243)	60,243
Sale of Surplus Property	-	1,001
Total Other Financing Sources	<u>(178,243)</u>	<u>61,244</u>
<b>NET CHANGE IN FUND BALANCES</b>	(139,136)	12,734
<b>FUND BALANCE - BEGINNING, AS RESTATED</b>	<u>3,364,751</u>	<u>204,509</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 3,225,615</u>	<u>\$ 217,243</u>

See accompanying independent auditors' report and notes to the financial statements

<u>Special Education Fund</u>	<u>Total Governmental Funds</u>
-	908,510
<u>174,686</u>	<u>454,151</u>
<u>174,686</u>	<u>1,362,661</u>
41,668	111,990
-	168,865
-	251,854
-	94,717
-	632,927
-	6,043
<u>41,668</u>	<u>1,266,396</u>
-	21,645
-	25,644
-	1,249
<u>-</u>	<u>13,101</u>
<u>-</u>	<u>61,639</u>
<u>216,354</u>	<u>2,690,696</u>
<u>(11,895)</u>	<u>(21,298)</u>
60,000	(58,000)
<u>-</u>	<u>1,001</u>
<u>60,000</u>	<u>(56,999)</u>
48,105	(78,297)
<u>37,683</u>	<u>3,606,943</u>
<u>\$ 85,788</u>	<u>\$ 3,528,646</u>

See accompanying independent auditors' report and notes to the financial statements

**Oelrichs School District No. 23-3**  
**Reconciliation of the Governmental Funds Statement of Revenues,**  
**Expenditures and Changes in Fund Balances to the Statement of Activities**  
**For the Year Ended June 30, 2016**

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Net Change in Fund Balances - Total Governmental Funds	\$ (78,297)
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 are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital purchases in the current period.	(50,573)
The recognition of revenues in the governmental funds differ from the recognition in the governmental activities in the fact that revenue accruals in the fund financial statements require the amounts to be "available."	(42,253)
Governmental funds do not reflect the change in compensated absences liabilities but the Statement of Activities reflects the change in these accruals through expenses.	(1,926)
Pension revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>48,159</u>
Change in Net Position of Governmental Activities	<u>\$ (124,890)</u>

See accompanying independent auditors' report and notes to the financial statements

**Oelrichs School District No. 23-3**  
**Statement of Net Position - Proprietary Funds**  
**June 30, 2016**

	Food Service Fund
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 13,756
Due From Other Governments	293
Inventory	1,130
Total Current Assets	15,179
Noncurrent Assets:	
Machinery and Equipment - Local Funds	29,768
Less Accumulated Depreciation	(18,650)
Total Noncurrent Assets	11,118
Restricted Assets:	
Net Pension Asset	9,366
<b>TOTAL ASSETS</b>	<b>35,663</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension-related Deferred Outflows of Resources	17,690
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension-related Deferred Inflows of Resources	15,089
<b>NET POSITION</b>	
Net Investment in Capital Assets	11,118
Restricted for Net Pension Asset	11,967
Unrestricted	15,179
<b>TOTAL NET POSITION</b>	<b>\$ 38,264</b>

See accompanying independent auditors' report and notes to the financial statements

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**Oelrichs School District No. 23-3**  
**Statement of Revenues, Expenses and Changes in Fund**  
**Net Position - Proprietary Funds**  
**For the Year Ended June 30, 2016**

	<u>Food Service Fund</u>
<b>OPERATING REVENUE</b>	
Sales to Adults	\$ 1,864
Total Operating Revenue	<u>1,864</u>
<b>OPERATING EXPENSES</b>	
Personnel	58,489
Purchased Services	100
Supplies	11,636
Cost of Sales	37,219
Depreciation	<u>1,498</u>
Total Operating Expenses	<u>108,942</u>
<b>OPERATING LOSS</b>	<u>(107,078)</u>
<b>NONOPERATING REVENUE</b>	
Local Sources	
Other	1,161
State Sources:	
Cash Reimbursements	358
Federal Sources:	
Capital Grants	954
Cash Reimbursements	63,055
Donated Food	<u>4,664</u>
Total Nonoperating Revenue	<u>70,192</u>
<b>TRANSFERS</b>	
Transfers In	<u>58,000</u>
<b>CHANGE IN NET POSITION</b>	21,114
<b>NET POSITION - BEGINNING, AS RESTATED</b>	<u>17,150</u>
<b>NET POSITION - ENDING</b>	<u><u>\$ 38,264</u></u>

See accompanying independent auditors' report and notes to the financial statements

**Oelrichs School District No. 23-3**  
**Statement of Cash Flows - Proprietary Funds**  
**For the Year Ended June 30, 2016**

	<u>Food Service Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$ 1,864
Payments to Employees	(59,150)
Payments to Suppliers	<u>(48,837)</u>
Net Cash Used by Operating Activities	<u>(106,123)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Operating Subsidies	<u>119,879</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	13,756
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>-</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 13,756</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (107,078)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,498
Cost of Sales - Donated Food	650
Change in Assets and Liabilities:	
Inventory	(532)
Accrued Employee Expenses	<u>(661)</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u>\$ (106,123)</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>	
Value of Commodities Received	<u>\$ 4,664</u>

See accompanying independent auditors' report and notes to the financial statements

**Oelrichs School District No. 23-3**  
**Statement of Fiduciary Net Position - Fiduciary Funds**  
**June 30, 2016**

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	<u>\$ 12,748</u>
<b>TOTAL ASSETS</b>	<u>12,748</u>
<b>LIABILITIES</b>	
Amounts Held for Others	<u>12,748</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 12,748</u>

See accompanying independent auditors' report and notes to the financial statements

# Oelrichs School District No. 23-3 Notes to the Financial Statements June 30, 2016

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## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### **A. REPORTING ENTITY**

The reporting entity of Oelrichs School District No. 23-3 (the District), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The District is a public education agency operating under the applicable laws and regulations of the State of South Dakota. It is governed by a five-member Board of Trustees (the Board) elected by registered voters of the District. The Board has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has accountability for fiscal matters. There are no component units included within the reporting entity.

The District participates in a cooperative service unit with several other school districts. See Note 10 - Joint Venture for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in the notes because of the nature of their relationship with the District.

### **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

#### *Government-wide Financial Statements*

The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the overall government, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities.

These statements distinguish between the governmental and business-type activities of the District. Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

See accompanying independent auditors' report.

**Oelrichs School District No. 23-3**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Fund Financial Statements*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, deferred inflows and outflows of resources, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. Major individual governmental and proprietary funds are reported in separate columns.

**C. FUND TYPES AND MAJOR FUNDS**

An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is a primary operating fund of the District or if it meets the following criteria:

1. Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting year to year or because of public interest in the fund's operations.

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

**Governmental Funds:**

*General Fund* - The General Fund is established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the District, excluding Capital Outlay Fund and Special Education 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 District's special revenue funds are as follows:

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

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

See accompanying independent auditors' report.

**Oelrichs School District No. 23-3**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Proprietary Funds:

*Enterprise Fund Types* - Enterprise funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises, where the focus of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis whether financed or recovered through user charges or grants; or (b) where the governing body has decided 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 District's enterprise fund is as follows:

*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.

Fiduciary Funds:

Fiduciary funds are never considered to be major funds.

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

**D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

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

Measurement Focus

*Government-wide Financial Statements:*

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

*Fund Financial Statements:*

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

Basis of Accounting

*Government-wide Financial Statements:*

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

See accompanying independent auditors' report.

**Oelrichs School District No. 23-3**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Fund Financial Statements:*

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or will 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 District considers significant revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end.

Receivables, such as taxes receivable and grants receivable, may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred inflows of resources are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

Expenditures are generally recorded when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which is recognized when due.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

**E. INTERFUND ELIMINATIONS AND RECLASSIFICATIONS**

In the process of aggregating data for the government-wide financial statements the District has charged certain "centralized expenses", including an administrative overhead component, as direct expenses to programs in order to show all expenses that are associated with a service, program or department. This process minimizes the doubling-up effect on internal service fund activity.

**F. CASH AND CASH EQUIVALENTS**

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

**G. INVENTORY**

Inventory is valued at the lower of cost or market. The cost valuation method is first-in, first-out for enterprise fund inventories and average cost for governmental fund inventories.

Donated commodities are valued at estimated market value based on the USDA price list at the date of receipt.

Inventory in the governmental funds and governmental activities consist of expendable supplies held for consumption. In the government-wide financial statements and governmental funds, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed. Inventories reported in the fund financial statements are equally offset by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. Nonspendable fund balances related to inventory are reported net of the related liability (accounts payable). The governmental funds did not report any inventory balances as of June 30, 2016.

See accompanying independent auditors' report.

**Oelrichs School District No. 23-3**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H. RESTRICTED ASSETS**

The District's proportionate share of the net pension asset held by the South Dakota Retirement System is also shown as restricted. This asset was new in the prior year in accordance with the implementation of GASB 68. See Note 9 for additional information regarding the pension plan.

**I. CAPITAL ASSETS**

Capital assets include land, buildings, improvements, 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 of capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-wide Financial Statements:*

All 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 capital assets are not capitalized.

Capitalization thresholds (the dollar value above which individual asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the government-wide financial statements and proprietary funds are as follows:

	Capitalization Threshold	Estimated Useful Life
Land	\$ All	-----
Buildings	20,000	50-100 yrs
Improvements	10,000	20 yrs
Equipment (governmental activities)	5,000	7-20 yrs
Equipment (proprietary funds)	2,000	12 yrs

Depreciation expense is calculated using the straight-line and composite methods. Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities. 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 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 financial statements.

**J. 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.

See accompanying independent auditors' report.

**Oelrichs School District No. 23-3**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Government-wide Financial Statements:*

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide financial statements. Long-term liabilities consist of compensated absences.

*Compensated Absences Payable* - Compensated absences payable is the annual leave earned by employees. Vacation leave is earned by employees at varying rates depending on years of service. Sick leave is earned by the employees at the rate of one day for each month worked. Unused sick leave may accumulate to a total of 800 hours. Sick leave is only paid out to retirees of the District who have been employed for 12 years at a rate of \$25/day up to 100 days. Accrued leave payable balances are reported in Note 5 as compensated absences. For employees normally paid out of the governmental funds, these amounts are charged as an expenditure at the time of termination or when the benefit becomes payable to the employee.

*Fund Financial Statements:*

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 as in the government-wide financial statements.

**K. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

The District reports decreases in net position that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary funds statements of net position. The only deferred outflow of resources reported is a deferred amount arising from the District's pension plan for qualified retirees as discussed in Note 9.

The District's governmental funds report a separate section for deferred inflows of resources. This section reflects a decrease in net position that applies to a future period or periods. Under the modified accrual basis of accounting, governmental fund revenues are not recognized until available (collected no later than 60 days after the end of the District's fiscal year). The District reports the following as deferred inflows of resources in the governmental funds: property taxes levied but not collected within the available period, property taxes collected within the available period that are intended to finance the next fiscal year, and grants and capital credits receivable not collected within the available period. In the government-wide financial statements, the District reports deferred inflows of resources for the property taxes that are levied for future periods and pension-related deferrals. The District reports only deferred inflows related to pension activity in the proprietary funds and business type activities.

**L. NET POSITION AND FUND BALANCE**

*Government-wide Financial Statements:*

It is the District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net positions are available. Net Position includes the following three components:

*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 capital outlay certificates or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

See accompanying independent auditors' report.

**Oelrichs School District No. 23-3**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Restricted* - 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.

*Unrestricted* - Represents all other net positions that do not meet the definition of "restricted" or "net investment in capital assets."

*Fund Financial Statements:*

Governmental fund equity is classed as fund balance, which is distinguished between the following classifications:

*Nonspendable* - Includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

*Restricted* - Constraints are placed on the use of resources by either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

*Assigned* - Amounts that are constrained by the District's intent to be used for specific purposes but are not restricted. Amounts can be assigned by committees of the School Board or management of the District.

*Unassigned* - Represents fund balance that has not been assigned to other funds and that has not been restricted or assigned.

The District uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents or contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use assigned, then unassigned amounts of unrestricted fund balance when expenditures are made. The District does not have a minimum fund balance policy.

Proprietary net positions are classified the same as in the government-wide financial statements. Fiduciary net positions (except for Agency Funds, which do not have net position) are reported as net position held in trust for other purposes.

**M. PROPRIETARY FUND REVENUE AND EXPENSE CLASSIFICATIONS**

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

**N. PROGRAM REVENUES**

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

*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.

See accompanying independent auditors' report.

**Oelrichs School District No. 23-3**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Program Revenues - 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.

*Program Revenues - 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.

**O. PENSIONS**

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

**NOTE 2 - DEPOSITS AND INVESTMENTS**

The District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Statutes impose various restrictions on deposits and investments. These restrictions are summarized below:

*Deposits* - The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts 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.

*Assignment of Investment Income* - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The District's policy is to credit all income from investments to the fund making the investment with the exception of capital credits revenue which is credited entirely to the General Fund. The District also reports deposits at cost plus interest and credits all income from deposits to the fund making the deposit with the exception of the general checking account whose interest income is credited to the General Fund.

*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.

Certificates of deposit, with a term to maturity of greater than 3 months when purchased, were insured or collateralized and are considered deposits.

See accompanying independent auditors' report.

**Oelrichs School District No. 23-3**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2016, the District's deposits in financial institutions were not exposed to credit risk as all deposits were fully collateralized by pledged securities.

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

Concentration of Credit Risk - The District places no limit on the amount that may be deposited with any one financial institution or invested with any one issuer.

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

**NOTE 3 - DUE FROM OTHER GOVERNMENTS**

As of June 30, 2016, amounts due from other governments as reported in the financial statements consisted of the following:

SD Department of Education	\$ 150,535
Fall River County	<u>44,512</u>
	<u>\$ 195,047</u>

See accompanying independent auditors' report.

**Oelrichs School District No. 23-3**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 4 - CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2016 is as follows:

	Balance June 30, 2015	<u>Increase</u>	<u>Decrease</u>	Balance June 30, 2016
<b>Governmental Activities:</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 123,500	\$ -	\$ -	\$ 123,500
Total Capital Assets Not Being Depreciated	<u>123,500</u>	<u>-</u>	<u>-</u>	<u>123,500</u>
Capital Assets Being Depreciated:				
Buildings	968,487	-	-	968,487
Improvements	17,775	-	-	17,775
Equipment	<u>441,739</u>	<u>-</u>	<u>-</u>	<u>441,739</u>
Total Capital Assets Being Depreciated:	<u>1,428,001</u>	<u>-</u>	<u>-</u>	<u>1,428,001</u>
Less Accumulated Depreciation for:				
Equipment	189,452	31,676	-	221,128
Buildings	255,356	17,797	-	273,153
Improvements	<u>4,782</u>	<u>1,100</u>	<u>-</u>	<u>5,882</u>
Total Accumulated Depreciation	<u>449,590</u>	<u>50,573</u>	<u>-</u>	<u>500,163</u>
Total Capital Assets Being Depreciated, Net	<u>978,411</u>	<u>(50,573)</u>	<u>-</u>	<u>927,838</u>
Net Capital Assets	<u>\$ 1,101,911</u>	<u>\$ (50,573)</u>	<u>\$ -</u>	<u>\$ 1,051,338</u>
<b>Business-type Activities:</b>				
Capital Assets Being Depreciated:				
Equipment	\$ 29,768	\$ -	\$ -	\$ 29,768
Less: Accumulated Depreciation	<u>17,152</u>	<u>1,498</u>	<u>-</u>	<u>18,650</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 12,616</u>	<u>\$ (1,498)</u>	<u>\$ -</u>	<u>\$ 11,118</u>

See accompanying independent auditors' report.

**Oelrichs School District No. 23-3**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 4 - CHANGES IN CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 10,083
Support Services	36,756
Cocurricular Activities	<u>3,734</u>
Total Depreciation Expense	<u>\$ 50,573</u>

All depreciation expense related to the business-type activities was for the Food Service Fund.

**NOTE 5 - LONG-TERM LIABILITIES**

The following is a summary of changes in long-term liabilities:

	Balance June 30, 2015	Increase	Decrease	Balance June 30, 2016	Amounts Due Within 1 Year
Governmental Activities:					
Other Liabilities:					
Compensated Absences	\$ 2,161	\$ 1,926	\$ -	\$ 4,087	\$ -
Total Long-term Liabilities	<u>\$ 2,161</u>	<u>\$ 1,926</u>	<u>\$ -</u>	<u>\$ 4,087</u>	<u>\$ -</u>

Payments of compensated absences are made to employees out of the General Fund.

**NOTE 6 - RESTRICTED NET POSITION**

The following table shows the components of restricted net position as presented on the Statement of Net Position:

Purpose	Restricted By	
Major Purposes:		
Capital Outlay	Law	\$ 217,609
Special Education	Law	85,973
Share of Net Pension Asset	Law	<u>362,592</u>
Total		<u>\$ 666,174</u>

**NOTE 7 - PROPERTY TAX**

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

See accompanying independent auditors' report.

**Oelrichs School District No. 23-3**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 7 - PROPERTY TAX (CONTINUED)**

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 revenue in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period."

The District is permitted by state statute to levy the following amounts of taxes per \$1,000 of taxable valuation of the property in the school district:

General Fund:	
Agricultural Property	\$ 6.647
Non Ag Z	13.767
Owner-occupied	8.856
Capital Outlay Fund	3.00
Special Education Fund	1.554

State statute allows the General Fund tax rates to be increased by special election of the voters.

**NOTE 8 - INDIVIDUAL FUND INTERFUND BALANCES AND TRANSACTIONS**

Interfund transfers for the year ended June 30, 2016 were as follows:

Transfers From:	Transfers To:		
	Capital Outlay Fund	Special Education Fund	Food Service Fund
General Fund	<u>\$ 60,243</u>	<u>\$ 60,000</u>	<u>\$ 58,000</u>

Transfers were made from the General Fund to the Capital Outlay, Special Education and Food Service Funds in order to subsidize operations.

**NOTE 9 - 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 public employee retirement system established 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 South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

See accompanying independent auditors' report.

**Oelrichs School District No. 23-3**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 9 - PENSION PLAN (CONTINUED)**

Benefits Provided

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

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

- If the SDRS market value funded ratio is 100% or more - 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
  - 90.0% to 99.9% funded - 2.1% minimum and 2.8% maximum COLA
  - 0.0% to 90.0% funded - 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% - 2.1% COLA

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the fiscal years ended June 30, 2015, 2014, and 2013 were \$79,500, \$80,894, and \$57,726, respectively, equal to the required contributions each year.

See accompanying independent auditors' report.

**Oelrichs School District No. 23-3**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 9 - PENSION PLAN (CONTINUED)**

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

At June 30, 2015, SDRS is 104.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the District as of the measurement period ending June 30, 2015 and reported by the District as of June 30, 2016 are as follows:

Proportionate Share of Net Position Restricted for Pension Benefits	\$ 7,210,460
Less Proportionate Share of Total Pension Liability	<u>6,926,680</u>
Proportionate Share of Net Pension Liability (Asset)	<u>\$ (283,780)</u>

At June 30, 2016, the District reported an asset of \$283,780 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015 and the total pension asset used to calculate the net pension asset was based on a projection of the District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the District's proportion was 0.0669%, which is an increase of 0.0119% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$27,390. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 58,105	\$ -
Changes in Assumption	225,019	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	173,356	418,722
Changes in Proportion and Difference Between District Contributions and Proportionate Share of Contributions	-	38,447
District Contributions Subsequent to the Measurement Date	<u>79,500</u>	<u>-</u>
Total	<u>\$ 535,980</u>	<u>\$ 457,169</u>

See accompanying independent auditors' report.

**Oelrichs School District No. 23-3**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 9 - PENSION PLAN (CONTINUED)**

\$79,500 reported as deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension revenue as follows:

Year Ended June 30,		
2016	\$	2,270
2017		2,270
2018		(47,352)
2019		42,123
2020		-
Thereafter		-
Total	\$	<u>(689)</u>

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation 3.25 percent
- Salary increases 5.83 percent at entry to 3.87 percent after 30 years of service
- Investment rate of return 7.25 percent through 2017 and 7.50 percent thereafter, net of
- Pension plan investment expense

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

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

See accompanying independent auditors' report.

**Oelrichs School District No. 23-3**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 9 - PENSION PLAN (CONTINUED)**

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global Equity	61.0%	4.5%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.2%
Cash	<u>2.0%</u>	0.8%
Total	<u>100%</u>	

Discount Rate

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

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

The following presents the District's proportionate share of net pension asset calculated using the discount rate of 7.25% through 2017 and 7.50% thereafter, as well as what the School'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 Liability (Asset)	<u>\$ 714,270</u>	<u>\$ (283,780)</u>	<u>\$ (1,097,604)</u>

Pension Plan Fiduciary Net Position

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

See accompanying independent auditors' report.

**Oelrichs School District No. 23-3**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 10 - JOINT VENTURE**

The District participates in the Black Hills Special Services Cooperative (the Co-op), a cooperative service unit formed for the purpose of providing special education and other services to the member school districts. During the year ended June 30, 2016, the District paid \$30,663 for services provided by the Co-op.

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

Belle Fourche School District	8.33%
Custer School District	8.33%
Douglas School District	8.33%
Edgemont School District	8.33%
Haakon School District	8.33%
Hill City School District	8.33%
Hot Springs School District	8.33%
Lead/Deadwood School District	8.33%
Meade School District	8.33%
Oelrichs School District	8.33%
Rapid City School District	8.33%
Spearfish School District	8.33%

The Co-op's governing board is comprised of one representative, a School Board member, 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 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.

Separate financial statements may be obtained by writing to BHSSC, PO Box 218, Sturgis SD 57785.

At June 30, 2016, this joint venture had assets of \$15,284,527, liabilities of \$7,273,246 and net position of \$8,011,281 (audited).

The District also participates in the Black Hills Educational Benefits Cooperative (BHEBC); a cooperative service unit formed for the purpose of providing health insurance services to the member school districts. The relative percentage of participation of each member in BHEBC was not deemed to be a measurable matter.

The members of BHEBC are Black Hills Special Service Cooperative, New Underwood School District, Wall School District, Custer School District, Oelrichs School District, and Belle Fourche School District.

BHEBC's governing board is composed of two representatives from each member school district. The Board is responsible for adopting BHEBC's budget and setting service fees at a level adequate to fund the adopted budget. Members are not liable for claims in excess of BHEBC's assets.

Separate financial statements may be obtained by writing to BHEBC, PO Box 218, Sturgis SD 57785. At June 30, 2016, this joint venture had total unaudited total fund equity of \$3,514,490 and no long-term debt.

See accompanying independent auditors' report.

**Oelrichs School District No. 23-3**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 11 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2016, the District managed its risks as follows:

Employee Health Insurance:

As discussed in Note 10, the District joined together with other educational units in the state to form a public entity risk pool. This is a public entity risk pool currently operating as a common risk management and insurance program for six member districts. The District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage provides a deductible of \$1,000 per person up to \$2,000 per family. The plan also provides for coinsurance of 70 or 80 percent up to \$5,000. The coverage also includes a \$1,000,000 lifetime maximum payment per person.

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

Liability Insurance:

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

Workmen's Compensation:

The District purchases liability insurance for worker's compensation from a commercial carrier.

Unemployment Benefits:

The District has elected to be self-insured and retain all risk for liabilities resulting in claims for unemployment benefits. There were no unemployment claims paid during the year ended June 30, 2016 and none are expected to be paid in 2017.

**NOTE 12 - CONCENTRATIONS**

The District is dependent upon grant revenues, property taxes and operating revenues from the State of South Dakota for its primary existence.

See accompanying independent auditors' report.

**Oelrichs School District No. 23-3**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 13 - PRIOR PERIOD ADJUSTMENTS**

During the year ended June 30, 2016, the District identified errors as a result of amounts owed to vendors that were not reported in the appropriate periods. As a result, beginning fund balances and net position have been restated as of July 1, 2015 as follows:

	<u>General Fund</u>	<u>Special Education</u>	<u>Governmental Activities</u>	<u>Business-type Activities Food Service</u>
Fund Balance/ Net Position July 1, 2015, as Previously Reported	\$ 3,545,242	\$ 53,301	\$ 5,320,196	\$ 21,164
Correction of Prior Year Errors	<u>(180,491)</u>	<u>(15,618)</u>	<u>(181,440)</u>	<u>(4,014)</u>
Fund Balance/ Net Position July 1, 2015, as Restated	<u>\$ 3,364,751</u>	<u>\$ 37,683</u>	<u>\$ 5,138,756</u>	<u>\$ 17,150</u>

**NOTE 14 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

See accompanying independent auditors' report.

REQUIRED SUPPLEMENTARY INFORMATION

**Oelrichs School District No. 23-3**  
**Budgetary Comparison Schedule - General Fund - Budgetary Basis**  
**For the Year Ended June 30, 2016**

	<u>Budgeted Original</u>	<u>Budgeted Amounts Final</u>
<b>REVENUES</b>		
Revenue From Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 119,348	\$ 119,348
Gross Receipts Taxes	17,275	17,275
Penalties and Interest on Taxes	500	500
Cocurricular Activities	1,000	1,000
Earnings on Deposits	10,000	10,000
Other Local Revenue	<u>52,700</u>	<u>52,700</u>
Total Revenue From Local Sources	<u>200,823</u>	<u>200,823</u>
Revenue From Intermediate Sources:		
County Sources	<u>4,190</u>	<u>4,190</u>
Total Revenue From Intermediate Sources	<u>4,190</u>	<u>4,190</u>
Revenue From State Sources:		
Unrestricted Grants-in-Aid	667,207	667,207
Other State Revenue	<u>500</u>	<u>500</u>
Total Revenue From State Sources	<u>667,707</u>	<u>667,707</u>
Revenue From Federal Sources:		
Unrestricted Grants-in-Aid	888,500	868,500
Restricted Grants-in-Aid	<u>602,558</u>	<u>602,558</u>
Total Revenue From Federal Sources	<u>1,491,058</u>	<u>1,471,058</u>
Total Revenue	<u>2,363,778</u>	<u>2,343,778</u>

See accompanying independent auditors' report and notes to the supplementary information.

<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
\$ 126,666	\$ 7,318
23,641	6,366
331	(169)
1,091	91
13,049	3,049
<u>55,324</u>	<u>2,624</u>
<u>220,102</u>	<u>19,279</u>
<u>3,113</u>	<u>(1,077)</u>
<u>3,113</u>	<u>(1,077)</u>
664,518	(2,689)
368	(132)
<u>664,886</u>	<u>(2,821)</u>
934,498	65,998
491,634	(110,924)
<u>1,426,132</u>	<u>(44,926)</u>
<u>2,314,233</u>	<u>(29,545)</u>

See accompanying independent auditors' report and notes to the supplementary information.

**Oelrichs School District No. 23-3**  
**Budgetary Comparison Schedule - General Fund - Budgetary Basis**  
**(Continued)**  
**For the Year Ended June 30, 2016**

	Budgeted Original	Budgeted Amounts Final
<b>EXPENDITURES</b>		
Instructional Services:		
Regular Programs	853,711	853,711
Special Programs	272,630	272,630
Total Instructional Services	1,126,341	1,126,341
Support Services:		
Pupils	71,043	71,043
Instructional Staff	267,243	267,243
General Administration	260,630	260,630
School Administration	106,038	106,038
Business	543,355	543,355
Total Support Services	1,248,309	1,248,309
Cocurricular Activities:		
Male Activities	19,554	19,554
Female Activities	24,577	24,577
Transportation	593	593
Combined Activities	13,510	13,510
Total Cocurricular Activities	58,234	58,234
Total Expenditures	2,432,884	2,432,884
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(69,106)	(89,106)
<b>OTHER FINANCING SOURCES</b>		
Transfer Out	(218,788)	(198,788)
<b>NET CHANGE IN FUND BALANCES</b>	(287,894)	(287,894)
<b>FUND BALANCE - BEGINNING, AS RESTATED</b>	3,364,751	3,364,751
<b>FUND BALANCE - ENDING</b>	\$ 3,076,857	\$ 3,076,857

See accompanying independent auditors' report and notes to the supplementary information.

<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
828,514	25,197
<u>279,465</u>	<u>(6,835)</u>
<u>1,107,979</u>	<u>18,362</u>
70,322	721
168,021	99,222
251,854	8,776
92,008	14,030
<u>523,303</u>	<u>20,052</u>
<u>1,105,508</u>	<u>142,801</u>
21,645	(2,091)
25,644	(1,067)
1,249	(656)
<u>13,101</u>	<u>409</u>
<u>61,639</u>	<u>(3,405)</u>
<u>2,275,126</u>	<u>157,758</u>
<u>39,107</u>	<u>128,213</u>
<u>(178,243)</u>	<u>20,545</u>
(139,136)	148,758
<u>3,364,751</u>	<u>-</u>
<u>\$ 3,225,615</u>	<u>\$ 148,758</u>

See accompanying independent auditors' report and notes to the supplementary information.

**Oelrichs School District No. 23-3**  
**Budgetary Comparison Schedule - Capital Outlay Fund - Budgetary Basis**  
**For the Year Ended June 30, 2016**

	<u>Budgeted Original</u>	<u>Budgeted Amounts Final</u>
<b>REVENUES</b>		
Revenue From Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 133,250	\$ 133,250
Penalties and Interest on Taxes	280	280
Other	<u>720</u>	<u>720</u>
Total Revenue From Local Sources	<u>134,250</u>	<u>134,250</u>
Revenue From Federal Sources:		
Unrestricted Grants-in-Aid	<u>-</u>	<u>-</u>
Total Revenue	<u>134,250</u>	<u>134,250</u>
<b>EXPENDITURES</b>		
Instructional Services:		
Regular Programs	<u>58,540</u>	<u>58,540</u>
Support Services:		
Instructional Staff	20,865	20,865
School Administration	2,710	2,710
Business	<u>113,379</u>	<u>122,379</u>
Total Support Services	<u>136,954</u>	<u>145,954</u>
Total Expenditures	<u>195,494</u>	<u>204,494</u>
<b>EXCESS OF REVENUES UNDER EXPENDITURES</b>	<u>(61,244)</u>	<u>(70,244)</u>
<b>OTHER FINANCING SOURCES</b>		
Transfer In	60,243	69,243
Sale of Surplus Property	<u>1,001</u>	<u>1,001</u>
Total Other Financing Sources	<u>61,244</u>	<u>70,244</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	-
<b>FUND BALANCE - BEGINNING</b>	<u>204,509</u>	<u>204,509</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 204,509</u>	<u>\$ 204,509</u>

See accompanying independent auditors' report and notes to the supplementary information.

<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
\$ 149,443	\$ 16,193
307	27
<u>717</u>	<u>(3)</u>
<u>150,467</u>	<u>16,217</u>
<u>239</u>	<u>239</u>
<u>150,706</u>	<u>16,456</u>
<u>79,996</u>	<u>(21,456)</u>
844	20,021
2,709	1
<u>115,667</u>	<u>6,712</u>
<u>119,220</u>	<u>26,734</u>
<u>199,216</u>	<u>5,278</u>
<u>(48,510)</u>	<u>(21,734)</u>
60,243	(9,000)
<u>1,001</u>	<u>-</u>
<u>61,244</u>	<u>(9,000)</u>
12,734	12,734
<u>204,509</u>	<u>-</u>
<u>\$ 217,243</u>	<u>\$ 12,734</u>

See accompanying independent auditors' report and notes to the supplementary information.

**Oelrichs School District No. 23-3**  
**Budgetary Comparison Schedule - Special Education Fund -**  
**Budgetary Basis**  
**For the Year Ended June 30, 2016**

	Budgeted Original	Budgeted Amounts Final
<b>REVENUES</b>		
Revenue From Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 70,345	\$ 70,345
Penalties and Interest on Taxes	150	150
Other	3,250	3,250
Total Revenue From Local Sources	<u>73,745</u>	<u>73,745</u>
Revenue From State Sources:		
Restricted Grants-in-Aid	20,361	20,361
Other	2,000	2,000
Total Revenue From State Sources	<u>22,361</u>	<u>22,361</u>
Revenue From Federal Sources:		
Unrestricted Grants-in-Aid	16,130	16,130
Restricted Grants-in-Aid	27,015	27,015
Total Revenue From Federal Sources	<u>43,145</u>	<u>43,145</u>
Total Revenue	<u>139,251</u>	<u>139,251</u>
<b>EXPENDITURES</b>		
Instructional Services:		
Special Programs	165,477	173,477
Support Services:		
Pupils	38,995	41,995
Special Education	-	-
Total Support Services	<u>38,995</u>	<u>41,995</u>
Total Expenditures	<u>204,472</u>	<u>215,472</u>
<b>EXCESS OF REVENUES UNDER EXPENDITURES</b>	<u>(65,221)</u>	<u>(76,221)</u>
<b>OTHER FINANCING SOURCES</b>		
Transfer In	65,221	76,221
<b>NET CHANGE IN FUND BALANCE</b>	<u>-</u>	<u>-</u>
<b>FUND BALANCE - BEGINNING AS RESTATED</b>	<u>37,683</u>	<u>37,683</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 37,683</u>	<u>\$ 37,683</u>

See accompanying independent auditors' report and notes to the supplementary information.

<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
\$ 72,730	\$ 2,385
151	1
<u>3,325</u>	<u>75</u>
<u>76,206</u>	<u>2,461</u>
80,735	60,374
<u>-</u>	<u>(2,000)</u>
<u>80,735</u>	<u>58,374</u>
16,130	-
<u>31,388</u>	<u>4,373</u>
<u>47,518</u>	<u>4,373</u>
<u>204,459</u>	<u>65,208</u>
<u>174,686</u>	<u>(1,209)</u>
41,668	327
<u>-</u>	<u>-</u>
<u>41,668</u>	<u>327</u>
<u>216,354</u>	<u>(882)</u>
<u>(11,895)</u>	<u>64,326</u>
<u>60,000</u>	<u>(16,221)</u>
<u>48,105</u>	<u>48,105</u>
<u>37,683</u>	<u>-</u>
<u>\$ 85,788</u>	<u>\$ 48,105</u>

See accompanying independent auditors' report and notes to the supplementary information.

**Oelrichs School District No. 23-3**  
**Notes to Required Supplementary Information**  
**June 30, 2016**

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**NOTE 1 - BASIS OF PRESENTATION**

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

**NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING**

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

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

**NOTE 3- BUDGET VIOLATION**

1. For the end of 6/30/16, the Special Education Fund exceeded the budgeted expenditures by \$882.

See accompanying independent auditors' report.

**Oelrichs School District No. 23-3  
Schedule of Net Pension Asset  
For the Year Ended June 30, 2016**

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	2016 *	2015 *
District's Proportion of the Net Pension Asset	0.06690890%	0.05501740%
District's Proportionate Share of Net Pension Asset	\$ 283,780	\$ 396,378
District's Covered-employee Payroll	1,279,573	1,344,535
District's Proportionate Share of the Net Position Liability (Asset) as a Percentage of its Covered-employee Payroll	22.18%	29.48%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	104%	107%

\*The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension asset which is June 30 of the previous fiscal year.

See accompanying independent auditors' report.

**Oelrichs School District No. 23-3  
Schedule of Pension Contributions  
For the Year Ended June 30, 2016**

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	2015	2016
Contractually-required Contribution	\$ 79,500	\$ 80,894
Contributions in Relation to the Contractually-required Contribution	79,500	80,894
Contribution Deficiency (Excess)	\$ -	\$ -
District's Covered-employee Payroll	\$ 1,279,573	\$ 1,344,535
Contributions as a Percentage of Employee-covered Payroll	6.2%	6.0%

See accompanying independent auditors' report.

SUPPLEMENTARY INFORMATION

**Oelrichs School District No. 23-3**  
**School District Officials**  
**June 30, 2016**

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BOARD MEMBERS

President - T'mara Twiss  
Amber Mastmuss  
Marla Peters  
Dennis Quivey  
Heath Greenough

SUPERINTENDENT

Dr. Mitchell Stone

BUSINESS MANAGER

Jolene Hernandez

See accompanying independent auditors' report and notes to the financial statements.

**Oelrichs School District No. 23-3  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2016**

CFDA Numbers	Direct Award	Major Program	Cluster/Program Name	Pass-through Entity/Identifier	Amount
<b><u>U.S. Department of Agriculture</u></b>					
Child Nutrition Cluster:					
Non-cash Assistance (Commodities):					
10 . 555	N		National School Lunch Program	S.D. Department of Education	\$ 5,221
Cash Assistance:					
10 . 553	N		School Breakfast Program (Note 2)	S.D. Department of Education	14,770
10 . 555	N		National School Lunch Program (Note 2)	S.D. Department of Education	42,084
Total Child Nutrition Cluster					<u>62,075</u>
10 . 582	N		Fresh Fruits and Vegetables Program	S.D. Department of Education	2,250
10 . 666	N		Schools and Roads: Grants to Counties	Fall River County	4,596
<b>Total Department of Agriculture</b>					<u><u>68,921</u></u>
<b><u>U.S. Department of Interior</u></b>					
15 . 227	N		Distribution of Receipts to State and Local Governments (Note 2)	S.D. Department of Education	9,261
15 . 226	N		Payments in Lieu of Taxes (Note 2)	Fall River County	38,897
<b>Total Department of Interior</b>					<u><u>48,158</u></u>
<b><u>U.S. Department of Education</u></b>					
84 . 010	N		Title I Grants to Local Educational Agencies	S.D. Department of Education/150016511YR1	193,024
84 . 041	Y	X	Impact Aid		965,849
84 . 060	Y		Indian Education - Grants to Local Education Agencies		38,495
84 . 358	Y		Rural Education		13,231
84 . 377	N		School Improvement Grants	S.D. Department of Education/150016484YR1	283,435
84 . 027	N		Special Education - Grants to States	S.D. Department of Education/150016611YR1	31,388
<b>Total Department of Education</b>					<u><u>1,525,422</u></u>
<b>Total Federal Financial Assistance</b>					<u><u>\$ 1,642,501</u></u>

NOTE 1: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the general purpose financial statements.

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

NOTE 3: The District did not elect to use the 10% de minimis indirect cost rate.

NOTE 4: Pass through entity identifying numbers are presented where available.

See accompanying independent auditors' report and notes to the financial statements.