

SPEARFISH SCHOOL DISTRICT NO. 40-2

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2015



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

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SPEARFISH SCHOOL DISTRICT NO. 40-2

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INDEPENDENT AUDITOR'S REPORT

School Board
Spearfish School District No. 40-2
Lawrence County, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **SPEARFISH SCHOOL DISTRICT NO. 40-2** (the District), Lawrence County, South Dakota, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter Regarding Change in Accounting Principle

As described in Note 11 to the financial statements, in 2015 the District adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinions are not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information, Schedule of the District Contribution, Schedule of the District's Proportionate Share of the Net Pension Asset, and the Schedule of Funding Progress on pages 3 through 11 and 45 through 54, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* on page 60 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information 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. The 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

SPEARFISH SCHOOL DISTRICT NO. 40-2

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2015

This section of the District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2015. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position from governmental and business-type activities increased \$932,667.
- The total cost of the District's programs increased by approximately five percent, primarily due to an increase in salaries and staffing and inflationary pressures.
- The general fund reported a \$3,957,717 current year fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-wide Statements

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

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

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

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

- Governmental Activities - This category includes the District's basic instructional services (elementary, high school educational programs, etc.), support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, debate, music, etc.) and capital equipment purchases. Property taxes, state grants, federal grants and interest earnings finance most of these activities.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-wide Statements (Continued)

- Business-Type Activities - The District charges a fee to students to help cover the costs of providing lunch services to all students. The District also charges for services provided to teach Driver's Education for the community. The Food Service and Driver's Education Funds are the business-type activities of the District.

Fund Financial Statements

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

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

The District has four kinds of funds:

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

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

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position increased as follows:

	Table A-1					
	Governmental Activities		Business-Type Activities		Total	
	2014	2015	2014	2015	2014	2015
Current and Other Assets	\$ 16,882,982	\$ 21,280,481	\$ 139,723	\$ 129,216	\$ 17,022,705	\$ 21,409,697
Capital Assets	32,806,557	33,333,715	26,793	22,629	32,833,350	33,356,344
Total Assets	49,689,539	54,614,196	166,516	151,845	49,856,055	54,766,041
Pension Related Deferred Outflows of Resources	\$ -	\$ 3,319,233	\$ -	\$ 6,084	\$ -	\$ 3,325,317
Long-Term Liabilities	\$ 13,480,598	\$ 14,083,941	\$ -	\$ -	\$ 13,480,598	\$ 14,083,941
Other Liabilities	1,044,804	1,253,156	25,145	12,281	1,069,949	1,265,437
Total Liabilities	14,525,402	15,337,097	25,145	12,281	14,550,547	15,349,378
Taxes Levied for Future Period	5,403,202	5,578,185	-	-	5,403,202	5,578,185
Pension Related Deferred Inflows	-	4,312,169	-	7,903	-	4,320,072
Total Deferred Inflows	\$ 5,403,202	\$ 9,890,354	\$ -	\$ 7,903	\$ 5,403,202	\$ 9,898,257
Net Position:						
Net Investment in Capital Assets	\$ 20,191,557	\$ 20,859,170	\$ 26,793	\$ 22,629	\$ 20,218,350	\$ 20,881,799
Restricted	5,623,097	9,041,353	-	5,005	5,623,097	9,046,358
Unrestricted	3,946,281	2,805,455	114,578	110,111	4,060,859	2,915,566
Total Net Position	\$ 29,760,935	\$ 32,705,978	\$ 141,371	\$ 137,745	\$ 29,902,306	\$ 32,843,723
Beginning Net Position	\$ 29,067,977	\$ 29,760,935	\$ 178,232	\$ 141,371	\$ 29,246,209	\$ 29,902,306
Change in Accounting Principle	(179,970)	2,005,075	-	3,675	(179,970)	2,008,750
Change in Net Position	\$ 872,928	\$ 939,968	\$ (36,861)	\$ (7,301)	\$ 836,067	\$ 932,667
Percentage of Change in Net Position	3.00%	2.96%	-20.68%	-5.03%	2.86%	2.92%

This section explains the differences between the current and prior year's assets, liabilities, and changes in net position.

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the District, consisting of compensated absences payable, early retirement benefits payable, general obligation bonds, other post-employment benefits (OPEB), and capital outlay certificates payable, have been reported in this manner on the Statement of Net Position. The difference between the District's assets and liabilities is its net position.

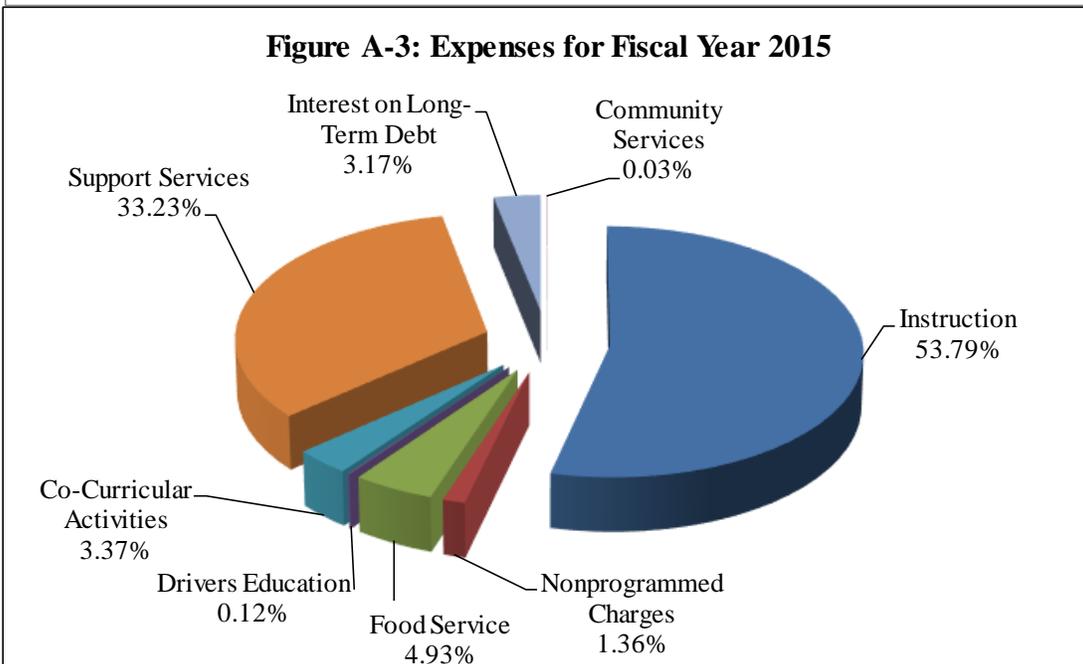
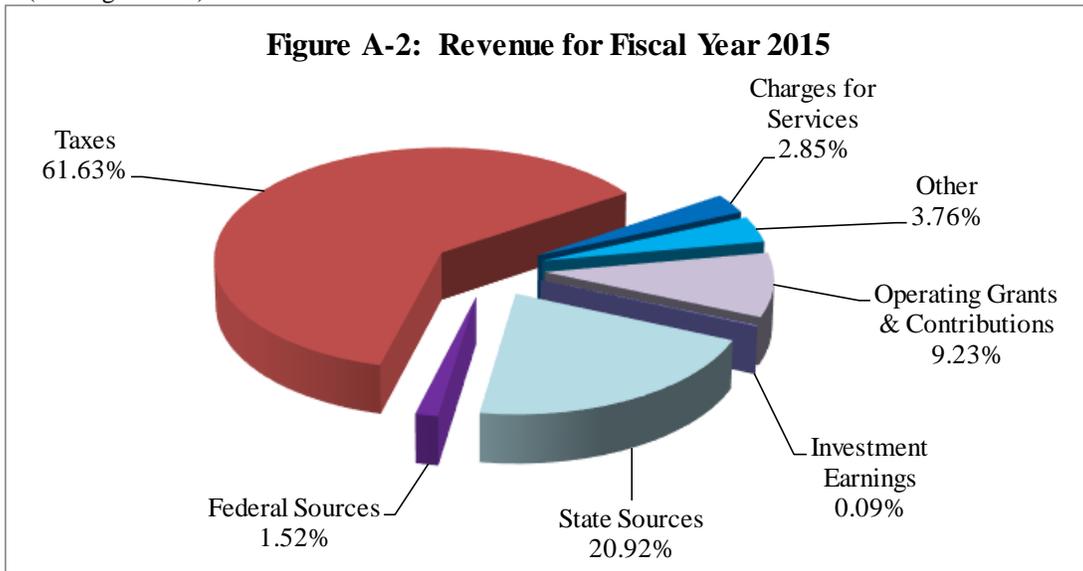
SPEARFISH SCHOOL DISTRICT NO. 40-2

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

This section illustrates condensed financial comparison of revenues and expenses and provides explanations for significant differences. The District's revenues totaled \$20,009,273 for the year ended June 30, 2015. (See Table A-2.) Approximately 62 percent of the District's revenue comes from property and other taxes, with another 21 percent coming from state aid. (See Figure A-2). The total cost of all programs and services was \$19,076,606 for the year. The District's expenses cover a range of services, encompassing instruction, support services, and food services. (See Figure A-3)



SPEARFISH SCHOOL DISTRICT NO. 40-2

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

Table A-2 and the narrative that follows consider the operations of the governmental and business-type activities.

	Table A-2					
	Total Governmental Activities		Total Business-Type Activities		Grand Total	
	2014	2015	2014	2015	2014	2015
Revenues						
<i>Program Revenues</i>						
Charges for Services	\$ 46,304	\$ 105,545	\$ 497,231	\$ 498,931	\$ 543,535	\$ 604,476
Operating Grants and Contributions	1,372,075	1,321,828	386,646	399,571	1,758,721	1,721,399
<i>General Revenues</i>						
Taxes	11,739,799	12,429,686	-	-	11,739,799	12,429,686
Revenue State Sources	3,985,909	4,271,271	-	-	3,985,909	4,271,271
Revenue Federal Sources	288,845	266,520	-	-	288,845	266,520
Other General Revenues	716,010	697,413	653	985	716,663	698,398
Unrestricted Investment Earnings	17,172	17,258	66	265	17,238	17,523
Total Revenues	\$ 18,166,114	\$ 19,109,521	\$ 884,596	\$ 899,752	\$ 19,050,710	\$ 20,009,273
Expenses						
Instruction	\$ 9,792,415	\$ 10,047,425	\$ -	\$ -	\$ 9,792,415	\$ 10,047,425
Support Services	6,058,225	6,827,195	-	-	6,058,225	6,827,195
Community Services	5,157	5,416	-	-	5,157	5,416
Non-programmed Charges	247,654	113,407	-	-	247,654	113,407
Co-Curricular Activities	613,074	617,098	-	-	613,074	617,098
Interest on Long-Term Debt	576,661	559,012	-	-	576,661	559,012
Food Service	-	-	898,855	886,810	898,855	886,810
Drivers Education	-	-	22,602	20,243	22,602	20,243
Total Expenses	17,293,186	18,169,553	921,457	907,053	18,214,643	19,076,606
Change in Net Position	872,928	939,968	(36,861)	(7,301)	836,067	932,667
Change in Accounting Principle	(179,970)	2,005,075	-	3,675	(179,970)	2,008,750
Ending Net Position	\$ 29,760,935	\$ 32,705,978	\$ 141,371	\$ 137,745	\$ 29,902,306	\$ 32,843,723

SPEARFISH SCHOOL DISTRICT NO. 40-2

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONCLUDED)

Governmental Activities

While the District experienced normal individual revenue fluctuations during the 2015 year compared to 2014, the total revenues of the District’s governmental activities increased approximately five percent due mainly to increases in enrollment and the per student allocation. The increase in expenditures of approximately five percent was primarily due to salary and benefit increases and inflationary pressures.

Business-Type Activities

Revenues of the District’s business-type activities increased approximately 2 percent, and expenses decreased by approximately 2 percent. The fluctuation in revenues was due to increased student participation. The decrease in expenditures was due to more stringent cost controls.

FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

The Pension Tax Fund increased due to an increase in valuations. The General Fund decreased due to increased instructional expenditures. The Special Education Fund decreased due to increased residential placements and salary and staffing increases. The Capital Outlay fund balance decreased due to a transfer out for the QSCB payment. The Capital Projects Fund was new in the current year for the Creekside Elementary addition. The Bond Redemption Fund remained comparative to the prior year.

BUDGETARY HIGHLIGHTS

The General Fund and Special Education expenditure budgets increased in 2015 from 2014 mainly due to staffing and federal program expenditure increases. The Capital Outlay Fund expenditure budget decreased due to last year’s laptop purchase for high school students.

Net variances were due to an increase in assessed value and fluctuations in taxes.

CAPITAL ASSET ADMINISTRATION

By the end of 2015, the District had invested \$33,356,344 (net of accumulated depreciation) in a broad range of capital assets, including land, buildings, and various machinery and equipment. (See Table A-3.) This amount represents an approximate four percent increase from last year.

	Governmental Activities		Business-type Activities	
	2014	2015	2014	2015
Land	\$ 1,645,272	\$ 1,645,272	\$ -	\$ -
Buildings	30,051,074	29,674,172	-	-
Machinery and Equipment	1,110,211	1,012,460	26,793	22,629
Construction in Progress	-	1,001,811	-	-
Total Capital Assets (Net)	\$ 32,806,557	\$ 33,333,715	\$ 26,793	\$ 22,629

SPEARFISH SCHOOL DISTRICT NO. 40-2

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2015**

LONG-TERM DEBT

Table A-4 Outstanding Debt and Obligations				
	2014	2015	Total Dollar Change	Total Percentage Change
General Obligation Certificates - 2007	\$ 1,515,000	\$ 930,000	\$ (585,000)	-39%
General Obligation Bonds (BAB) - 2010	6,590,000	6,255,000	(335,000)	-5%
General Obligation Bonds (QSCB) - 2010	1,500,000	1,500,000	-	0%
General Obligation Bonds (QRZEDB) - 2010	1,275,000	1,210,000	(65,000)	-5%
General Obligation Certificates - 2012	1,735,000	1,550,000	(185,000)	-11%
General Obligation Certificates - 2014	-	1,500,000	1,500,000	0%
Early Retirement	446,226	690,870	244,644	55%
Compensated Absences	209,006	281,639	72,633	35%
Net OPEB Obligation	210,366	166,432	(43,934)	-21%
Total Outstanding Debt and Obligations	\$ 13,480,598	\$ 14,083,941	\$ 603,343	4%

The District made annual payments on prior general obligation bonds and obtained new proceeds for the Creekside Elementary addition.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's current economic position has shown change. The District experienced an increase in total property valuation of roughly \$79,255,977, or 7.1% from the prior year. The increase in property valuation allows the District the ability to increase the amount of revenue generated from property taxes; however, the total amount which can be levied is limited by the State of South Dakota.

One of the primary sources of revenue to the District is based on a per student allocation from the State of South Dakota. The state aid formula for the current year ensures that property taxes plus state aid will equal \$4,876.76 per pupil. Several factors impact the amount of state aid the district received. Due to the increase in per student allocation and the enrollment increase of 64 students, the District received an increase in state aid revenue of \$312,113 from the State of South Dakota.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Spearfish School District's Business Office, 525 East Illinois, Spearfish, SD 57783.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**STATEMENT OF NET POSITION
JUNE 30, 2015**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<u>ASSETS</u>			
Cash and Investments (Note 6)	\$ 11,358,107	\$ 122,392	\$ 11,480,499
Taxes Receivable (Note 2)	5,735,846	-	5,735,846
Accounts Receivable	2,186	-	2,186
Due from State Government (Note 3)	461,077	-	461,077
Net Pension Asset (Note 4)	3,723,265	6,824	3,730,089
Capital Assets (Note 5):			
Land	1,645,272	-	1,645,272
Buildings, Net of Depreciation	29,674,172	-	29,674,172
Equipment, Net of Depreciation	1,012,460	22,629	1,035,089
Construction in Process	1,001,811	-	1,001,811
TOTAL ASSETS	54,614,196	151,845	54,766,041
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Pension Related Deferred Outflows (Note 4)	3,319,233	6,084	3,325,317
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 57,933,429	\$ 157,929	\$ 58,091,358
<u>LIABILITIES</u>			
Accounts Payable	\$ 130,732	\$ -	\$ 130,732
Other Current Liabilities	1,122,424	-	1,122,424
Unearned Revenue	-	12,281	12,281
Long-Term Liabilities (Note 6 and 9):			
Due Within One Year	1,543,520	-	1,543,520
Due in More than One Year	12,540,421	-	12,540,421
TOTAL LIABILITIES	15,337,097	12,281	15,349,378
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Taxes Levied for Future Period (Note 2)	5,578,185	-	5,578,185
Pension Related Deferred Inflows (Note 4)	4,312,169	7,903	4,320,072
TOTAL DEFERRED INFLOWS OF RESOURCES	9,890,354	7,903	9,898,257
<u>NET POSITION</u>			
Net Investment in Capital Assets	20,859,170	22,629	20,881,799
Restricted for:			
Capital Outlay	3,277,010	-	3,277,010
Special Education	610,939	-	610,939
Pension Tax	1,482,072	-	1,482,072
Debt Service	453,970	-	453,970
Pension - SDRS (Note 4)	2,730,329	5,005	2,735,334
Capital Projects	470,455	-	470,455
Soccer (Note 1)	16,578	-	16,578
Unrestricted	2,805,455	110,111	2,915,566
TOTAL NET POSITION	32,705,978	137,745	32,843,723
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 57,933,429	\$ 157,929	\$ 58,091,358

SPEARFISH SCHOOL DISTRICT NO. 40-2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	
<i>Governmental Activities:</i>						
Instruction	\$ 10,047,425	\$ -	\$ 1,276,059	\$ (8,771,366)	\$ -	\$ (8,771,366)
Support Services	6,827,195	-	39,507	(6,787,688)	-	(6,787,688)
Community Services	5,416	-	81	(5,335)	-	(5,335)
Non-programmed Charges	113,407	-	-	(113,407)	-	(113,407)
Co-Curricular Activities	617,098	105,545	6,181	(505,372)	-	(505,372)
Interest on Long- Term Debt *	559,012	-	-	(559,012)	-	(559,012)
	<u>18,169,553</u>	<u>105,545</u>	<u>1,321,828</u>	<u>(16,742,180)</u>	<u>-</u>	<u>(16,742,180)</u>
<i>Business-Type Activities:</i>						
Food Service	886,810	474,805	399,571	-	(12,434)	(12,434)
Driver's Education	20,243	24,126	-	-	3,883	3,883
	<u>907,053</u>	<u>498,931</u>	<u>399,571</u>	<u>-</u>	<u>(8,551)</u>	<u>(8,551)</u>
Total Primary Government	\$ 19,076,606	\$ 604,476	\$ 1,721,399	(16,742,180)	(8,551)	(16,750,731)
General Revenues						
Taxes:						
Property Taxes				12,086,982	-	12,086,982
Gross Receipts Taxes				342,704	-	342,704
Revenue from State Sources:						
State Aid				4,271,271	-	4,271,271
Revenue from Federal Sources						
Unrestricted Investment Earnings				266,520	-	266,520
Other General Revenues				17,258	265	17,523
				697,413	985	698,398
Total General Revenues				17,682,148	1,250	17,683,398
Change in Net Position				939,968	(7,301)	932,667
Net Position -- June 30, 2014				29,760,935	141,371	29,902,306
Change in Accounting Principle (Note 11)				2,005,075	3,675	2,008,750
Net Position, Beginning, as Restated				31,766,010	145,046	31,911,056
Net Position -- June 30, 2015				\$ 32,705,978	\$ 137,745	\$ 32,843,723

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

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2015**

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Tax Fund
ASSETS				
Cash and Investments (Note 6)	\$ 4,389,979	\$ 3,256,053	\$ 610,138	\$ 1,478,031
Taxes Receivable -- Current (Note 2)	3,188,912	1,594,263	785,445	159,442
Taxes Receivable -- Delinquent (Note 2)	4,332	2,170	1,065	217
Accounts Receivable	2,186	-	-	-
Due from Other Governments (Note 3)	385,588	-	75,489	-
Total Assets	\$ 7,970,997	\$ 4,852,486	\$ 1,472,137	\$ 1,637,690
LIABILITIES				
Accounts Payable	\$ -	\$ 19,456	\$ 1,932	\$ -
Contracts Payable	799,803	-	86,436	-
Accrued Expenses	109,202	-	6,226	-
Total Liabilities	909,005	19,456	94,594	-
DEFERRED INFLOWS OF RESOURCES				
Taxes Levied for Future Period (Note 2)	3,099,943	1,556,020	766,604	155,618
Unavailable Revenue - Property Taxes (Note 2)	4,332	2,170	1,065	217
Total Deferred Inflows of Resources	3,104,275	1,558,190	767,669	155,835
FUND BALANCES				
Restricted - Capital Outlay	-	3,274,840	-	-
Restricted - Special Education	-	-	609,874	-
Restricted - Pension Tax	-	-	-	1,481,855
Restricted - Debt Service	-	-	-	-
Restricted - Capital Projects	-	-	-	-
Restricted - Soccer (Note 1)	16,578	-	-	-
Unassigned	3,941,139	-	-	-
Total Fund Balances	3,957,717	3,274,840	609,874	1,481,855
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 7,970,997	\$ 4,852,486	\$ 1,472,137	\$ 1,637,690

The accompanying notes are an integral part of this statement.

Bond Redemption Fund	QSCB Redemption Fund	Creekside Addition Fund	Total Governmental Funds
\$ 124	\$ 453,846	\$ 561,647	\$ 10,749,818
-	-	-	5,728,062
-	-	-	7,784
-	-	-	2,186
-	-	-	461,077
\$ 124	\$ 453,846	\$ 561,647	\$ 16,948,927
\$ -	\$ -	\$ 91,192	\$ 112,580
-	-	-	886,239
-	-	-	115,428
-	-	91,192	1,114,247
-	-	-	5,578,185
-	-	-	7,784
-	-	-	5,585,969
-	-	-	3,274,840
-	-	-	609,874
-	-	-	1,481,855
124	453,846	-	453,970
-	-	470,455	470,455
-	-	-	16,578
-	-	-	3,941,139
124	453,846	470,455	10,248,711
\$ 124	\$ 453,846	\$ 561,647	\$ 16,948,927

SPEARFISH SCHOOL DISTRICT NO. 40-2

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO GOVERNMENT-WIDE
STATEMENT OF NET POSITION
JUNE 30, 2015**

Total Fund Balances - Governmental Funds	\$ 10,248,711
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	33,333,715
Long-term liabilities, including general obligation bonds, compensated absences and early retirement payable, are not due in the current period and, therefore, are not reported in the funds.	(14,083,941)
Internal service funds are used by management to charge the costs of activities, such as insurance to individual funds. The assets and liabilities of internal service funds are included in the governmental activities in the Statement of Net Position.	469,380
Assets such as delinquent taxes receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	7,784
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	3,723,265
Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.	3,319,233
Pension related deferred inflows are components of pension asset and therefore are not reported in the funds.	(4,312,169)
Net Position - Governmental Funds	\$ 32,705,978

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

	General Fund	Capital Outlay Fund	Special Education Fund
REVENUES			
<i>Revenue from Local Sources:</i>			
Ad Valorem Taxes	\$ 6,697,475	\$ 3,343,099	\$ 1,684,168
Prior Years' Ad Valorem Taxes	8,784	4,049	1,995
Gross Receipts Taxes	342,704	-	-
Penalties and Interest on Taxes	9,102	4,024	2,059
Interest Earned	875	16,268	59
<i>Co-Curricular Activities:</i>			
Admissions	91,920	-	-
Pupil Organization Memberships	13,625	-	-
<i>Other Local Revenue:</i>			
Rentals	17,843	-	-
Contributions and Donations	4,155	1,000	-
Charges for Services - Medicaid	29,057	-	62,790
Other	296,009	-	7,537
<i>Revenue from Intermediate Sources:</i>			
County Apportionment	279,022	-	-
<i>Revenue from State Sources -- Grants-in-Aid:</i>			
Unrestricted Grants-in-Aid	4,271,271	-	-
Restricted Grants-in-Aid	-	-	310,606
Other State Revenue	-	810	-
<i>Revenue from Federal Sources -- Grants-in-Aid:</i>			
Unrestricted Grants-in-Aid Received from Federal Government Through State	23,592	-	-
Restricted Grants-in-Aid Received from Federal Government Through State	467,824	-	385,319
Other Federal Revenue	-	242,928	-
Total Revenues	12,553,258	3,612,178	2,454,533
EXPENDITURES			
<i>Instruction Regular Programs:</i>			
Elementary	3,254,977	35,338	-
Middle/Junior High School	1,647,183	16,126	-
High School	2,133,203	-	-
Class Size Reduction	426,616	-	-
<i>Instruction Special Programs:</i>			
Programs for Special Education	-	12,772	1,765,932
Culturally Different	21,471	-	-
Educationally Deprived	380,158	-	-
<i>Support Services Pupils:</i>			
Attendance and Social Work	350	-	-
Guidance	326,666	-	-
Health Services	65,312	-	-
Psychological	-	-	81,056
Speech Pathology	-	-	316,963
Student Therapy Services	-	-	157,934

	Pension Tax Fund	Bond Redemption Fund	QSCB Redemption Fund	Creekside Addition Fund	Total Governmental Funds
\$	334,348	\$ -	\$ -	\$ -	\$ 12,059,090
	412	20	-	-	15,260
	-	-	-	-	342,704
	396	7	-	-	15,588
	56	-	-	-	17,258
	-	-	-	-	91,920
	-	-	-	-	13,625
	-	-	-	-	17,843
	-	-	-	-	5,155
	-	-	-	-	91,847
	-	-	-	-	303,546
	-	-	-	-	279,022
	-	-	-	-	4,271,271
	-	-	-	-	310,606
	-	-	-	-	810
	-	-	-	-	23,592
	-	-	-	-	853,143
	-	-	-	-	242,928
	335,212	27	-	-	18,955,208
	-	-	-	-	3,290,315
	-	-	-	-	1,663,309
	-	-	-	-	2,133,203
	-	-	-	-	426,616
	-	-	-	-	1,778,704
	-	-	-	-	21,471
	-	-	-	-	380,158
	-	-	-	-	350
	-	-	-	-	326,666
	-	-	-	-	65,312
	-	-	-	-	81,056
	-	-	-	-	316,963
	-	-	-	-	157,934

SPEARFISH SCHOOL DISTRICT NO. 40-2

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015**

	General Fund	Capital Outlay Fund	Special Education Fund
EXPENDITURES (Continued)			
<i>Support Services Instructional Staff:</i>			
Improvement of Instruction	36,250	290,673	-
Educational Media	487,747	1,097,173	-
<i>Support Services General Administration:</i>			
Board of Education	84,261	-	-
Executive Administration	245,181	-	-
Office of the Principal	938,880	-	-
<i>Support Services Business:</i>			
Fiscal Services	261,343	15,098	-
Facilities Acquisition and Construction	-	148,120	-
Operation and Maintenance of Plant	1,644,509	187,323	-
Pupil Transportation	243,754	-	-
Direction of Central Support Services	24,384	-	-
<i>Support Services Special Education:</i>			
Administrative Costs	-	-	134,236
Transportation Costs	-	-	53,484
Community Service Other	5,711	-	-
Early Retirement	-	-	-
Debt Service (Note 6)	-	1,645,812	-
<i>Co-Curricular Activities:</i>			
Male Activities	198,060	-	-
Female Activities	152,038	-	-
Combined Activities	243,150	21,521	-
Capital Outlay	-	23,775	-
Total Expenditures	12,821,204	3,493,731	2,509,605
Excess of Revenues Over (Under) Expenditures	(267,946)	118,447	(55,072)
Other Financing Sources (Uses)			
Transfers In (Note 10)	-	-	-
Transfers Out (Note 10)	-	(173,409)	-
General Long-Term Debt Issued (Note 6)	-	-	-
Total Other Financing Sources	-	(173,409)	-
Net Change in Fund Balances	(267,946)	(54,962)	(55,072)
Fund Balance -- June 30, 2014	4,225,663	3,329,802	664,946
Fund Balance -- June 30, 2015	\$ 3,957,717	\$ 3,274,840	\$ 609,874

The accompanying notes are an integral part of this statement.

Pension Tax Fund	Bond Redemption Fund	QSCB Redemption Fund	Creekside Addition Fund	Total Governmental Funds
-	-	-	-	326,923
-	-	-	-	1,584,920
-	-	-	-	84,261
-	-	-	-	245,181
-	-	-	-	938,880
-	-	-	-	276,441
-	-	-	27,734	175,854
-	-	-	-	1,831,832
-	-	-	-	243,754
-	-	-	-	24,384
-	-	-	-	134,236
-	-	-	-	53,484
-	-	-	-	5,711
113,407	-	-	-	113,407
-	-	83,200	-	1,729,012
-	-	-	-	198,060
-	-	-	-	152,038
-	-	-	-	264,671
-	-	-	1,001,811	1,025,586
113,407	-	83,200	1,029,545	20,050,692
221,805	27	(83,200)	(1,029,545)	(1,095,484)
-	-	173,409	-	173,409
-	-	-	-	(173,409)
-	-	-	1,500,000	1,500,000
-	-	173,409	1,500,000	1,500,000
221,805	27	90,209	470,455	404,516
1,260,050	97	363,637	-	9,844,195
\$ 1,481,855	\$ 124	\$ 453,846	\$ 470,455	\$ 10,248,711

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

Net Change in Fund Balances - Total Governmental Funds \$ 404,516

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

Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 527,158

In both the government-wide and fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the funds' statements differs from the accounting in the government-wide statements in that the fund financial statements require the amounts to be available. This amount reflects the application of both the application period and availability criteria. (2,956)

Governmental funds recognize expenditures for amounts of compensated absences and early retirement benefits actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the Statement of Activities, expenses for these benefits are recognized when the employees earn leave credits or elect to retire early. (317,277)

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net expenses of the internal service funds is reported with governmental activities. (110,661)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 1,170,000

The issuance of long-term debt is an other financing source in the fund statements but an increase in long-term liabilities on the government-wide statements. (1,500,000)

Changes in the pension related deferred outflows/inflows are direct components of pension asset and are not reflected in the governmental funds. 567,985

Pension revenues in the Statement of Activities do not provide current financial resources and are not reported as revenues in the funds. 157,269

Government-wide financial statements require other post employment benefits to be recorded on the accrual basis, whereas the fund statements require the modified accrual basis. 43,934

Change in Net Position of Governmental Activities \$ 939,968

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**PROPRIETARY FUNDS BALANCE SHEET
JUNE 30, 2015**

	Food Service Fund	Driver's Education Fund	Total Proprietary Funds	Internal Service Fund
ASSETS				
Current Assets:				
Cash	\$ 105,745	\$ 16,647	\$ 122,392	\$ 608,289
Noncurrent Assets:				
Net Pension Asset (Note 4)	-	6,824	6,824	-
Capital Assets (Note 5):				
Machinery and Equipment	216,530	-	216,530	-
Less Accumulated Depreciation	(193,901)	-	(193,901)	-
Total Noncurrent Assets	22,629	6,824	29,453	-
TOTAL ASSETS	128,374	23,471	151,845	608,289
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related Deferred Outflows (Note 4)	-	6,084	6,084	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 128,374	\$ 29,555	\$ 157,929	\$ 608,289
LIABILITIES				
Current Liabilities:				
Accounts Payable	\$ -	\$ -	\$ -	\$ 18,152
Incurred But Not Reported Claims (Note 8)	-	-	-	120,757
Unearned Revenue	-	12,281	12,281	-
Total Current Liabilities	-	12,281	12,281	138,909
DEFERRED INFLOWS OF RESOURCES				
Pension Related Deferred Inflows (Note 4)	-	7,903	7,903	-
NET POSITION				
Net Investment in Capital Assets	22,629	-	22,629	-
Restricted Pension (Note 4)	-	5,005	5,005	-
Unrestricted Net Position	105,745	4,366	110,111	469,380
Total Net Position	128,374	9,371	137,745	469,380
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 128,374	\$ 29,555	\$ 157,929	\$ 608,289

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

	Food Service Fund	Driver's Education Fund	Total Proprietary Funds	Internal Service Fund
Operating Revenue				
<i>Sales:</i>				
To Pupils	\$ 454,001	\$ -	\$ 454,001	\$ -
To Adults	20,804	-	20,804	-
Non-credit Tuition from Students, Parents, or Other	-	23,838	23,838	-
Self Insurance Premiums	-	-	-	1,295,779
Pension Revenue (Note 4)	-	288	288	-
Total Operating Revenue	474,805	24,126	498,931	1,295,779
Operating Expenses				
Salaries	-	16,246	16,246	-
Employee Benefits	-	1,177	1,177	-
Purchased Services	830,786	2,220	833,006	-
Supplies	1,802	600	2,402	-
Cost of Sales - Purchased Food	960	-	960	-
Cost of Sales - Donated Food	49,098	-	49,098	-
Depreciation	4,164	-	4,164	-
Self Insurance Claims (Note 8)	-	-	-	1,181,390
Other Premiums (Note 8)	-	-	-	225,079
Total Operating Expenses	886,810	20,243	907,053	1,406,469
Operating Profit (Loss)	(412,005)	3,883	(408,122)	(110,690)
Nonoperating Revenue				
<i>Local Sources:</i>				
Interest Earnings	265	-	265	29
Other Local Revenue	985	-	985	-
Cash Reimbursements	5,650	-	5,650	-
<i>Federal Sources:</i>				
Cash Reimbursements	344,823	-	344,823	-
Donated Food	49,098	-	49,098	-
Total Nonoperating Revenue	400,821	-	400,821	29
Change in Net Position	(11,184)	3,883	(7,301)	(110,661)
Net Position -- June 30, 2014	139,558	1,813	141,371	580,041
Change in Accounting Principle (Note 11)	-	3,675	3,675	-
Net Position -- June 30, 2014, as Restated	139,558	5,488	145,046	580,041
Net Position -- June 30, 2015	\$ 128,374	\$ 9,371	\$ 137,745	\$ 469,380

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

	Food Service Fund	Driver's Education Fund	Total Proprietary Funds	Internal Service Fund
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 474,805	\$ 14,370	\$ 489,175	\$ -
Receipts from Interfund Services Provided	-	-	-	1,295,779
Payments to Suppliers	(815,042)	(2,820)	(817,862)	-
Payments to Employees	-	(18,753)	(18,753)	-
Claims Paid	-	-	-	(1,110,706)
Other Disbursements	-	-	-	(224,927)
Net Cash Flows Used in Operating Activities	(340,237)	(7,203)	(347,440)	(39,854)
Cash Flows from Noncapital Financing Activities:				
Other Local Revenue	985	-	985	-
Operating Subsidies	350,473	-	350,473	-
Net Cash Flows Provided by Noncapital Financing Activities	351,458	-	351,458	-
Cash Flows Provided by Investing Activities:				
Cash Received for Interest	265	-	265	29
Net Increase (Decrease) in Cash During the Fiscal Year	11,486	(7,203)	4,283	(39,825)
Cash -- June 30, 2014	94,259	23,850	118,109	648,114
Cash -- June 30, 2015	\$ 105,745	\$ 16,647	\$ 122,392	\$ 608,289
Reconciliation of Operating Profit (Loss) to Net Cash Flows Used in Operating Activities				
Operating Profit (Loss)	\$ (412,005)	\$ 3,883	\$ (408,122)	\$ (110,690)
<i>Adjustments to Reconcile Operating Profit (Loss) to Net Cash Used in Operating Activities:</i>				
Cost of Sales - Donated Food	49,098	-	49,098	-
Depreciation Expense	4,164	-	4,164	-
<i>Changes in Assets and Liabilities:</i>				
Accounts Receivable	21,614	-	21,614	-
Pension Asset	-	(4,153)	(4,153)	-
Pension Related Deferred Outflows	-	(5,080)	(5,080)	-
Pension Related Deferred Inflows	-	7,903	7,903	-
Accounts Payable	(3,108)	-	(3,108)	152
Incurred But Not Reported Claims	-	-	-	70,684
Unearned Revenue	-	(9,756)	(9,756)	-
Net Cash Flows Used in Operating Activities	\$ (340,237)	\$ (7,203)	\$ (347,440)	\$ (39,854)
Noncash Investing, Capital and Financing Activities:				
Value of Commodities Received	\$ 49,098	\$ -	\$ 49,098	\$ -

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015**

	<u>Private-Purpose Trust Fund</u>	<u>Agency Funds</u>
<u>ASSETS</u>		
Cash	\$ 92,790	\$ 433,047
<u>LIABILITIES</u>		
Amounts Held for Others	-	\$ 433,047
<u>NET POSITION</u>		
Restricted for Scholarships	\$ 92,790	

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Private-Purpose Trust Fund</u>
ADDITIONS	
Interest Earnings	\$ 588
DEDUCTIONS	
Scholarships Awarded	7,500
Change in Net Position	(6,912)
Net Position - June 30, 2014	99,702
Net Position - June 30, 2015	\$ 92,790

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

(1) Summary of Significant Accounting Policies

Reporting Entity

The reporting entity of Spearfish School No. 40-2 (the District) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The funds included in this report are controlled by or dependent upon the District's Board of Education. The District participates in a cooperative service unit with 11 other school districts. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are disclosed in these notes because of the nature of their relationship with the District. See Note 7 entitled "Joint Venture" for specific disclosures. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments.

Basis of Presentation

Government-wide Statements:

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

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

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

Fund Financial Statements:

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Fund Financial Statements (Continued):

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

The funds of the financial reporting entity are described below:

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 school district, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes. The Capital Outlay, Special Education, and Pension Tax Funds are the special revenue funds maintained by the District.

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

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

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

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

Bond Redemption Fund - A fund established by SDCL 13-16-13 to account for the proceeds of special property taxes restricted to use for the payment of principal and interest on general obligation bonded debt. This is a major fund.

Qualified School Construction Bond Redemption Fund - A fund established to account for the payment of interest on qualified school construction bonded debt, as well as the establishment and maintenance of a bond sinking fund. This is a major fund.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Concluded)

Fund Financial Statements (Concluded):

Governmental Funds (Continued)

Capital Projects Fund – capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Creekside Addition Fund – This fund was established to account for financial resources to be used for the acquisition or construction of the addition to Creekside Elementary School (other than those financed by proprietary funds and trust funds for individuals, private organizations, or other governments). This fund is financed by debt proceeds. This is a major fund.

Proprietary Funds:

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

Food Service Fund - A fund established to record the financial transactions related to the K-12 food services operation. This fund is financed by user charges and grants. This is a major fund.

Driver's Education Fund - A fund established to record the financial transactions related to the driver's education operation. This fund is financed by user charges. This is a major fund.

Internal Service Fund – Internal Service Funds are used to report activities that provide goods or services to other funds, departments, or agencies of the District, or to other governments, on a cost-reimbursement basis. The Self Insurance Fund is an internal service fund maintained by the District. Internal service funds are never considered to be major funds.

Fiduciary Funds:

Fiduciary Funds are never considered to be major funds.

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

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

(1) Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

Measurement focus is a term 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.

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned, and expenses and related liabilities are recorded when an obligation is incurred.

Fund Financial Statements:

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

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred inflows are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

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

All propriety 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.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

(1) Summary of Significant Accounting Policies (Continued)

Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

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

1. In order to minimize the doubling-up effect on internal service fund activity, certain “centralized expenses,” including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate.

Capital Assets

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

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

Government-wide 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.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) for land, buildings, improvements, and equipment are all set at \$5,000. The depreciation method used for buildings and machinery and equipment is straight-line. Land is not depreciated.

The estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

Buildings	50-100 years
Machinery and Equipment	7-30 years

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

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

(1) Summary of Significant Accounting Policies (Continued)

Long-Term Liabilities

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist of compensated absences and early retirement payable, other post-employment benefits, general obligation bonds, and general obligation certificates (see Note 6).

Compensated absences consist of annual vacation and sick leave earned. Annual leave is earned by full-time, 12-month employees at the rate of 10 to 20 days per year, depending upon years of service. Upon termination, employees are entitled to receive compensation for their current fiscal year accrual at their current rate of pay. Based on specific qualifications, any previous years' balances will also be compensated.

Sick leave is earned by the employees at a rate equal to the number of hours worked in a day times the number of months worked for all full-time 12-, 10-, and 9-month employees and part-time 12- and 10-month employees; the number of days accumulated is not limited. Upon termination, some employees are entitled to receive compensation for their accrued sick leave balance. Those with six years of service or more will receive compensation at the rate of \$15.00 per day of accumulated leave.

Full-time teachers and administrators may participate in an early retirement program. Upon meeting certain criteria and board approval, terminating eligible employees may receive cash benefits equal to their current salary times five percent times their years of service (maximum of 20 years). The benefit may be paid in one payment or multiple payments. A long-term liability is recognized for the total benefits payable in future periods for nine employees who have applied and been approved for separation (see Note 6). No discount rate was used to estimate the effect of making the cash payments over a three year period, as it would be insignificant.

Funding for compensated absences, other post-employment benefits, and early retirement are expended in the general fund and the pension tax fund.

Long-term liabilities for governmental funds are not reported as liabilities in the 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 the proprietary fund long-term debt is on the accrual basis, the same in the fund statement as it is in the government-wide statements.

Deferred Inflows and Outflows of Resources

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

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2015

(1) Summary of Significant Accounting Policies (Continued)

Pension

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

Program Revenues

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

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

Proprietary Funds Revenue and Expense Classifications

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

Deposits and Investments

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

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

(1) Summary of Significant Accounting Policies (Continued)

Deposits and Investments (Continued)

Investments – In general, SDCL 4-5-6 permits school district funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of June 30, 2015, the District’s cash and investments consisted only of checking, savings and SDFIT money market. The bank balances at June 30, 2015 are as follows, excluding SDFIT, described below:

	<u>Bank Balance</u>
Insured - FDIC	\$ 1,797,543
Uninsured, collateralized in accordance with SDCL 4-6A-3	10,138,263
Total Deposits	<u>\$ 11,935,806</u>

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing purposes. It is regulated by a nine member board with representation from municipalities, school districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

Assignment of Investment Income:

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

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.

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.

Custodial Credit Risk:

The risk that, in the event of a depository failure, the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2015, none of the District’s deposits were exposed to custodial credit risk.

Concentration Risk:

The District places no limit on the amount that may be invested in any one issuer.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

(1) Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

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

Equity Classifications

Government-wide Statements:

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

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

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

Fund Financial Statements:

Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net position held in trust for other purposes.

Governmental fund equity is classified as follows:

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

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation. The District received a new restriction in the current year for soccer-related expenditures from the Spearfish Youth Soccer Association recorded in the General Fund.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. There were no commitments at June 30, 2015.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the School Board, Superintendent, or Business Manager. There were no assignments at June 30, 2015.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

(1) Summary of Significant Accounting Policies (Concluded)

Equity Classifications (Continued)

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

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

Emerging Accounting Standards

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement provides guidance for determining a fair value measurement according to a three level hierarchy for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value investments. Management has not yet determined the impact of this statement on the financial statements. This statement is effective for the District's year ending June 30, 2016.

In June 2015, GASB issued Statements No. 74 and 75, *Accounting and Reporting for Postemployment Benefits Other than Pensions*, which replace GASB Statement Nos. 43 and 45. These statements relate to accounting and financial reporting issues and how the District's other post-employment benefits (OPEB) expenses and related obligations are measured and reported in audited financial statements. The standards describe the recognition of the entire net OPEB liability in the employer's financial statements. The implementation of GASB 74 will not impact the entity's financial statements. With regard to GASB 75, although expected to be significant, management has not yet determined the specific impact of this Statement on the financial statements. This statement is effective for the District's year ending June 30, 2018 for GASB Statement No. 75, respectively.

(2) Property Taxes

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

District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Current year property taxes receivable, which are not available as a resource that can be used to finance the current year's appropriations and therefore are not susceptible to accrual, have been deferred and are not reported as revenue in the fund or government-wide financial statements.

(3) Due from Other Governments

Amounts due from other governments include grant reimbursements and gross receipts due from the State of South Dakota in the amount of **\$341,474**, and gross receipts due from Lawrence County totaling **\$119,603**.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

(4) Pension Plan

All employees working more than 20 hours per week during the school year participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer, defined benefit pension plan administered by SDRS, 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 SDRS, PO Box 1098, Pierre, South Dakota 57501-1098 or by calling (605) 773-3731.

Benefits Provided

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

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

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

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the System for the fiscal years ended June 30, 2015, 2014, and 2013 were **\$569,027**, \$549,012 and \$519,065 respectively, equal to the required contributions each year.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

(4) Pension Plan (Continued)

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

At June 30, 2014, SDRS is 107 percent funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the District as of June 30, 2014 are as follows:

Proportionate share of net position restricted for pension benefits	\$	54,919,319
Less proportionate share of total pension liability		51,189,230
<u>Proportionate share of net pension asset</u>	<u>\$</u>	<u>3,730,089</u>

At June 30 2015, the District reported an asset of **\$3,730,089** for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014 and the total pension asset used to calculate the net pension asset was based on a projection of the District’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2014, the District’s proportion was approximately 0.5177378 percent.

For the year ended June 30, 2015, the District recognized pension revenue of **\$157,269**. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 315,616	\$ -
Changes in assumption	2,434,891	-
Net Difference between projected and actual earnings on pension plan investments	-	4,320,072
Changes in proportion and difference between District contributions and proportionate share of contributions	5,783	-
District contributions subsequent to the measurement date	569,027	-
Total	<u>\$ 3,325,317</u>	<u>\$ 4,320,072</u>

Deferred outflow of resources includes **\$569,027** resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net position liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension revenue by the District in 2016 through 2019, and by the Plan as follows:

2015	\$ 290,615
2016	296,398
2017	296,398
2018	680,371
	<u>\$ 1,563,782</u>

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

(4) Pension Plan (Continued)

Actuarial Assumptions

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

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

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

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

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

These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	64%	4.7%
Fixed Income	26%	1.8%
Real Estate	8%	5.5%
Cash	2%	0.8%
Total	100%	

Discount Rate

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

(4) Pension Plan (Concluded)

Sensitivity of asset to changes in the discount rate

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

	1% Decrease	Current Discount Rate	1% Increase
District's Proportionate Share of the Net Pension Asset	\$ (3,686,030)	\$ 3,730,089	\$ 9,778,708

Pension Plan Fiduciary Net Position

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

(5) Changes in Capital Assets

Changes in capital assets used in governmental activities were as follows during the year ended June 30, 2015:

	Balance June 30, 2014	Additions	Transfers/ Retirements	Balance June 30, 2015
Governmental Activities				
<i>Capital Assets, not Depreciated</i>				
Land	\$ 1,645,272	\$ -	\$ -	\$ 1,645,272
Construction in Progress	-	1,001,811	-	1,001,811
<i>Capital Assets, Depreciated</i>				
Buildings	35,840,916	23,775	-	35,864,691
Outdoor Equipment	65,385	-	-	65,385
Equipment -- Local Funds	2,502,505	-	-	2,502,505
	40,054,078	1,025,586	-	41,079,664
<i>Less Accumulated Depreciation</i>				
Buildings	5,789,842	400,677	-	6,190,519
Outdoor Equipment	50,782	3,269	-	54,051
Equipment -- Local Funds	1,406,897	94,482	-	1,501,379
	7,247,521	498,428	-	7,745,949
Governmental Activities Capital Assets, Net	\$ 32,806,557	\$ 527,158	\$ -	\$ 33,333,715

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

(5) Changes in Capital Assets (Continued)

Depreciation expense was charged to functions within governmental activities as follows:

Instruction	\$	419,484
Support Services		58,128
Co-curricular Activities		20,816
Total Depreciation Expense	\$	498,428

Changes in capital assets used in business-type activities were as follows during the year ended June 30, 2014:

	Balance June 30, 2014	Additions	Transfers/ Retirements	Balance June 30, 2015
Business -Type Activities				
Machinery and Equipment	\$ 216,530	\$ -	\$ -	\$ 216,530
Less Accumulated Depreciation	(189,737)	(4,164)	-	(193,901)
Business -Type Activity Capital Assets, Net	\$ 26,793	\$ (4,164)	\$ -	\$ 22,629

As of June 30, 2015, there are approximately \$390,000 of construction commitments for the completion of the Creekside Elementary addition, which will be funded with debt.

(6) Long-Term Debt

The compensated absences and other post-employment benefits will be paid from the General Fund, and the early retirement payable will be paid from the General and the Pension Tax Funds.

	General Obligation	Early Retirement Payable	Compensated Absences Payable	Net OPEB Obligation	Total
Governmental Activities					
June 30, 2014 Balance	\$ 12,615,000	\$ 446,226	\$ 209,006	\$ 210,366	\$ 13,480,598
Borrowings	1,500,000	-	-	-	1,500,000
Repayments	(1,170,000)	-	-	-	(1,170,000)
Compensated Absences Earned	-	-	87,203	-	87,203
Compensated Absences Used	-	-	(14,570)	-	(14,570)
New Retirees Approved	-	346,111	-	-	346,111
Payments to Retirees	-	(101,467)	-	-	(101,467)
OPEB Additions	-	-	-	41,830	41,830
OPEB Reductions	-	-	-	(85,764)	(85,764)
June 30, 2015 Balance	\$ 12,945,000	\$ 690,870	\$ 281,639	\$ 166,432	\$ 14,083,941
Due Within One Year	\$ 1,210,000	\$ 318,520	\$ 15,000	\$ -	\$ 1,543,520

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

(6) Long-Term Debt (Continued)

Long-term liabilities, other than compensated absences, early retirement payable, and net OPEB obligation (Note 9), are comprised of the following:

2007 General Obligation Certificates; mature December 2016; semi-annual payments, bearing interest at fixed rates from 3.55 to 3.90 percent; paid from the Capital Outlay Fund.	\$ 930,000
2010 General Obligation Taxable Certificates (Build America Bonds - Direct Pay); mature December 2029; semi-annual payments; bearing interest at fixed rates from 0.90 to 6.00 percent; paid from the Capital Outlay Fund. The District receives a credit from the Federal Government for 35 percent of the interest paid on the certificates. *	6,255,000
2010 Limited Tax General Obligation Taxable Certificates (Qualified School Construction Bonds - Direct Pay); mature December 2026; semi-annual, interest-only payments with a balloon payment in December 2026; bearing interest at 5.50 percent; paid from the QSCB Redemption Fund. The certificates require sinking fund deposits to generate a total balance of the principal due on maturity (a). The District receives a credit from the Federal Government for 100 percent of the interest paid on the certificates. *	1,500,000
2010 Limited Tax General Obligation Taxable Certificates (Qualified Recovery Zone Economic Development Bonds); mature December 2029; semi-annual payments; bearing interest at 1.10 to 6.00 percent; paid from the Capital Outlay Fund. The District receives a credit from the Federal Government for 45 percent of the interest paid on the certificates. *	1,210,000
2012 Limited Tax General Obligation Certificates; mature December 2022; semi-annual payments; bearing interest at fixed rate from 0.25 to 2.15 percent; paid from the Capital Outlay Fund.	1,550,000
2014 Limited Tax General Obligation Certificates; matures December 2019; semi-annual payments; bearing interest at 1.40 to 1.55 percent; paid from the Capital Outlay Fund.	1,500,000
	\$ 12,945,000

* The credit received from the Federal Government can be reduced at certain times during sequestration.

(a) The Qualified School Construction Bonds sinking fund balance required at June 30, 2015 was \$454,546, which is included in cash and investments in the QSCB Redemption Fund.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

(6) Long-Term Debt (Concluded)

The annual requirements to amortize all debt outstanding as of June 30, 2015, excluding compensated absences and OPEB, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>General Obligation Interest</u>	<u>Early Retirement</u>	<u>Totals</u>
2016	\$ 1,210,000	\$ 515,665	\$ 318,520	\$ 2,044,185
2017	920,000	487,612	258,843	1,666,455
2018	1,110,000	460,764	113,507	1,684,271
2019	1,120,000	433,817	-	1,553,817
2020	1,150,000	407,309	-	1,557,309
2021-2025	3,040,000	1,607,554	-	4,647,554
2026-2030	4,395,000	527,380	-	4,922,380
	<u>\$ 12,945,000</u>	<u>\$ 4,440,101</u>	<u>\$ 690,870</u>	<u>\$ 18,075,971</u>

(7) Joint Venture

The District participates in the Black Hills Special Services Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special educational services to the member school districts. During the year ended June 30, 2015, the District paid **\$1,032,896** 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:

Spearfish School District No. 40-2	8.33%
Lead-Deadwood School District No. 40-1	8.33%
Oelrichs School District No. 23-3	8.33%
Meade School District No. 46-1	8.33%
Rapid City Area School District No. 51-4	8.33%
Belle Fourche School District No. 9-1	8.33%
Custer School District No. 16-1	8.33%
Douglas School District No. 51-1	8.33%
Edgemont School District No. 23-1	8.33%
Haakon School District No. 27-1	8.33%
Hill City School District No. 51-2	8.33%
Hot Springs School District No. 23-2	8.33%

The co-op's governing board is composed of one representative from each member school district, who is a school board member. 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 for this joint venture are available from Black Hills Special Services Cooperative. At June 30, 2015, this joint venture had total fund equity of \$3,746,875 (unaudited) and long-term debt of \$145,128 (unaudited).

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2015

(8) 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 period ended June 30, 2015, the District managed its risks as follows:

Property/Liability Insurance:

The District joined the Associated School Boards of South Dakota Property Liability Fund (ASBSD-PLF), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota school districts. The objective of the ASBSD-PLF is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The District's responsibility is to promptly report to and cooperate with the ASBSD-PLF to resolve any incident which could result in a claim being made by or against the District. The District pays an annual premium to the pool to provide coverage for automobile, general liability, property damage, and professional liability errors and omissions. The premiums are accrued based on the ultimate cost of the coverage of the experience to date of the ASBSD-PLF member, based on their exposure or type of coverage.

The agreement with the ASBSD-PLF provides that the above coverage will be provided to a \$6,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$100,000 to the upper limit. The District carries a \$500 deductible for the property damage and commercial automobile coverage, a \$5,000 deductible for non-monetary professional liability, and a monetary deductible totaling \$10,000 for the school leader's professional liability coverage.

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

Workmen's Compensation:

The District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota (ASBSD) Worker's Compensation Fund Pool (the Fund), which provides workers' compensation insurance coverage for participating members of the pool. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for the coverage, and to develop a comprehensive loss control program. The District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy. The District's premiums are accrued based on the ultimate cost of the experience to date of the Fund members.

The District is responsible for payment of a premium to the insurance pool along with other pool participants. The District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to \$1,000,000 per individual per incident. The District does not carry additional insurance to cover claims in excess of the upper limit.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

(8) Risk Management (Continued)

Health Insurance:

The District is fully self-insured and purchases self insurance through a third party. The health insurance activity is accounted for in an Internal Service Fund of the District. As part of the health care coverage, the District purchases re-insurance which pays in excess of \$35,000 per employee and claims in excess of \$958,835 in the aggregate. Accounts payable for claims incurred but not paid of **\$120,757** is recorded in the Internal Service Fund in the Proprietary Fund Balance Sheet. The accrual is based on payments made subsequent to year-end for claims incurred prior to June 30, 2015. The District had net position in the Insurance Fund in the amount of **\$469,380** for the payment of health and dental insurance claims.

	<u>Health Insurance</u>
Benefit Claims Payable at June 30, 2013	\$ 42,199
<i>Claims Incurred:</i>	
Attributable to Insured Events of the Current Year	928,277
<i>Claims Paid:</i>	
Attributable to Insured Events of the Current and Prior Years	920,403
	<hr/>
Incurred But Not Reported Claims at June 30, 2014	\$ 50,073

Changes in the aggregate liabilities of the self insurance funds during fiscal year 2015 were as follows:

	<u>Health Insurance</u>
Benefit Claims Payable at June 30, 2014	\$ 50,073
<i>Claims Incurred:</i>	
Attributable to Insured Events of the Current Year	1,181,390
<i>Claims Paid:</i>	
Attributable to Insured Events of the Current and Prior Years	1,110,706
	<hr/>
Incurred But Not Reported Claims at June 30, 2015	\$ 120,757

Unemployment Benefits:

The District provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

(9) Other Post-Employment Benefits (OPEB) Plan

Plan Description:

The Spearfish School District Other Post-Employment Benefits (OPEB) plan is a single-employer defined benefit healthcare plan administrated by the Spearfish School District. The Plan provides medical insurance benefits to eligible retirees and their spouses as permitted by SDCL 6-1-16. Benefit provisions were established and may be amended during the negotiated agreement process with the District certified staff and School Board. The health plan does not issue separately stated stand-alone financial statements.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

(9) Other Post-Employment Benefits (OPEB) Plan (Continued)

Funding Policy:

A teacher or administrator who retires from the District on or after the age of 55 and with at least five years of service with the District may be eligible for retiree health insurance coverage. Coverage ceases when the retiree attains the age of 65 or becomes eligible for Medicare except for COBRA continuation if elected. The retiree is responsible for 100 percent of the full active premium rates for either single or family coverage. SDCL 6-1-16 specifically allows any municipality, county or school district to provide health insurance for retiring employees and their immediate families.

The District charges both groups an equal, blended premium rate for single or family coverage. Although both groups are charged the same rate, GAAP requires the actuarial amounts to be calculated using age-adjusted premiums that approximate costs for retirees separately from those for active employees. The use of age-adjusted premiums results in the inclusion of an implicit rate subsidy of the benefit costs to retirees by the District.

Currently, there are 218 active participants and 7 retirees who are participating in the plan. Because the District does not use a trust fund to administer the financing of other postemployment benefits, no separate financial statements are required.

Annual OPEB Cost and Net OPEB Obligation:

The District's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The District's annual OPEB cost, the percentage of annual OPEB costs contributed, and the net OPEB obligation for the year ended June 30, 2015, were as follows:

Annual Required Contribution	\$ 32,364
Interest on Net OPEB Obligation	9,466
Adjustment to Annual Required Contribution	<u>(12,915)</u>
Annual OPEB Cost	28,915
Contributions Made	<u>(72,849)</u>
Change in Net OPEB Obligation	(43,934)
Net OPEB Obligation - Beginning of Year	210,366
Net OPEB Obligation - End of Year	<u>\$ 166,432</u>
Percentage Contributed	225.09%

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual Cost	Net OPEB Obligation
6/30/2015	\$ 28,915	17.37%	\$ 166,432
6/30/2014	48,004	22.82%	210,366
6/30/2013	48,004	24.02%	199,880

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
JUNE 30, 2015**

(9) Other Post-Employment Benefits (OPEB) Plan (Concluded)

Funded Status and Funding Progress:

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

Actuarial Methods and Assumptions:

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

The projected unit credit actuarial cost method was used in the July 1, 2014 valuation. The actuarial assumptions included a 4.5 percent investment rate of return. The healthcare cost trend rate is 5.0 percent for all years. Both the rate of return and the healthcare cost trend rate include an assumed inflation rate of three percent. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years. The remaining amortization period at June 30, 2015 is 25 years.

(10) Individual Fund Interfund Transactions

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

Fund	Transfer Out	Transfer In
Capital Outlay Fund	\$ 173,409	\$ -
QSCB Redemption Fund	-	173,409

Transfers during the current year pertained to transferring funds from capital outlay to debt service to make the QSCB debt payment.

(11) Change in Accounting Principle

In fiscal year 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No 68*. As a result, beginning net position has been restated to reflect the related net pension asset totaling \$1,459,738 and deferred outflows of resources totaling \$549,012 at June 30, 2014. The result was a net increase to net position of \$2,008,750 at June 30, 2014. See Note 4.

REQUIRED SUPPLEMENTARY INFORMATION

SPEARFISH SCHOOL DISTRICT NO. 40-2

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES				
<i>Revenue from Local Sources:</i>				
Taxes:				
Ad Valorem Taxes	\$ 6,417,468	\$ 6,417,468	\$ 6,697,475	\$ 280,007
Prior Years' Ad Valorem Taxes	20,000	20,000	8,784	(11,216)
Gross Receipts Taxes	220,000	220,000	342,704	122,704
Penalties and Interest on Taxes	11,000	11,000	9,102	(1,898)
Earnings on Interest-Bearing Accounts:				
Interest Earned	1,000	1,000	875	(125)
Co-Curricular Activities:				
Admissions	38,000	38,000	91,920	53,920
Pupil Organization Memberships	10,500	10,500	13,625	3,125
Other Local Revenue:				
Rentals	18,000	18,000	17,843	(157)
Contributions and Donations	47,500	47,500	4,155	(43,345)
Charges for Services - Medicaid	75,000	75,000	29,057	(45,943)
Other	465,000	465,000	296,009	(168,991)
<i>Revenue from Intermediate Sources:</i>				
County Sources:				
County Apportionment	280,000	280,000	279,022	(978)
<i>Revenue from State Sources:</i>				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	4,279,040	4,279,040	4,271,271	(7,769)
<i>Revenue from Federal Sources:</i>				
Grants-in-Aid:				
Unrestricted Grants-in-Aid Received from Federal Government Through State	30,020	30,020	23,592	(6,428)
Restricted Grants-in-Aid Received from Federal Government Through State	557,135	557,135	467,824	(89,311)
Total Revenues	12,469,663	12,469,663	12,553,258	83,595
EXPENDITURES				
<i>Instruction:</i>				
Regular Programs:				
Elementary	3,194,399	3,194,399	3,254,977	(60,578)
Middle/Junior High School	1,684,156	1,684,156	1,647,183	36,973
High School	2,138,410	2,138,410	2,133,203	5,207
Class Size Reduction	593,289	593,289	426,616	166,673
Special Programs:				
Limited English Proficient	27,611	27,611	21,471	6,140
Educationally Deprived	341,791	341,791	380,158	(38,367)
Perkins	23,000	23,000	-	23,000

SPEARFISH SCHOOL DISTRICT NO. 40-2

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 GENERAL FUND (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2015**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
EXPENDITURES (Continued)				
<i>Support Services:</i>				
<i>Pupils:</i>				
Attendance and Social Work	25,241	25,241	350	24,891
Guidance	365,625	365,625	326,666	38,959
Health Services	63,491	63,491	65,312	(1,821)
<i>Instructional Staff:</i>				
Improvement of Instruction	-	-	36,250	(36,250)
Educational Media	515,747	515,747	487,747	28,000
<i>General Administration:</i>				
Board of Education	37,383	37,383	84,261	(46,878)
Executive Administration	210,943	210,943	245,181	(34,238)
<i>School Administration:</i>				
Office of the Principal	892,359	892,359	938,880	(46,521)
Other	5,200	5,200	-	5,200
<i>Business:</i>				
Legal Fees	35,000	35,000	-	35,000
Audit Fees	23,000	23,000	-	23,000
Fiscal Services	253,823	253,823	261,343	(7,520)
Vehicle Expenses	40,000	40,000	-	40,000
Security Services	34,000	34,000	-	34,000
Operation and Maintenance of Plant	1,477,424	1,477,424	1,644,509	(167,085)
Pupil Transportation	247,775	247,775	243,754	4,021
Unemployment	5,000	5,000	-	5,000
<i>Central:</i>				
Direction of Central Support Services	23,818	23,818	24,384	(566)
<i>Community Services:</i>				
Other	9,689	9,689	5,711	3,978
<i>Co-Curricular Activities:</i>				
Male Activities	182,066	182,066	198,060	(15,994)
Female Activities	158,646	158,646	152,038	6,608
Combined Activities	203,160	203,160	243,150	(39,990)
Activities Travel	65,000	65,000	-	65,000
Total Expenditures	12,877,046	12,877,046	12,821,204	55,842
Net Change in Fund Balance	(407,383)	(407,383)	(267,946)	139,437
Fund Balance -- June 30, 2014	4,225,663	4,225,663	4,225,663	-
Fund Balance -- June 30, 2015	\$ 3,818,280	\$ 3,818,280	\$ 3,957,717	\$ 139,437

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL OUTLAY FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES				
<i>Revenue from Local Sources:</i>				
Taxes:				
Ad Valorem Taxes	\$ 3,240,481	\$ 3,240,481	\$ 3,343,099	\$ 102,618
Prior Years' Ad Valorem Taxes	8,500	8,500	4,049	(4,451)
Penalties and Interest on Taxes	5,000	5,000	4,024	(976)
Earnings on Interest-Bearing Accounts:				
Interest Earned	16,000	16,000	16,268	268
Other Local Revenue:				
Other	5,000	5,000	-	(5,000)
Contributions and Donations	-	-	1,000	1,000
Other State Revenue	-	-	810	810
Other Federal Revenue	216,550	216,550	242,928	26,378
Total Revenues	3,491,531	3,491,531	3,612,178	120,647
EXPENDITURES				
<i>Instruction:</i>				
Regular Programs:				
Elementary	-	-	35,338	(35,338)
Middle/Junior High School	-	-	16,126	(16,126)
Special Programs:				
Programs for Special Education	16,000	16,000	12,772	3,228
<i>Support Services:</i>				
Instructional Staff:				
Improvement of Instruction	235,000	235,000	290,673	(55,673)
Educational Media	1,100,000	1,100,000	1,097,173	2,827
Business:				
Fiscal Services	-	-	15,098	(15,098)
Facilities Acquisition and Construction	147,158	147,158	171,895	(24,737)
Operation and Maintenance of Plant	171,000	171,000	187,323	(16,323)
Contract Bussing	40,000	40,000	-	40,000
<i>Debt Service:</i>				
Principal	1,243,000	1,243,000	1,170,000	73,000
Interest	490,738	490,738	475,812	14,926
Fees	3,500	3,500	-	3,500
<i>Co-Curricular Activities:</i>				
Combined Activities	41,000	41,000	21,521	19,479
Total Expenditures	3,487,396	3,487,396	3,493,731	(6,335)

SPEARFISH SCHOOL DISTRICT NO. 40-2

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL OUTLAY FUND (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
Excess of Revenue Over Expenditures	4,135	4,135	118,447	114,312
Other Financing Uses				
Transfers Out	(173,409)	(173,409)	(173,409)	-
Net Change in Fund Balance	(169,274)	(169,274)	(54,962)	114,312
Fund Balance -- June 30, 2014	3,329,802	3,329,802	3,329,802	-
Fund Balance -- June 30, 2015	\$ 3,160,528	\$ 3,160,528	\$ 3,274,840	\$ 114,312

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES				
<i>Revenue from Local Sources:</i>				
Taxes:				
Ad Valorem Taxes	\$ 1,609,805	\$ 1,609,805	\$ 1,684,168	\$ 74,363
Prior Years' Ad Valorem Taxes	4,500	4,500	1,995	(2,505)
Penalties and Interest on Taxes	4,000	4,000	2,059	(1,941)
Earnings on Interest-Bearing Accounts:				
Interest Earned	60	60	59	(1)
Other Local Revenue:				
Medicaid Direct	45,000	45,000	-	(45,000)
Charges for Services - Medicaid	10,000	10,000	62,790	52,790
Other	3,000	3,000	7,537	4,537
<i>Revenue from State Sources:</i>				
Grants -in-Aid:				
Restricted Grants-in-Aid	348,305	348,305	310,606	(37,699)
<i>Revenue from Federal Sources:</i>				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government Through State	456,124	456,124	385,319	(70,805)
Total Revenues	2,480,794	2,480,794	2,454,533	(26,261)
EXPENDITURES				
<i>Instruction:</i>				
Special Programs:				
Programs for Special Education	1,797,286	1,797,286	1,765,932	31,354
<i>Support Services:</i>				
Pupils:				
Psychological	97,048	97,048	81,056	15,992
Speech Pathology	276,565	276,565	316,963	(40,398)
Student Therapy Services	145,428	145,428	157,934	(12,506)
Special Education:				
Administrative Costs	137,312	137,312	134,236	3,076
Transportation Costs	32,400	32,400	53,484	(21,084)
Other Special Education Costs	11,800	11,800	-	11,800
Total Expenditures	2,497,839	2,497,839	2,509,605	(11,766)
Net Change in Fund Balance	(17,045)	(17,045)	(55,072)	(38,027)
Fund Balance -- June 30, 2014	664,946	664,946	664,946	-
Fund Balance -- June 30, 2015	\$ 647,901	\$ 647,901	\$ 609,874	\$ (38,027)

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
PENSION TAX FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES				
<i>Revenue from Local Sources:</i>				
Taxes:				
Ad Valorem Taxes	\$ 324,048	\$ 324,048	\$ 334,348	\$ 10,300
Prior Years' Ad Valorem Taxes	1,000	1,000	412	(588)
Penalties and Interest on Taxes	500	500	396	(104)
Earnings on Interest-Bearing Accounts:				
Interest Earned	55	55	56	1
Total Revenues	325,603	325,603	335,212	9,609
EXPENDITURES				
<i>Non-programmed Charges:</i>				
Early Retirement	326,603	326,603	113,407	213,196
Total Expenditures	326,603	326,603	113,407	213,196
Net Change in Fund Balance	(1,000)	(1,000)	221,805	222,805
Fund Balance -- June 30, 2014	1,260,050	1,260,050	1,260,050	-
Fund Balance -- June 30, 2015	\$ 1,259,050	\$ 1,259,050	\$ 1,481,855	\$ 222,805

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**SCHEDULE OF THE DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>2015</u>
Contractually required contribution	\$ 569,027
Contributions in relation to the contractually required contribution	<u>569,027</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered-employee payroll	\$ 9,497,361
Contributions as a percentage of covered-employee payroll	6.0%

SPEARFISH SCHOOL DISTRICT NO. 40-2

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION ASSET
JUNE 30, 2015**

	<u>2015</u>
District's proportion of the net pension asset	0.5177378%
District's proportionate share of net pension asset	\$ 3,730,089
District's covered-employee payroll	\$ 9,053,816
District's proportionate share of the net pension asset as a percentage of its covered-employee payroll	41.20%
Plan fiduciary net position as a percentage of the total pension asset	107%

SPEARFISH SCHOOL DISTRICT NO. 40-2

**SCHEDULE OF FUNDING PROGRESS - OTHER POST-EMPLOYMENT BENEFITS
FOR THE YEAR ENDED JUNE 30, 2015**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actual Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/2014	\$ -	\$ 304,503	\$ 304,503	0%	\$ 8,379,950	3.6%
7/1/2012	\$ -	\$ 475,778	\$ 475,778	0%	\$ 7,591,985	6.3%
7/1/2010	\$ -	\$ 657,025	\$ 657,025	0%	\$ 8,483,306	7.7%

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

(1) Basis of Presentation

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

(2) Budgetary Legal Requirements

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

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

SINGLE AUDIT SECTION

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

Status of Prior Audit Findings and Recommendations:

The District has accepted the risk associated with Finding #2014-001 regarding the preparation of the financial statements. The finding, originally issued years ago, is repeated in the accompanying Schedule of Findings and Questioned Costs as Finding #2015-001.

The District made every attempt to record all year-end adjusting entries in reference to Finding #2014-002. The finding, originally issued years ago, is repeated in the accompanying Schedule of Findings and Questioned Costs as Finding #2015-002. The recurrence of the finding is due to new accounting guidance and accounting records not adjusted to subsidiary schedules. See Corrective Action Plan.

The District has an internal control process for Driver's Education instructors to track registration lists and student payments for classes. Finding #2014-003 has been resolved.

The District has an internal control process to track admissions for school events. Finding #2014-004 has been resolved.

The District has improved controls for semi-annual certifications. Finding #2014-005 has been resolved.

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

A. SUMMARY OF AUDIT RESULTS

1. The independent auditor's report expresses an unmodified opinion on the financial statements of Spearfish School District No. 40-2 (the District).
2. Material weaknesses were disclosed during the audit of the financial statements as reported in the 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.
3. No instances of noncompliance material to the District's financial statements were disclosed during the audit.
4. A material weakness was disclosed during the audit of the major federal award programs as reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance as Required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs expresses a disclaimer of opinion on the Child Nutrition Cluster (CFDA #10.553, #10.555, and #10.556) and an unmodified opinion on Title I Program (CFDA #84.010).
6. Findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in Part C.
7. The programs tested as major programs (or clusters) were:
 - a. Child Nutrition Cluster (CFDA #10.553, #10.555, and #10.556)
 - b. Title I Program (CFDA #84.010)
8. The threshold for distinguishing type A and B programs was \$300,000.
9. The District was not determined to be a low-risk auditee.

B. FINDINGS -- FINANCIAL STATEMENT AUDIT

Material Weaknesses

2015-001 FINDING: Financial Statement and Schedule of Federal Expenditures of Federal Awards (SEFA) Preparation:

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

Criteria and Effect: This deficiency could result in a material misstatement to the financial statements and SEFA that could have been prevented or detected by the District's management.

Questioned Costs: None

Major Federal Program: None

SPEARFISH SCHOOL DISTRICT NO. 40-2

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2015**

B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONTINUED)

Material Weaknesses (Continued)

2015-001 FINDING: Financial Statement and Schedule of Expenditures of Federal Awards (SEFA) Preparation (Continued):

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

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

2015-002 FINDING: Internal Control over Significant Accounts:

Condition and Cause: As in prior years, during the course of our engagement we proposed material audit adjustments. Adjustments included adjusting driver's education fund balance, construction retainage payable, unearned revenue, other post-employment benefits liability, inventory, and accrued leave. We also recorded the effects of implementing GASB 68, *Accounting and Reporting for Pensions*. Furthermore, other entries were proposed as part of the audit, but were not recorded due to the overall insignificance on the financial statements.

Criteria and Effect: These adjustments were not identified as a result of the District's existing internal controls and could have resulted in a material misstatement of the District's financial statements.

Recommendation: We recommend the following:

- Refrain from posting adjustments to fund balance.
- Record construction retainage in the fund financials.
- Adjust driver's education unearned revenue to instructor's class lists noting students' payments and driving time to be performed after June 30, 2015.
- Adjust other post-employment benefits liability as calculated by the Business Manager annually.
- Record District's portion of the pension activity per the schedules issued by SDRS.
- Adjust inventory and accrued leave balances to subsidiary listings annually.

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONCLUDED)
JUNE 30, 2015**

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Material Weakness

2015-003 FINDING: Maintaining Eligibility Documentation:

Condition and Cause:

- During eligibility testing, supporting documentation was not available for seven of the nine months due to the food service software conversion which occurred in March 2015. We tested 40 applicants in April and May 2015, noting no issues.
- As the previous software data was unavailable, we were unable to determine if students' eligibility was properly updated for the annual verification. We noted one of the five applicants tested was not properly updated in March 2015. One of the two applicant's children was noted as paid when the child qualified for reduced meals.

Criteria and Effect: Adequate documentation should be maintained by the District to support the eligibility of students under the Child Nutrition Cluster. Without such documentation, we were unable to determine students' eligibility status for seven of the nine months. We were also unable to determine students eligibility status was properly updated during the verification process in the fall of 2014. These issues result in a disclaimer of opinion for the program.

Questioned Costs: None

Major Program Affected: Child Nutrition Cluster (CFDA #10.553, #10.555, and #10.556)

Recommendation: Supporting documentation, including backups of software, should be maintained at a minimum until after the annual audit or Department of Education program review, whichever is later. Additionally, the District should establish a record retention policy.

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

SPEARFISH SCHOOL DISTRICT NO. 40-2

**CORRECTIVE ACTION PLAN
JUNE 30, 2015**

2015-001 FINDING: Financial Statement and Schedule of Expenditures of Federal Awards (SEFA) Preparation: The District has accepted the risk associated with requesting the auditors prepare the financial statements and SEFA, and continues to plan for the auditors to prepare the reports. The Business Manager, Craig Crosswait, is responsible for the corrective action plan for this finding.

2015-002 FINDING: Internal Control over Significant Accounts: The District, as in prior years, has attempted and succeeded in reducing the potential risk for audit adjustments, and accepts the potential risk of future audit adjustments. The Business Manager, Craig Crosswait, is responsible for the corrective action plan for this finding.

2015-003 FINDING: Maintaining Eligibility Documentation: The District follows existing state retention record laws. Going forward the District will, where possible, attempt to transfer data from rededicated servers. The Business Manager, Craig Crosswait, is responsible for the corrective action plan for this finding.

SPEARFISH SCHOOL DISTRICT NO. 40-2

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

	CFDA Numbers	Amount
<i>U.S. Department of Agriculture:</i>		
Pass-Through the S.D. Department of Education:		
Child Nutrition Cluster:		
Non-Cash Assistance (Commodities):		
National School Lunch Program	10.555	\$ 49,098
Cash Assistance:		
National School Lunch Program (Note 2)	10.555	286,637
CANS Menu Certification - 6 cents (Note 2)	10.555	14,062
National School Breakfast Program (Note 2)	10.553	44,124
Total Child Nutrition Cluster		393,921
Pass-Through Lawrence County:		
School and Roads -- Grants to States (National Forest -- SDCL 41-16-14) (Note 1)	10.665	23,531
Total U.S. Department of Agriculture		417,452
 <i>U.S. Department of the Interior:</i>		
Pass-Through the S.D. Department of Education:		
National Mineral Leasing (Note 1)	15.227	61
 <i>U.S. Department of Education:</i>		
Pass-Through the S.D. Department of Education:		
Title I Programs -- Local Educational Agencies	84.010	326,062
Vocational Education Perkins Grant	84.048	22,643
Special Education Cluster:		
Special Education -- State Grants (P.L. 99-94-142)	84.027	368,247
Special Education -- Preschool Grants (P.L. 99-457)	84.173	17,072
Total Special Education Cluster		385,319
Improving Teacher Quality State Grants (Title II Part A)	84.367	119,119
Total U.S. Department of Education		853,143
 <i>U.S. Department of Homeland Security:</i>		
Homeland Security Grant Program	97.067	36,431
Total		\$ 1,307,087

Note 1: Federal reimbursements are not based upon specific expenditures; therefore, the amounts reported here represent cash received rather than federal expenditures.

Note 2: These amounts reflect cash received. Federal reimbursements are based on approved rates for services provided rather than reimbursement for specific expenditures.

Note 3: The schedule of expenditures of federal awards is presented on the modified accrual basis of accounting.

OTHER REPORTS



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

School Board
Spearfish School District No. 40-2
Spearfish, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **SPEARFISH SCHOOL DISTRICT NO. 40-2** (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 14, 2015.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as #2015-001 and #2015-002 to be material weaknesses.

Compliance and Other Matters

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

District's Response to Findings

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

Purpose of this Report

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



KETEL THORSTENSON, LLP
Certified Public Accountants

December 14, 2015



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY OMB CIRCULAR A-133

School Board
Spearfish School District No. 40-2
Spearfish, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the compliance of **SPEARFISH SCHOOL DISTRICT NO. 40-2** (the District) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Disclaimer of Opinion on Child Nutrition Cluster (CFDA #10.553, #10.555, and #10.556)

We were unable to obtain sufficient documentation supporting the District's compliance with the eligibility compliance requirement regarding the Child Nutrition Cluster, as described in the accompanying Schedule of Findings and Questioned Costs as finding # 2015-003.

Disclaimer of Opinion on Child Nutrition Cluster (CFDA #10.553, #10.555, and #10.556)

As explained in the Basis for Disclaimer of Opinion paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the District's compliance with this major federal program.

Unmodified Opinion on the Other Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Title I Program (CFDA #84.010) identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2015.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

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 a 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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as #2015-003 to be a material weakness.

The District's responses to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Purpose of Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

December 14, 2015