

**TEA AREA SCHOOL
DISTRICT NO. 41-5**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2015

TEA AREA SCHOOL DISTRICT NO. 41-5
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2015

School Board

John Herr - President

Conrad Pick – Vice President

Kristen Daggett

Bob Lundin

Wayne Larsen

Business Manager

Kathy Cleveland

Superintendent

Jennifer Lowery

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QUAM & BERGLIN, P.C.

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INDEPENDENT AUDITOR'S REPORT

School Board
Tea Area School District No. 41-5
Lincoln 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 the Tea Area School District No. 41-5, Lincoln County, South Dakota (School District), as of June 30, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The School District's 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 School District'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 School District'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 Tea Area School District No. 41-5 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

Adoption of New Accounting Standard

As described in the Notes to the Financial Statements, the School 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*. As discussed in the Notes to the Financial Statements, the School District has retroactively restated the previously reported Net Position in accordance with this statement. Our opinions are not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Budgetary Comparison Schedules, the Pension Schedules and the Schedule of Funding Progress as listed in the Table of Contents, 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2016, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Quam & Berglin, P.C.

Quam and Berglin, P.C.
Certified Public Accountants

February 29, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Tea Area School District 41-5 annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year ended on June 30, 2015. Please read it in conjunction with the School's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The general fund reported a \$121,020 current year decrease. Revenues received were less than originally budgeted and use of fund balance was planned.
- The School retired \$460,000 in General Obligation Bonds and \$255,000 in Capital Outlay Certificates.

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 School:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the School's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School government, reporting the School'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 only proprietary fund operated by the school is the Food Service Operation.
 - Fiduciary fund statements provide information about the financial relationships – like scholarship plans for graduating students – in which the School 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.

Figure A-1

**Required Components of
Tea Area School District's Annual Financial Report**

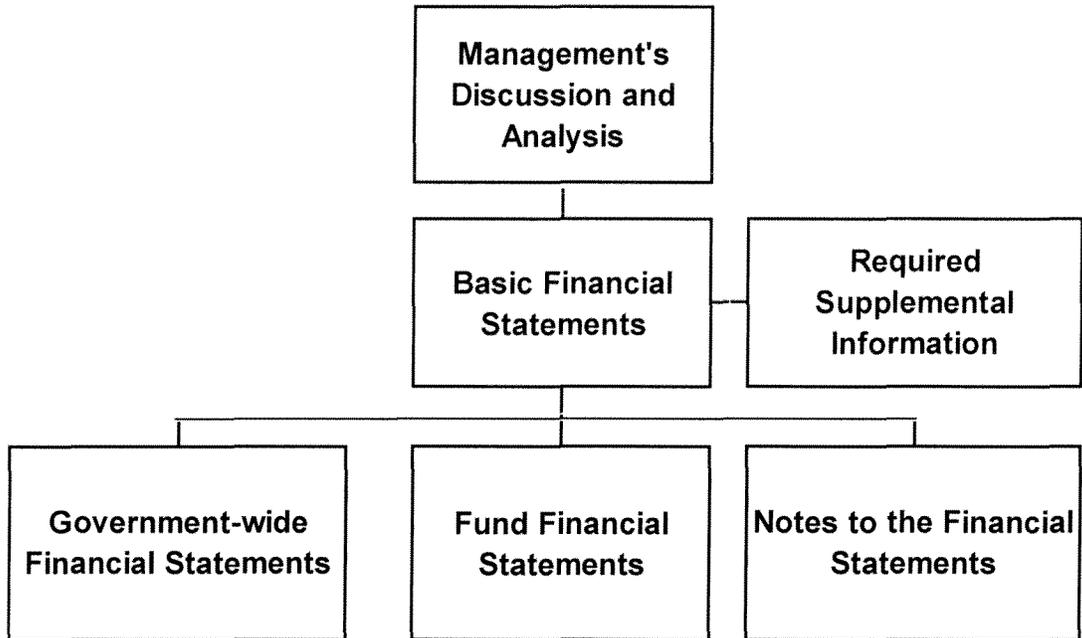


Figure A-2 summarizes the major features of the School's financial statements, including the portion of the School government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2

Major Features of Tea Area School’s Government-wide and Fund Financial Statements

Major Features of Tea Area School District’s Government-Wide and Fund Financial Statements				
	Government-Wide	Fund Statements		
	Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School government (except for fiduciary funds)	The activities of the School that are not proprietary or fiduciary, such as elementary and high school education programs.	Activities the School operates similar to private businesses, the food service and after school programs.	Instances in which the School is the trustee or agent for someone else’s resources.
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Net Position *Statement of Revenues, Expenses and Changes in Net Position *Statement of Cash Flows	*Statement of Net Position *Statement of Changes in 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 School’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 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 year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

- Increases or decreases in the School's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the School you need to consider additional nonfinancial factors such as changes in the School'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 School are reported in two categories:

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

Fund Financial Statements

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

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

The School has three kinds of funds:

- **Governmental Funds** – Most of the School's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School'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 School charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service Enterprise Fund (one type of proprietary fund) is the same as its business-type activities, but provides more detail and additional information such as cash flows. We use the Other Enterprise Fund (the other kind of proprietary fund) to report activities that provide services to the School's other programs and activities.
- **Fiduciary Funds** – The School is the trustee, or fiduciary, for various external and internal parties. The School is responsible for ensuring that the assets reported in

these funds are used for their intended purposes. All of the School'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 School's government-wide financial statements because the School cannot use these assets to finance its operations.

Financial Analysis of the School as a Whole

Net Position

The School's combined net position is as follows:

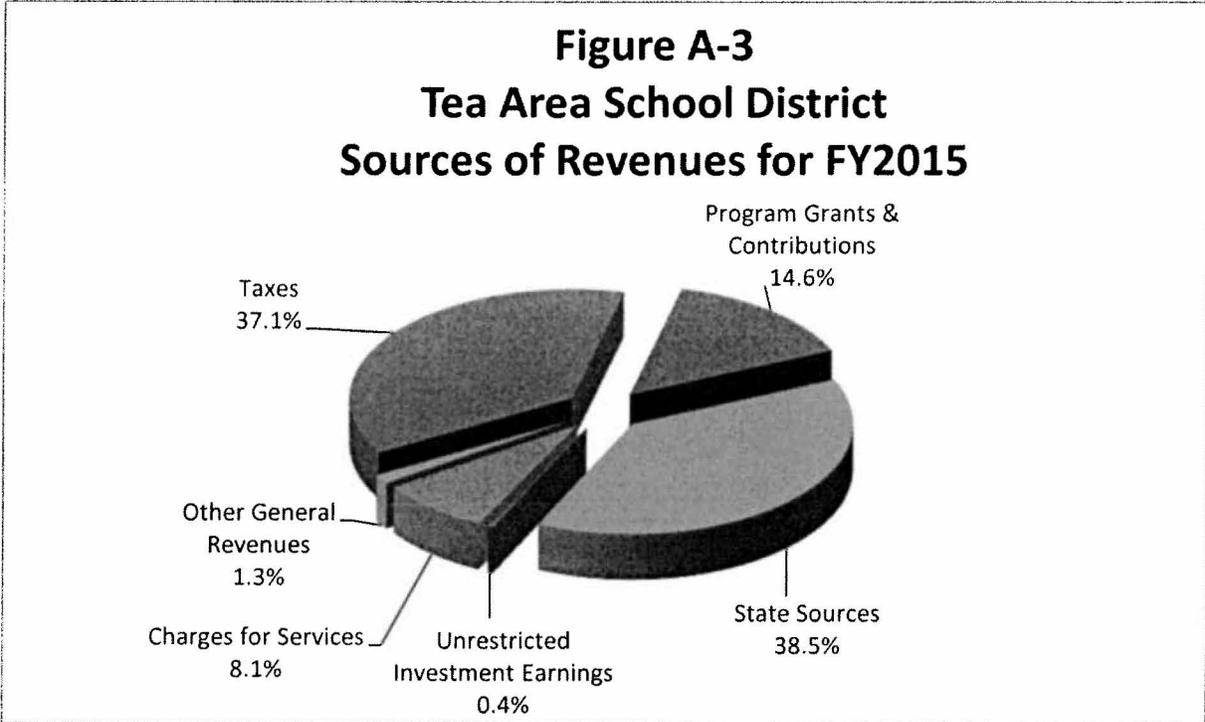
TEA AREA SCHOOL DISTRICT NO. 41-5
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities		Primary Government Business-Type Activities		Total	
	FY2014	FY2015	FY2014	FY2015	FY2014	FY2015
Current and Other Assets	\$ 11,055,602.73	\$ 21,564,996.76	\$ 102,456.84	\$ 101,065.38	\$ 11,158,059.57	\$ 21,666,062.14
Capital Assets	27,132,992.48	31,403,070.64	352,807.92	366,293.21	27,485,800.40	31,769,363.85
Total Assets	38,188,595.21	52,968,067.40	455,264.76	467,358.59	38,643,859.97	53,435,425.99
Pension Related Deferred Outflows		2,132,178.55				2,132,178.55
Long-Term Debt Outstanding	29,842,420.17	40,662,925.52			29,842,420.17	40,662,925.52
Other Liabilities	1,391,800.21	2,941,213.35	44,662.01	47,104.59	1,436,462.22	2,988,317.94
Total Liabilities	31,234,220.38	43,604,138.87	44,662.01	47,104.59	31,278,882.39	43,651,243.46
Taxes Levied for a Future Period	2,316,387.66	2,517,298.00			2,316,387.66	2,517,298.00
Pension Related Deferred Inflows		2,772,798.12				2,772,798.12
Total Deferred Inflows	2,316,387.66	5,290,096.12			2,316,387.66	5,290,096.12
Net Position:						
Net Investment in						
Capital Assets	3,035,448.01	2,610,252.15	352,807.92	366,293.21	3,388,255.93	2,976,545.36
Restricted	568,174.73	2,393,458.52			568,174.73	2,393,458.52
Unrestricted	1,034,364.43	1,202,300.29	57,794.83	53,960.79	1,092,159.26	1,256,261.08
Total Net Position	\$ 4,637,987.17	\$ 6,206,010.96	\$ 410,602.75	\$ 420,254.00	\$ 5,048,589.92	\$ 6,626,264.96
Beginning Net Position	4,562,022.57	4,637,987.17	382,170.09	410,602.75	4,944,192.66	5,048,589.92
Increase (Decrease) in Net Position	\$ 75,964.60	1,568,023.79	\$ 28,432.66	\$ 9,651.25	\$ 104,397.26	\$ 1,577,675.04
Ending Net Position	4,637,987.17	6,206,010.96	410,602.75	420,254.00	5,048,589.92	6,626,264.96

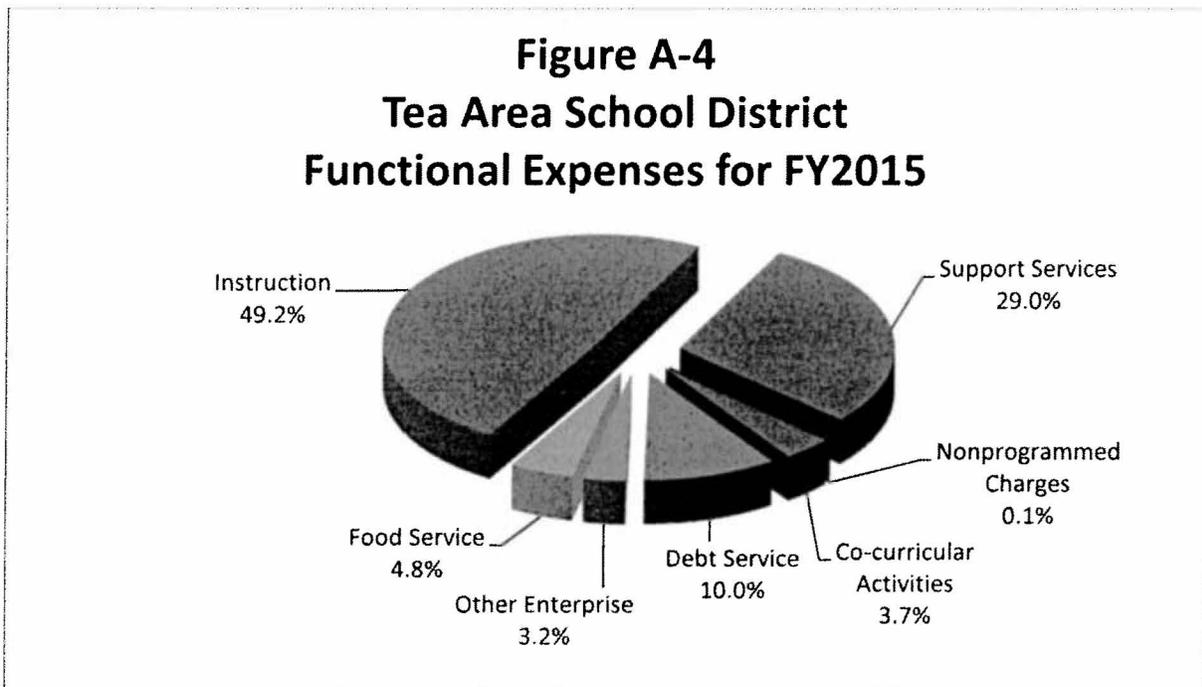
The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due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

Changes in Net Position

The School's total revenues totaled \$13,871,569. (See Figure A-3). Approximately 37.1% of the School's revenue comes from property and other taxes, 38.5% comes from state aid, and 24.4% from other sources.



The total cost of all programs and services was \$13,579,479. The School's expenses cover a range of services encompassing instruction, support services, and food services. (See Figure A-4)



Governmental Activities

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

TEA AREA SCHOOL DISTRICT #41-5 Changes in Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2014	2015	2014	2015	2014	2015
Revenues						
Program Revenues						
Charges for Services	\$ 197,658.32	\$ 272,657.61	\$ 820,923.67	\$ 854,339.28	\$ 1,018,581.99	\$ 1,126,996.89
Operating Grants and Contributions	1,552,798.58	1,779,195.72	233,682.80	240,456.33	1,786,481.38	2,019,652.05
General Revenues						
Taxes	4,688,014.93	5,141,933.25			4,688,014.93	5,141,933.25
Revenue State Sources	5,244,300.45	5,347,188.11			5,244,300.45	5,347,188.11
Other General Revenue	137,263.53	180,888.86			137,263.53	180,888.86
Unrestricted Investment Earnings	8,550.20	54,909.99			8,550.20	54,909.99
Total Revenues	11,828,586.01	12,776,773.54	1,054,606.47	1,094,795.61	12,883,192.48	13,871,569.15
Expenses						
Instruction	6,314,320.29	6,687,063.82			6,314,320.29	6,687,063.82
Support Services	3,508,187.78	3,935,655.89			3,508,187.78	3,935,655.89
Community Services						
Nonprogrammed Charges	81,408.35	8,729.03			81,408.35	8,729.03
Debt Services	1,235,277.99	1,359,718.11			1,235,277.99	1,359,718.11
Cocurricular Activities	597,639.00	503,168.07			597,639.00	503,168.07
Food Service			663,270.94	652,154.32	663,270.94	652,154.32
Preschool			71,789.31	91,580.50	71,789.31	91,580.50
TASK			288,093.87	335,794.94	288,093.87	335,794.94
Driver's Education			18,807.69	5,614.60	18,807.69	5,614.60
Total Expenses	11,736,833.41	12,494,334.92	1,041,961.81	1,085,144.36	12,778,795.22	13,579,479.28
Excess (Deficiency) Before						
Special Items and Transfers	91,752.60	282,438.62	12,644.66	9,651.25	104,397.26	292,089.87
Transfers	(15,788.00)		15,788.00			
Prior Period Adjustment		1,285,585.17				1,285,585.17
Increase (Decrease) in Net Position	75,964.60	1,568,023.79	28,432.66	9,651.25	104,397.26	1,577,675.04

Governmental Activities

Revenues for the governmental activities increased due to the increase in per pupil revenue in the form of state aid with enrollment staying steady and increased tax revenue.

Expenses decreased due to the district's Board of Education and administration making staff changes and implementing various cost saving options.

Financial Analysis of the School's Funds

Fund balances changed from the previous year as follows: General Fund decreased \$121,020.42 as a result of expenditures exceeding revenues and budgeted use of fund balance. Capital Outlay Fund increased \$433,326.95 as a result of revenues exceeding expenditures. Special Education Fund decreased \$19,253.74 as a result of expenditures exceeding revenues. Pension Fund decreased \$77,438.88 as a result of expenditures

exceeding revenues and budgeted use of fund balance. Bond Redemption Funds increased \$106,937.39 as a result of revenues exceeding expenditures and a new bond issuance.

General Fund Budgetary Highlights

Over the course of the year, the School Board revised the School budget several times. These amendments fall into two categories:

- Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for the education program of this district.
- Increases in appropriations, primarily by contingency transfer, to prevent budget overruns.

Capital Asset Administration

By the end of 2015, the School had invested \$35,060,542 in a broad range of capital assets, including land, construction, buildings, improvements other than buildings, various machinery and equipment, and library books. (See Table A-7).

Table A-7
TEA AREA SCHOOL DISTRICT #41-5 - Capital Assets
(not including accumulated depreciation)

	Governmental Activities			Business-Type Activities		
	2014	2015	Increase/ Decrease	2014	2015	Increase/ Decrease
Land	\$ 799,258	\$ 799,258	\$	\$	\$	\$
Construction Work in Progress	2,463,428	4,599,639	2,136,211			
Buildings	24,835,470	27,164,954	2,329,484			
Improvements other than Building	553,559	576,767	23,208			
Machinery and Equipment	1,304,931	1,559,972	255,041	493,521	531,670	38,149
Library Books	318,768	359,952	41,184			
Total Capital Assets	\$ 30,275,414	\$ 35,060,542	\$ 4,785,128	\$ 493,521	\$ 531,670	\$ 38,149

Long-Term Debt

At year-end the School had \$40,662,926 in General Obligation, Capital Outlay Certificates, and other long-term debt obligations. (See Table A-8)

Table A-8
TEA AREA SCHOOL DISTRICT #41-5
Outstanding Debt and Obligations

	Governmental Activities	
	2014	2015
General Obligation Bonds	\$ 25,155,000.00	\$ 29,895,000.00
Capital Outlay Certificates	4,035,000.00	9,460,000.00
Note Payable		145,000.00
Capital Acquisition Lease	374,706.16	929,577.58
Early Retirement	86,629.02	53,087.94
Other Post-employment Benefits	191,085.00	180,260.00
Total Long-Term Liabilities	\$ 29,842,420.18	\$ 40,662,925.52
 Net Increase (Decrease)		 36.26%

Economic Factors and Next Year’s Budgets and Rates

One of the primary sources of revenue to the School is based on a per student allocation they receive from the State of South Dakota. The state aid formula for the current year ensures that property taxes plus state aid will equal \$4,877 per pupil. The School District enrollment increased by 4 students in FY15.

Contacting the School’s Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School’s finances and to demonstrate the School’s accountability for the money it receives. If you have questions about this report or need additional information, contact the Tea Area School District’s Business Office, 131 N. Poplar Ave, Tea, SD 57064.

TEA AREA SCHOOL DISTRICT NO. 41-5
STATEMENT OF NET POSITION
JUNE 30, 2015

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS:			
Cash and Cash Equivalents	\$10,638,597.48	\$ 92,408.61	\$10,731,006.09
Investments	150,000.00		150,000.00
Taxes Receivable	2,596,273.41		2,596,273.41
Accounts Receivable	25,902.64	69.25	25,971.89
Due from Other Governments	220,044.09		220,044.09
Inventory		8,587.52	8,587.52
Prepaid Expenses	154,596.98		154,596.98
Net Pension Asset	2,394,123.07		2,394,123.07
Restricted Assets:			
Cash and Cash Equivalents	5,385,459.09		5,385,459.09
Capital Assets:			
Land and Construction Work in Progress	5,398,897.01		5,398,897.01
Other Capital Assets, Net of Depreciation	<u>26,004,173.63</u>	<u>366,293.21</u>	<u>26,370,466.84</u>
TOTAL ASSETS	<u>52,968,067.40</u>	<u>467,358.59</u>	<u>53,435,425.99</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Pension Related Deferred Outflows	<u>2,132,178.55</u>		<u>2,132,178.55</u>
LIABILITIES:			
Accounts Payable	325,733.49	18,983.63	344,717.12
Interest Payable	236,911.25		236,911.25
Construction and Retainage Payable	1,507,290.55		1,507,290.55
Contracts and Benefits Payable	871,278.06	7,671.72	878,949.78
Deposits Payable		20,449.24	20,449.24
Noncurrent Liabilities:			
Due in More than One Year	997,339.24		997,339.24
Due Within One Year	<u>39,665,586.28</u>		<u>39,665,586.28</u>
TOTAL LIABILITIES	<u>43,604,138.87</u>	<u>47,104.59</u>	<u>43,651,243.46</u>
DEFERRED INFLOWS OF RESOURCES:			
Taxes Levied for Future Period	2,517,298.00		2,517,298.00
Pension Related Deferred Inflows	<u>2,772,798.12</u>		<u>2,772,798.12</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>5,290,096.12</u>		<u>5,290,096.12</u>
NET POSITION:			
Net Investment in Capital Assets	2,610,252.15	366,293.21	2,976,545.36
Restricted for:			
Capital Outlay	58,894.39		58,894.39
Pension	139,798.51		139,798.51
SDRS Pension Purposes	1,753,503.50		1,753,503.50
Debt Services	441,262.12		441,262.12
Unrestricted	<u>1,202,300.29</u>	<u>53,960.79</u>	<u>1,256,261.08</u>
TOTAL NET POSITION	<u>\$ 6,206,010.96</u>	<u>\$ 420,254.00</u>	<u>\$ 6,626,264.96</u>

The notes to the financial statements are an integral part of this statement

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**TEA AREA SCHOOL DISTRICT NO. 41-5
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Primary Government:						
Governmental Activities:						
Instruction	\$ 6,687,063.82	\$ 78,638.38	\$ 1,779,195.72	\$ (4,829,229.72)	\$	\$ (4,829,229.72)
Support Services	3,935,655.89	101,126.87		(3,834,529.02)		(3,834,529.02)
Nonprogrammed Charges	8,729.03			(8,729.03)		(8,729.03)
*Interest on Long-term Debt	1,359,718.11			(1,359,718.11)		(1,359,718.11)
Cocurricular Activities	503,168.07	92,892.36		(410,275.71)		(410,275.71)
Total Governmental Activities	12,494,334.92	272,657.61	1,779,195.72	(10,442,481.59)		(10,442,481.59)
Business-type Activities:						
Food Service	652,154.32	451,395.19	240,456.33		39,697.20	39,697.20
Preschool	91,580.50	89,531.03			(2,049.47)	(2,049.47)
TASK	335,794.94	302,158.33			(33,636.61)	(33,636.61)
Driver's Education	5,614.60	11,254.73			5,640.13	5,640.13
Total Business-type Activities	1,085,144.36	854,339.28	240,456.33		9,651.25	9,651.25
Total Primary Government	\$ 13,579,479.28	\$ 1,126,996.89	\$ 2,019,652.05	(10,442,481.59)	9,651.25	(10,432,830.34)

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

General Revenues:

Taxes:

Property Taxes	5,039,898.24	5,039,898.24
Utility Taxes	102,035.01	102,035.01

Revenue from State Sources:

State Aid	5,347,188.11	5,347,188.11
Unrestricted Investment Earnings	54,909.99	54,909.99
Other General Revenues	180,888.86	180,888.86
Total General Revenues	10,724,920.21	10,724,920.21

Change in Net Position	282,438.62	9,651.25	292,089.87
Net Position - Beginning	4,637,987.17	410,602.75	5,048,589.92
Prior Period Adjustment	1,285,585.17		1,285,585.17
Adjusted Net Position - Beginning	5,923,572.34	410,602.75	6,334,175.09
NET POSITION - ENDING	\$ 6,206,010.96	\$ 420,254.00	\$ 6,626,264.96

The notes to the financial statements are an integral part of this statement

**TEA AREA SCHOOL DISTRICT NO. 41-5
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Pension Fund</u>
ASSETS:				
Cash and Cash Equivalents	\$1,850,212.01	\$ 587,651.98	\$138,756.62	\$191,227.62
Cash with Fiscal Agent				
Investments	150,000.00			
Taxes Receivable--Current	987,774.50	457,392.90	267,204.20	54,236.40
Taxes Receivable--Delinquent	35,369.85	13,589.75	8,104.92	1,658.83
Accounts Receivable	25,902.64			
Due from Other Governments	157,836.70			
Prepaid Expenses	97,015.73	57,581.25		
TOTAL ASSETS	<u>\$3,304,111.43</u>	<u>\$1,116,215.88</u>	<u>\$414,065.74</u>	<u>\$247,122.85</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	\$ 119,739.97	\$ 116,373.37	\$ 89,620.15	\$
Accrued Interest Payable				
Contracts Payable	637,435.31		48,008.46	
Construction Contracts Payable				
Construction Retainage Payable				
Payroll Deductions and Withholdings and Employer Matching Payable	173,417.94		12,416.35	
Total Liabilities	<u>930,593.22</u>	<u>116,373.37</u>	<u>150,044.96</u>	
Deferred Inflows of Resources:				
Taxes Levied for a Future Period	987,774.50	457,392.90	267,204.20	54,236.40
Unavailable Revenue-Property Taxes	35,369.85	13,589.75	8,104.92	1,658.83
Total Deferred Inflows of Resources	<u>1,023,144.35</u>	<u>470,982.65</u>	<u>275,309.12</u>	<u>55,895.23</u>
Fund Balances:				
Nonspendable - Prepaid Expense	97,015.73	57,581.25		
Restricted		471,278.61		191,227.62
Assigned	316,388.00			
Unassigned	936,970.13		(11,288.34)	
Total Fund Balances	<u>1,350,373.86</u>	<u>528,859.86</u>	<u>(11,288.34)</u>	<u>191,227.62</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	<u>\$3,304,111.43</u>	<u>\$1,116,215.88</u>	<u>\$414,065.74</u>	<u>\$247,122.85</u>

The notes to the financial statements are an integral part of this statement.

Bond Redemption #1	Bond Redemption #2	Bond Redemption #3	Capital Project #1	Capital Project #2	Capital Project #4	Total Governmental Funds
\$ 180,873.05	\$ 328,198.23 5,385,459.09	\$ 86,642.64	\$1,825.93	\$2,354,035.61	\$4,919,173.79	\$10,638,597.48 5,385,459.09 150,000.00
342,480.40 11,184.30	293,572.30 9,067.76 62,207.39	114,637.30				2,517,298.00 78,975.41 25,902.64 220,044.09 154,596.98
<u>\$ 534,537.75</u>	<u>\$6,078,504.77</u>	<u>\$ 201,279.94</u>	<u>\$1,825.93</u>	<u>\$2,354,035.61</u>	<u>\$4,919,173.79</u>	<u>\$19,170,873.69</u>
\$	\$ 236,911.25	\$	\$	\$	\$	325,733.49 236,911.25 685,443.77
				1,255,416.86 187,919.92	63,953.77	1,319,370.63 187,919.92
						185,834.29
	<u>236,911.25</u>			<u>1,443,336.78</u>	<u>63,953.77</u>	<u>2,941,213.35</u>
342,480.40 11,184.30	293,572.30 9,067.76	114,637.30				2,517,298.00 78,975.41
<u>353,664.70</u>	<u>302,640.06</u>	<u>114,637.30</u>				<u>2,596,273.41</u>
180,873.05	5,538,953.46	86,642.64	1,825.93	910,698.83	4,855,220.02	154,596.98 12,236,720.16 316,388.00 925,681.79
<u>180,873.05</u>	<u>5,538,953.46</u>	<u>86,642.64</u>	<u>1,825.93</u>	<u>910,698.83</u>	<u>4,855,220.02</u>	<u>13,633,386.93</u>
<u>\$ 534,537.75</u>	<u>\$6,078,504.77</u>	<u>\$ 201,279.94</u>	<u>\$1,825.93</u>	<u>\$2,354,035.61</u>	<u>\$4,919,173.79</u>	<u>\$19,170,873.69</u>

**TEA AREA SCHOOL DISTRICT NO. 41-5
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Total Fund Balances - Governmental Funds \$ 13,633,386.93

Amounts reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Cost of Capital Assets	\$ 35,060,542.54	
Accumulated Depreciation	<u>(3,657,471.90)</u>	31,403,070.64

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:

General Obligation Bonds Payable	(29,895,000.00)	
General Obligation Certificates Payable	(9,460,000.00)	
Early Retirement Payable	(53,087.94)	
Note Payable	(145,000.00)	
Capital Acquisition Lease Payable	(929,577.58)	
Other Postemployment Benefits	<u>(180,260.00)</u>	(40,662,925.52)

Net Pension Asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds. 2,394,123.07

Pension related deferred outflows are components of pension asset and therefore are not reported in the funds. 2,132,178.55

Pension related deferred inflows are components of pension liability and therefore are not reported in the funds (2,772,798.12)

Assets such as taxes receivable (delinquent) are not available to pay for current period expenditures and therefore are deferred in the funds. 78,975.41

Net Position- Governmental Funds \$ 6,206,010.96

The notes to the financial statements are an integral part of this statement

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TEA AREA SCHOOL DISTRICT NO. 41-5
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 1,923,586.69	\$ 898,211.01	\$ 540,819.61	\$ 107,331.92
Prior Years' Ad Valorem Taxes	65,987.93	22,420.45	13,463.88	2,714.29
Utility Taxes	102,035.01			
Penalties and Interest on Taxes	1,104.28	437.89	259.05	53.09
Earnings on Investments and Deposits	6,062.94	10,665.00		
Cocurricular Activities:				
Admissions	45,097.45			
Rentals	10,932.72			
Other Pupil Activity Income	36,862.19			
Other Revenue from Local Sources:				
Rentals	32,484.00			
Contributions and Donations				
Charges for Services	21,710.11		56,928.27	
Other	66,170.22	10,373.99		
Revenue from Intermediate Sources:				
County Sources:				
County Apportionment	40,883.65			
Revenue from State Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	5,347,188.11			
Restricted Grants-in-Aid	1,000.00		1,483,578.00	
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government Through the State	162,795.41			
Other Federal Revenue				
Total Revenue	<u>7,863,900.71</u>	<u>942,108.34</u>	<u>2,095,048.81</u>	<u>110,099.30</u>
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	2,573,884.09	16,925.88		80,000.00
Middle/Junior High	548,656.68	211,160.90		24,000.00
High School	1,431,107.45	251,075.51		43,000.00
Special Programs:				
Programs for Special Education			1,482,973.57	
Programs for Educationally Deprived	94,236.55			
Support Services:				
Pupils:				
Attendance & Social Work	4,000.00			
Guidance	191,979.21		392.17	

Bond Redemption #1	Bond Redemption #2	Bond Redemption #3	Capital Project #1	Capital Project #2	Capital Project #4	Total Governmental Funds
\$ 719,233.53	\$ 621,455.09	\$ 86,642.64				\$ 4,897,280.49
18,400.00	15,252.32					138,238.87
						102,035.01
364.11	297.99					2,516.41
	23,843.40		226.94	11,264.67	2,847.04	54,909.99
						45,097.45
						10,932.72
						36,862.19
						32,484.00
			30,977.00			30,977.00
						78,638.38
						76,544.21
						40,883.65
						5,347,188.11
						1,484,578.00
						162,795.41
	131,822.31					131,822.31
<u>737,997.64</u>	<u>792,671.11</u>	<u>86,642.64</u>	<u>31,203.94</u>	<u>11,264.67</u>	<u>2,847.04</u>	<u>12,673,784.20</u>
						2,670,809.97
						783,817.58
						1,725,182.96
						1,482,973.57
						94,236.55
						4,000.00
						192,371.38

TEA AREA SCHOOL DISTRICT NO. 41-5
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(continued)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund
Health	68,280.05		16,092.00	
Psychological			28,077.22	
Speech Pathology			115,364.33	
Audiology Services			132,966.83	
Support Services - Instructional Staff:				
Improvement of Instruction	62,591.16			
Educational Media	236,201.42	201,471.94	1,061.96	
Support Services - General Administration:				
Board of Education	168,518.40		2,663.94	
Executive Administration	157,104.61		7,046.12	
Support Services - School Administration:				
Office of the Principal	567,775.45			
Other	1,209.33			
Support Services - Business:				
Fiscal Services	183,671.41			
Operation and Maintenance of Plant	933,328.58	56,988.05		
Pupil Transportation	301,419.19	39,738.26		
Support Services - Special Education:				
Administrative Costs			325,932.48	
Nonprogrammed Charges:				
Early Retirement Payments			1,731.93	40,538.18
Debt Services		718,912.87		
Cocurricular Activities:				
Male Activities	67,883.91	2,893.30		
Female Activities	45,090.41	2,893.30		
Transportation	32,642.47			
Combined Activities	267,520.76	2,000.00		
Capital Outlay	47,820.00	312,160.06		
Total Expenditures	<u>7,984,921.13</u>	<u>1,816,220.07</u>	<u>2,114,302.55</u>	<u>187,538.18</u>
Excess of Revenue Over (Under) Expenditures	(121,020.42)	(874,111.73)	(19,253.74)	(77,438.88)
Other Financing Sources (Uses):				
Transfers In				
Transfers (Out)		(5,175,000.00)		
Proceeds from Long Term Debt		7,090,000.00		
Proceeds from Capital Lease		727,596.22		
Premium on Refunding		189,899.45		
Payment to Refunding Debt Escrow		(1,525,056.99)		
Total Other Financing Sources (Uses)		<u>1,307,438.68</u>		
Net Change in Fund Balances	(121,020.42)	433,326.95	(19,253.74)	(77,438.88)
Beginning Fund Balance	<u>1,471,394.28</u>	<u>95,532.91</u>	<u>7,965.40</u>	<u>268,666.50</u>
ENDING FUND BALANCE	<u>\$ 1,350,373.86</u>	<u>\$ 528,859.86</u>	<u>\$ (11,288.34)</u>	<u>\$ 191,227.62</u>

The notes to the financial statements are an integral part of this statement

Bond Redemption #1	Bond Redemption #2	Bond Redemption #3	Capital Project #1	Capital Project #2	Capital Project #4	Total Governmental Funds
						84,372.05
						28,077.22
						115,364.33
						132,966.83
						62,591.16
						438,735.32
						171,182.34
						164,150.73
						567,775.45
						1,209.33
						183,671.41
						990,316.63
						341,157.45
						325,932.48
						42,270.11
696,350.00	814,024.00	55,369.85	37,628.65			2,322,285.37
						70,777.21
						47,983.71
						32,642.47
						269,520.76
			147,030.46	3,992,495.82	292,257.17	4,791,763.51
<u>696,350.00</u>	<u>814,024.00</u>	<u>55,369.85</u>	<u>184,659.11</u>	<u>3,992,495.82</u>	<u>292,257.17</u>	<u>18,138,137.88</u>
41,647.64	(21,352.89)	31,272.79	(153,455.17)	(3,981,231.15)	(289,410.13)	(5,464,353.68)
				5,175,000.00	5,144,630.15	10,319,630.15
		(5,144,630.15)				(10,319,630.15)
		5,200,000.00	145,000.00			12,435,000.00
						727,596.22
						189,899.45
						(1,525,056.99)
		<u>55,369.85</u>	<u>145,000.00</u>	<u>5,175,000.00</u>	<u>5,144,630.15</u>	<u>11,827,438.68</u>
41,647.64	(21,352.89)	86,642.64	(8,455.17)	1,193,768.85	4,855,220.02	6,363,085.00
<u>139,225.41</u>	<u>5,560,306.35</u>		<u>10,281.10</u>	<u>(283,070.02)</u>		<u>7,270,301.93</u>
<u>\$ 180,873.05</u>	<u>\$ 5,538,953.46</u>	<u>\$ 86,642.64</u>	<u>\$ 1,825.93</u>	<u>\$ 910,698.83</u>	<u>\$ 4,855,220.02</u>	<u>\$13,633,386.93</u>

**TEA AREA SCHOOL DISTRICT NO. 41-5
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Net Change in Fund Balances - Total Governmental Funds \$ 6,363,085.00

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the period.

Capital Outlays	\$ 4,791,763.51	
Depreciation Expense	<u>(521,685.35)</u>	4,270,078.16

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. (13,162,596.22)

Governmental funds report property taxes as revenue when they meet the available criteria. Because some property taxes will not be collected for several months after the district's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues decreased by this amount this year. 1,862.47

Repayment of bond principal and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Capital Outlay Certificates	1,665,000.00	
General Obligation Bonds	460,000.00	
Capital Leases	<u>172,724.80</u>	2,297,724.80

Changes in the pension related deferred outflows/inflows are direct components of pension liability(asset) and are not reflected in the governmental funds. 467,918.33

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the change in:

Early Retirement Payable	33,541.08	
Other Postemployment Benefits	<u>10,825.00</u>	<u>44,366.08</u>

Change in Net Position of Governmental Activities \$ 282,438.62

The notes to the financial statements are an integral part of this statement

TEA AREA SCHOOL DISTRICT NO. 41-5
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015

	Food Service Fund	Other Enterprise Fund	Total
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 58,892.88	\$ 33,515.73	\$ 92,408.61
Accounts Receivable	69.25		69.25
Inventory of Supplies	342.86		342.86
Inventory of Purchased Food	4,028.98		4,028.98
Inventory of Donated Food	4,215.68		4,215.68
Total Current Assets	67,549.65	33,515.73	101,065.38
Capital Assets:			
Buildings		80,000.00	80,000.00
Machinery and Equipment	371,378.00	80,291.99	451,669.99
Less: Accumulated Depreciation	(130,150.70)	(35,226.08)	(165,376.78)
Total Noncurrent Assets	241,227.30	125,065.91	366,293.21
TOTAL ASSETS	308,776.95	158,581.64	467,358.59
LIABILITIES:			
Current Liabilities:			
Accounts Payable	33.28	18,950.35	18,983.63
Contracts Payable		6,756.00	6,756.00
Payroll Deductions and Withholdings and Employer Matching Payable		915.72	915.72
Deposits Payable	20,449.24		20,449.24
Total Current Liabilities	20,482.52	26,622.07	47,104.59
NET POSITION:			
Net Investment in Capital Assets	241,227.30	125,065.91	366,293.21
Unrestricted Net Position	47,067.13	6,893.66	53,960.79
Total Net Position	\$ 288,294.43	\$ 131,959.57	\$ 420,254.00

The notes to the financial statements are an integral part of this statement

TEA AREA SCHOOL DISTRICT NO. 41-5
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Food Service Fund	Other Enterprise Fund	Total
Operating Revenue:			
Food Sales:			
To Pupils	\$ 406,550.29	\$	\$ 406,550.29
To Adults	3,208.30		3,208.30
A la Carte	41,548.80		41,548.80
Fees:			
To Pupils		87,709.76	87,709.76
Day Care Services:			
Tuition		302,158.33	302,158.33
Other Charges and Services	87.80	5,140.00	5,227.80
Total Operating Revenue	<u>451,395.19</u>	<u>395,008.09</u>	<u>846,403.28</u>
Operating Expenses:			
Salaries	189,998.83	278,365.66	468,364.49
Employee Benefits	75,929.14	35,947.34	111,876.48
Purchased Services	3,363.86	13,119.70	16,483.56
Repairs	5,330.82	903.74	6,234.56
Supplies	12,256.30	44,551.08	56,807.38
Cost of Sales-Purchased Food	293,204.49	28,602.72	321,807.21
Cost of Sales-Donated Food	52,649.68		52,649.68
Miscellaneous	372.30	25,885.20	26,257.50
Depreciation-Local Funds	19,048.90	5,614.60	24,663.50
Total Operating Expenses	<u>652,154.32</u>	<u>432,990.04</u>	<u>1,085,144.36</u>
Operating Income (Loss)	<u>(200,759.13)</u>	<u>(37,981.95)</u>	<u>(238,741.08)</u>
Nonoperating Revenue (Expense):			
Local Sources:			
Other Local Revenue	3,200.00		3,200.00
State Sources:			
Cash Reimbursements	3,804.58		3,804.58
Federal Sources:			
Cash Reimbursements	180,952.34	7,936.00	188,888.34
Donated Food	52,499.41		52,499.41
Total Nonoperating Revenue (Expense)	<u>240,456.33</u>	<u>7,936.00</u>	<u>248,392.33</u>
Change in Net Position	39,697.20	(30,045.95)	9,651.25
Net Position - Beginning	<u>248,597.23</u>	<u>162,005.52</u>	<u>410,602.75</u>
NET POSITION - ENDING	<u>\$ 288,294.43</u>	<u>\$ 131,959.57</u>	<u>\$ 420,254.00</u>

The notes to the financial statements are an integral part of this statement

**TEA AREA SCHOOL DISTRICT NO. 41-5
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Food Service Fund</u>	<u>Other Enterprise Fund</u>	<u>Total</u>
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 451,841.40	\$ 395,008.09	\$ 846,849.49
Payments to Suppliers	(313,204.52)	(82,083.94)	(395,288.46)
Payments to Employees	(266,382.61)	(313,886.88)	(580,269.49)
Other Operating Payments	<u>(372.30)</u>	<u>(25,885.20)</u>	<u>(26,257.50)</u>
Net Cash Provided (Used) by Operating Activities	<u>(128,118.03)</u>	<u>(26,847.93)</u>	<u>(154,965.96)</u>
Cash Flows from Noncapital Financing Activities:			
Operating Subsidies	<u>184,756.92</u>	<u>7,936.00</u>	<u>192,692.92</u>
Cash Flows from Capital and Related Financing Activities:			
Purchase of Capital Assets	<u></u>	<u>(34,948.79)</u>	<u>(34,948.79)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 56,638.89</u>	<u>\$ (53,860.72)</u>	<u>\$ 2,778.17</u>
Cash and Cash Equivalents at Beginning of Year	\$ 2,253.99	\$ 87,376.45	\$ 89,630.44
Cash and Cash Equivalents at End of Year	<u>58,892.88</u>	<u>33,515.73</u>	<u>92,408.61</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 56,638.89</u>	<u>\$ (53,860.72)</u>	<u>\$ 2,778.17</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	\$(200,759.13)	\$ (37,981.95)	\$ (238,741.08)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	19,048.90	5,614.60	24,663.50
Value of Commodities Used	52,649.68		52,649.68
Change in Assets and Liabilities:			
Accounts Receivable	(69.25)		(69.25)
Inventories	4,088.61		4,088.61
Accounts Payable	(3,137.66)	5,093.30	1,955.64
Wages and Benefits Payable	(454.64)	426.12	(28.52)
Advance Payments From Customers	<u>515.46</u>		<u>515.46</u>
Net Cash Provided (Used) by Operating Activities	<u>\$(128,118.03)</u>	<u>\$ (26,847.93)</u>	<u>\$ (154,965.96)</u>
Noncash Investing, Capital and Financing Activities:			
Value of Commodities Received	\$ 52,499.41		

The notes to the financial statements are an integral part of this statement

TEA AREA SCHOOL DISTRICT NO. 41-5
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

	Private-Purpose Trust Funds	Agency Funds
ASSETS:		
Cash & Cash Equivalents	\$ 6,036.91	\$ 92,454.36
Accounts Receivable		3,797.79
TOTAL ASSETS	6,036.91	96,252.15
LIABILITIES:		
Amounts Held for Others		96,252.15
Total Liabilities		\$ 96,252.15
NET POSITION		
Held in Trust for Scholarships	\$ 6,036.91	

The notes to the financial statements are an integral part of this statement

**TEA AREA SCHOOL DISTRICT NO. 41-5
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	Private-Purpose Trust Funds
	<u> </u>
ADDITIONS:	
Donations	\$ <u>2,025.00</u>
DEDUCTIONS:	
Scholarships	<u> </u>
Change in Net Position	2,025.00
Net Position - Beginning	<u>4,011.91</u>
NET POSITION - ENDING	<u><u>\$ 6,036.91</u></u>

The notes to the financial statements are an integral part of this statement

TEA AREA SCHOOL DISTRICT NO. 41-5
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity

The reporting entity of Tea Area School District No. 41-5, 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 School District participates in a cooperative service unit with several other school districts. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the School District.

b. Basis of Presentation

Government-wide Financial Statements:

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

The Statement of Net Position reports all financial and capital resources, in a net position form (assets and deferred outflows minus liabilities and deferred inflows equal net position). Net Position are displayed in three components, as applicable, Net Investment in Capital Assets, Restricted (distinguishing between major categories of restrictions), and Unrestricted.

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

Fund Financial Statements:

Fund financial statements of the 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/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or it meets the following criteria:

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

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

Governmental Funds:

General Fund - A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the school district, excluding capital outlay fund 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 that are legally restricted to expenditures for specified purposes.

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

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

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

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

The Bond Redemption Fund #1-- A fund established by SDCL 13-16-13 to account for the proceeds of a special property tax restricted to use for the payment of principal and interest on general obligation bonded debt. This is a major fund.

The Bond Redemption Fund #2-- A fund established by SDCL 13-16-13 to account for the proceeds of a special property tax restricted to use for the payment of principal and interest on general obligation bonded debt. This is a major fund.

The Bond Redemption Fund #3-- A fund established by SDCL 13-16-13 to account for the proceeds of a special property tax restricted to use for the payment of principal and interest on general obligation bonded debt. This is a major fund.

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The Elementary/Legacy Addition Fund, Athletic Complex Fund and Elementary/Performing Arts Center Fund are the capital projects funds maintained by the School District. These are major funds.

Proprietary Funds:

Enterprise Funds - Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Food Service Fund--A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

Other Enterprise Fund--A fund used to record the financial transactions of before and after school programs and other fee based programs. This fund is financed by surcharges. This is a major fund.

Fiduciary Funds:

Fiduciary Funds consist of the following sub-categories and are never considered to be major funds.

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

Agency Funds - agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The School District maintains agency funds for the following purposes: class funds, student organizations, and clearing accounts.

c. Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

Government-wide Financial Statements:

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

Fund Financial Statements:

All governmental fund types 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 liabilities of the current period. The accrual period for the School District is 60 days. The revenues which are accrued at June 30, 2015 are

amounts due from other governments for grants and other accounts receivable and prepaid expenditures.

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

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

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

d. 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 grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. 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

e. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist primarily of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Law (SDCL) 4-5-6.

f. Capital Assets

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

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

Government-Wide Statements

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

The total June 30, 2015 balance of capital assets for governmental activities includes approximately 0.196% for which costs were determined by estimates of original costs. The total June 30, 2015 balance of capital assets for business-type activities are all valued at original cost. These estimated original costs were established by deflated current replacement costs.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	All	NA	NA
Improvements	\$ 5,000.00	Straight Line	50 yrs
Buildings	5,000.00	Straight Line	50-100 yrs
Machinery and Equipment	5,000.00	Straight Line	20-25 yrs
Food Service Machinery and Equipment	1,000.00	Straight Line	20 yrs

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements

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

g. Long-Term Liabilities:

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

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

general obligation bonds payable, capital outlay certificates payable, financing (capital acquisition) leases, other postemployment benefits and early retirement payable.

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

h. Program Revenues

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

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

i. 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, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

j. Cash and Cash Equivalents:

The School District pools its cash resources for depositing and investing purposes. Accordingly, the enterprise fund 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.

k. Equity Classifications

Government-wide Statements:

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

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

2. Restricted Net Position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and is distinguished between Nonspendable, Restricted, Committed, Assigned or Unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net position held in trust for other purposes.

l. Application of Net Position:

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

m. Deferred Inflows and Deferred Outflows of Resources:

In addition to assets, the statement of financial 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.

In addition to liabilities, the statement of financial 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.

n. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the School District classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the school board.

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

The School District uses *restricted/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 School District does not have a formal minimum fund balance policy.

A schedule of fund balances is provided as follows:

TEA AREA SCHOOL DISTRICT NO. 41-5
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Funds	Capital Project Funds	Total Governmental Funds
Fund Balances:							
<i>Nonspendable:</i>							
Prepaid Expenses	\$ 97,015.73	\$ 57,581.25	\$	\$	\$	\$	\$ 154,596.98
<i>Restricted for:</i>							
Capital Outlay		471,278.61					471,278.61
Pension				191,227.62			191,227.62
Debt Service Requirements					5,806,469.15		5,806,469.15
Capital Projects						5,767,744.78	5,767,744.78
<i>Assigned to:</i>							
Subsequent Year's							
Budget	316,388.00						316,388.00
<i>Unassigned</i>	936,970.13		(11,288.34)				925,681.79
Total Fund Balances	<u>\$ 1,350,373.86</u>	<u>\$ 528,859.86</u>	<u>\$ (11,288.34)</u>	<u>\$ 191,227.62</u>	<u>\$ 5,806,469.15</u>	<u>\$ 5,767,744.78</u>	<u>\$ 13,633,386.93</u>

o. Pensions

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

NOTE 2 – DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

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

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

equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

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

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

Concentration of Credit Risk- The School District places no limit on the amount that may be invested in any one issuer. The School District does not have any investments with an external investment pool as of June 30, 2015.

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

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from deposits and investments to the General Fund except for the Capital Project Fund, and Private Purpose Trust Funds, which retain their investment income. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Investment income was not material to any of the funds for the current year.

NOTE 3 – RESTRICTED CASH AND INVESTMENTS

Assets restricted to use for a specific purpose through segregation of balances in separate accounts are as follows:

<u>Amount:</u>	<u>Purpose:</u>
\$ 5,385,459.09	For Debt Service, by debt covenants (sinking funds required to be in a separate account)

NOTE 4 – RECEIVABLES AND PAYABLES

Receivables and Payables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year. No allowance has been made for estimated uncollectible amounts.

NOTE 5 - INVENTORY

Inventory held for consumption is stated at cost.

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

In the government-wide financial statements, and in the enterprise fund financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the governmental fund financial statements, inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. No material inventories were on hand as of June 30, 2015 in the governmental funds.

NOTE 6 - PROPERTY TAXES

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

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

NOTE 7 - CHANGES IN CAPITAL ASSETS

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

Primary Government	Balance 07/01/14	Increases	(Decrease)	Balance 06/30/15
Governmental Activities:				
Capital Asset, not depreciated:				
Land	\$ 799,258.00	\$	\$	\$ 799,258.00
Construction Work in Progress	2,463,428.34	4,465,694.33	(2,329,483.66)	4,599,639.01
Totals	3,262,686.34	4,465,694.33	(2,329,483.66)	5,398,897.01
Capital Assets, depreciated:				
Buildings	24,835,470.12	2,329,483.66		27,164,953.78
Improvements Other Than Buildings	553,558.69	23,208.19		576,766.88
Library Books	318,768.48	47,820.00	(6,636.00)	359,952.48
Machinery and Equipment	1,304,931.40	255,040.99		1,559,972.39
Totals	27,012,728.69	2,655,552.84	(6,636.00)	29,661,645.53
Less Accumulated Depreciation:				
Buildings	2,404,790.20	298,515.28		2,703,305.48
Improvements	196,427.03	46,370.96		242,797.99
Library Books	231,700.05	39,595.00	(6,636.00)	264,659.05
Machinery and Equipment	309,505.27	137,204.11		446,709.38
Total Accumulated Depreciation	3,142,422.55	521,685.35	(6,636.00)	3,657,471.90
Total Capital Assets, being depreciated, net	23,870,306.14	2,133,867.49		26,004,173.63
Governmental activity capital assets, net	\$ 27,132,992.48	\$ 6,599,561.82	\$ (2,329,483.66)	\$ 31,403,070.64

**Depreciation expense was charged to functions as follows:

Governmental Activities:		
Instruction		\$ 307,659.65
Support Services		131,781.78
Co-Curricular Activities		82,243.92
Total Depreciation expense-governmental activities		\$ 521,685.35

Business-type activity,

Capital assets, net			
Capital Assets, depreciated:			
Machinery and Equipment	\$ 493,521.20	\$ 38,148.79	\$ 531,669.99
Less Accumulated Depreciation:			
Machinery and Equipment	140,713.28	24,663.50	165,376.78
Business-type activity capital assets, net	\$ 352,807.92	\$ 13,485.29	\$ 366,293.21

**Depreciation expense was charged to functions as follows:

Business-type Activities		
Food Service		\$ 19,048.90
Out of School Program		5,614.60
Total Depreciation expense-Business-type activities		\$ 24,663.50

Construction Work In Progress at June 30, 2015 is composed of the following:

<u>Project Name</u>	<u>Project Authorization</u>	<u>Expended Thru 6/30/15</u>	<u>Committed</u>
Elementary/Legacy Addition	\$ 292,257.17	\$ 292,257.17	\$
Elementary/Performing Arts Center	7,236,140.39	4,307,381.84	2,928,758.55
Totals	<u>\$ 7,528,397.56</u>	<u>\$ 4,599,639.01</u>	<u>\$ 2,928,758.55</u>

NOTE 8 – SHORT-TERM DEBT

At the March 9, 2015 school board meeting, the school district renewed an agreement for a revolving line of credit promissory note with Reliabank Dakota for \$300,000, with a variable interest rate. As of June 30, 2015, no loan proceeds had been disbursed on this note.

NOTE 9 - LONG -TERM LIABILITIES

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

	<u>Ending Balance 6/30/14</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance 6/30/15</u>	<u>Due Within One Year</u>
Primary Government:					
Governmental Activities:					
General Obligation Bonds	\$ 25,155,000.00	\$ 5,200,000.00	\$ 460,000.00	\$ 29,895,000.00	\$ 505,000.00
Capital Outlay Certificates	4,035,000.00	7,090,000.00	1,665,000.00	9,460,000.00	170,000.00
Note Payable		145,000.00		145,000.00	
Financing (Capital Acquisition) Lease	374,706.16	727,596.22	172,724.80	929,577.58	295,795.27
Early Retirement	86,629.02		33,541.08	53,087.94	26,543.97
Other Postemployment Benefits	191,085.00		10,825.00	180,260.00	
Activities	<u>\$ 29,842,420.18</u>	<u>\$ 13,162,596.22</u>	<u>\$ 2,342,090.88</u>	<u>\$ 40,662,925.52</u>	<u>\$ 997,339.24</u>

Compensated absences for governmental activities and other postemployment benefits typically have been liquidated from the General and Special Education Funds. Early Retirement payments are liquidated from the Pension Fund.

In prior years the School District crossover refunded certain long-term debt by placing the proceeds of new debt in an irrevocable trust to provide for the future debt service payment on the old debt on the crossover date of January 15, 2017. The liability for that issue will be removed from the financial statements of the school district at that time. On June 30, 2015, the School District had \$5,252,908.00 on deposit with the escrow agent in this irrevocable trust to retire \$5,000,000.00 of old debt still outstanding.

During fiscal year 2015 the School District issued \$1,890,000 in Refunding Bonds with an average interest rate of 1.30% to 4.0% to refund the following:

<u>Year Issued</u>	<u>Type</u>	<u>Average Interest Rate</u>	<u>Unpaid Principal at Time of Refunding</u>
2007	General Obligation Certificates	3.90% to 4.55%	\$ 1,410,000.00

The School District refunded the debt to reduce its total debt service payments over the next 11 years by \$8,384.37 and to obtain an economic gain of \$45,288.73.

Part of the proceeds of the refunding issue in the amount of \$1,525,056.09 was deposited into an irrevocable trust with an escrow agent to provide for future debt service requirements on the refunded issue which will be called effective January 15, 2017. The remaining proceeds of \$400,000.00 were deposited into the capital outlay fund for construction uses.

The purchase prices at the commencement of the financing (capital acquisition) leases were:

	<u>Bus</u>	<u>Copiers</u>	<u>Scoreboard</u>	<u>Computers</u>
Principal	\$ 711,435.00	\$ 68,635.20	\$ 170,000.00	\$ 483,555.22
Interest	54,098.80		17,463.89	24,931.34
Total	<u>\$ 765,533.80</u>	<u>\$ 68,635.20</u>	<u>\$ 187,463.89</u>	<u>\$ 508,486.56</u>

The annual debt service requirements to maturity for all debt outstanding, other than other postemployment benefits and early retirement, as of June 30, 2015 are as follows:

F/Y	<u>General Obligation Bonds</u>		<u>Limited Tax Capital Outlay Certificates</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 505,000.00	\$ 1,284,335.24	\$ 170,000.00	\$ 283,750.63
2017	5,545,000.00	1,210,250.00	165,000.00	278,255.00
2018	635,000.00	946,912.50	295,000.00	275,860.00
2019	685,000.00	920,482.50	345,000.00	271,561.25
2020	735,000.00	891,862.50	360,000.00	265,968.75
2021-2025	1,720,000.00	2,891,475.00	2,460,000.00	1,179,088.75
2026-2030	6,620,000.00	3,425,495.01	2,895,000.00	796,577.50
2031-2035	9,595,000.00	1,447,783.75	2,770,000.00	244,818.75
2035-2040	3,855,000.00	379,381.25		
Totals	<u>\$ 29,895,000.00</u>	<u>\$ 13,397,977.75</u>	<u>\$ 9,460,000.00</u>	<u>\$ 3,595,880.63</u>

F/Y	<u>Capital (Acquisition Financing) Lease</u>		<u>Note Payable</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 295,795.27	\$ 15,220.58	\$	\$ 2,070.57	\$ 970,795.27	\$ 1,585,377.02
2017	189,857.82	22,297.03		2,070.57	5,899,857.82	1,512,872.60
2018	179,267.74	15,728.31		2,070.57	1,109,267.74	1,240,571.38
2019	148,467.74	8,899.66	19,142.08	12,557.14	1,197,609.82	1,213,500.55
2020	116,189.01	3,810.99	27,424.42	4,274.80	1,238,613.43	1,165,917.04
2021-2025			98,433.50	8,071.87	4,278,433.50	4,078,635.62
2026-2030					9,515,000.00	4,222,072.51
2031-2035					12,365,000.00	1,692,602.50
2036-2040					3,855,000.00	379,381.25
Totals	<u>\$ 929,577.58</u>	<u>\$ 65,956.57</u>	<u>\$ 145,000.00</u>	<u>\$ 31,115.52</u>	<u>\$ 40,429,577.58</u>	<u>\$ 17,090,930.47</u>

Governmental Activities

Liabilities payable at June 30, 2015 are comprised of the following:

General Obligation Bonds:

Series 2006, maturing January, 2029, interest rates from 4.0 to 4.5% depending on length to maturity; Interest payable semi-annually Payments from the Bond Redemption #1 Fund.	\$ 9,695,000.00
Series 2009A, maturing January, 2017, interest rates from 4.7 to 5.0% depending on length to maturity; Interest payable semi-annually Payments from the Bond Redemption #2 Fund.	5,000,000.00
Series 2009B, maturing January, 2033, interest rates from 2.75 to 5.9% depending on length to maturity; Interest payable semi-annually Payments from the Bond Redemption #2 Fund.	3,590,000.00
Series 2010, maturing January, 2029, interest rates from 5.8%. With 93.62% eligible for Federal rebate upon request of the School District Payments from the Bond Redemption #2 Fund.	750,000.00
Series 2012, maturing January, 2033, interest rates from 1.6% to 2.8% depending on length to maturity; Interest payable semi-annually Payments from the Bond Redemption #2 Fund.	5,660,000.00
Series 2015, maturing January, 2040, interest rates from 3.65% to 4.0% depending on length to maturity; Interest payable semi-annually Payments from the Bond Redemption #3 Fund.	5,200,000.00

Capital Outlay Certificates:

Series 2005, maturing January, 2016 Interest rates from 3.25 to 4.10% depending on length to maturity. Payments from the Capital Outlay Fund	50,000.00
Series 2015, maturing January, 2035 Interest rates from 3.90 to 4.55% depending on length to maturity. Payments from the Capital Outlay Fund	1,890,000.00
Series 2014, maturing January, 2034 Interest rates from 0.7% to 4.25% depending on length to maturity. Payments from the Capital Outlay Fund	5,200,000.00
Series 2012, maturing January, 2032 Interest rates from 0.45% to 2.75% depending on length to maturity. Payments from the Capital Outlay Fund	2,320,000.00

Capital (Financing Acquisition) Leases:

Financing Lease with Blue Bird Capital Services
for the purchase of buses,
matures August 22, 2015, interest rate at 2.88%.
Payments to be made from Capital Outlay Fund 96,093.49

Financing Lease with Anacon Leasing Inc.
for eight Toshiba copiers,
matures July 15, 2017, no interest.
Payments to be made from Capital Outlay Fund 34,317.60

Financing Lease with PNC Equipment Finance, LLC.
for scoreboard and related equipment,
matures September 18, 2018, interest rate at 5.217%.
Payments to be made from Capital Outlay Fund 101,816.03

Financing Lease with Blue Bird Capital Services
for the purchase of buses,
matures September, 2019, interest rate at 3.28%.
Payments to be made from Capital Outlay Fund 213,795.24

Financing Lease with Hewlett Packard Financial.
for technology equipment,
matures July, 2018, interest rate of 3.5%.
Payments to be made from Capital Outlay Fund 287,097.00

Financing Lease with Hewlett Packard Financial.
for technology equipment,
matures July, 2019, interest rate of 3.5%.
Payments to be made from Capital Outlay Fund 196,458.22

Other Postemployment Benefits:

See note for a complete description of the liability for
other postemployment benefits. Payments to be made
from the General Fund 180,260.00

Early Retirement Payable:

Represents obligations to employees who have chosen to
take advantage of the school district's early retirement
plan. Payments to be made from the Pension Fund 53,087.94

Bank Note Payable:

Promissory Note with Reliabank Dakota of Tea, SD.
matures August, 2023, interest rate of 3.35%.
Payments to be made from Capital Outlay Fund 145,000.00

NOTE 10 – RESTRICTED NET POSITION

The following table shows the net position restricted for other purposes as shown in the statement of net position.

<u>Major Purposes:</u>	<u>Restricted by</u>	<u>Amount</u>
Capital Outlay Purposes	Law	\$ 58,894.39
Pension Purposes	Law	139,798.51
SDRS Pension Purposes	Law	1,753,503.50
Debt Service Purposes	Debt Covenants	441,262.12
Total Restricted Net Position		<u>\$ 2,393,458.52</u>

NOTE 11 – PENSION PLAN

Plan Information:

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

Benefits Provided:

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 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 one each July 1 is indexed to the consumer price index (CPI) based on SDRS funded status:

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2015, 2014, and 2013 were \$366,791.80, \$348,666.30, and \$319,207.99, respectively, equal to the required contributions each year.

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

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

Proportionate share of net position restricted for pension benefits	\$ 35,249,455.17
Less proportionate share of total pension assets	<u>32,855,332.10</u>
Proportionate share of net pension asset	<u><u>\$ 2,394,123.07</u></u>

At June 30 2015, the School District reported an asset of \$2,394,123.07 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 School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2014, the School District's proportion was .3323052%, which is an increase of .3323052% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the School District recognized pension revenue of \$101,126.87. At June 30, 2015 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 202,575.18	\$
Changes in assumption	1,562,811.86	
Net difference between projected and actual earnings on pension plan investments		2,772,798.12
District contributions subsequent to the measurement date	<u>366,791.80</u>	
TOTAL	<u><u>\$ 2,132,178.85</u></u>	<u><u>\$ 2,772,798.12</u></u>

\$366,791.50 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension 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 expense (revenue) as follows:

Year Ended June 30:

2015	\$	(190,240.17)
2016		(190,240.17)
2017		(190,240.17)
2018		<u>(436,690.26)</u>
TOTAL	\$	<u>(1,007,410.77)</u>

Actuarial Assumptions:

The total pension liability (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:

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

Discount Rate:

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

Sensitivity of liability (asset) to changes in the discount rate:

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

	<u>1%</u> <u>Decrease</u>	Current Discount <u>Rate</u>	<u>1%</u> <u>Increase</u>
School District's proportionate share of the net pension liability (asset)	\$ 2,365,843.90	\$ (2,394,123.07)	\$ (6,276,372.95)

Pension Plan Fiduciary Net Position:

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

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS - HEALTHCARE PLAN

Plan Description: Tea Area School District has a single-employer defined benefit medical plan administered by Sanford Health of South Dakota. This plan provides medical insurance benefits to eligible current employees, as well as retirees meeting eligibility requirements. After eligibility for retiree benefits is established, retirees must pay premiums until they are eligible for Medicare. SDCL 6-1-16 specifically allows any school district to provide health insurance for retiring employees and their immediate families. The liability exists because of an implicit subsidy of costs of the benefits to retirees of the district. The Sanford Health Plan issues an actuarial report that includes required supplementary information. That report may be obtained by writing to the Tea Area School District, 131 N. Poplar Ave, Tea, SD 57064 or by calling 605-498-2700.

Funding Policy: The district funds the postemployment benefits on a pay-as-you-go basis. 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 school district's annual other postemployment benefit (OPEB) cost (expense) 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 (or funding excess) over a period not to exceed thirty years. The following table shows the financial components of the plan.

Annual required contribution	\$ 40,401
Interest on net OPEB obligation	4,710
Adjustment to annual required contribution	<u>(41,863)</u>
Annual OPEB cost (expense)	3,248
Employer contributions made	<u>(14,073)</u>
Increase in net OPEB obligation	(10,825)
Net OPEB obligation - beginning of year	<u>191,085</u>
Net OPEB obligation - end of year	<u><u>\$ 180,260</u></u>

The school district's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2015 and the preceding two years was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/13	\$ 28,208	8.26%	\$ 166,485
06/30/14	28,536	13.79%	191,085
06/30/15	37,334	-433.28%	180,260

Funded Status and Funding Progress: As of June 30, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$199,511, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$199,511.

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 plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2015 actuarial valuation, the Unit Credit Actuarial Cost Method (with attribution through all years of employment) was used to allocate the cost of benefits to years of active service. The objective under this method is to expense each participant's benefit under the plan proportional to the service rendered. At the time the funding method is introduced, there will be a liability, which represents the contributions, which would have accumulated if this method of funding had always been used (called the Actuarial Liability). The difference between this actuarial liability and the assets, if any, is the unfunded actuarial liability, which is typically amortized over a period of years. The maximum permissible years under GASB 45 is 30.

NOTE 13 - EARLY RETIREMENT

The district adopted an early retirement policy in fiscal year 2003 for employees who meet certain criteria. The plan is available to employees who are 55 and above as of June 30 in the school year in which the application for an early retirement is made. Those who choose early retirement must have at least fifteen years of continuous service with the district or its predecessor school district. Those employees with half time or more employment may participate in the plan on a pro-rata basis. Under the plan, the district will pay 80% of the current salary contract, excluding extra-curricular and extra-duty pay. Such amounts are payable in semi-annual installments, spread over the next three years. Disbursements paid out from early retirement during the year amounted to \$42,270.11. There were no new contracts entered into during fiscal year 2015. The total early retirement payments still to be made as of June 30, 2015 is \$53,087.94.

NOTE 14 - JOINT VENTURES

The school district participates in the Cornbelt Educational Cooperative, a cooperative service unit (co-op) formed for the purpose of providing pupil support services to the member school districts.

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

Bridgewater/Emery School District No. 43-6	8.13%
Canistota School District No. 43-1	5.15%
Freeman School District No. 33-1	9.37%
Hanson School District No. 30-1	10.67%
Marion School District No. 60-3	4.99%
McCook Central School District No. 43-7	10.74%
Montrose School District No. 43-2	5.58%
Parker School District No. 60-4	9.18%
Tea Area School District No. 41-5	36.19%

The co-op's governing board is composed of one school board member representative from each member school district and one representative from East Dakota Educational Foundation. The board is responsible for adopting the co-op's budget and setting service fees at a level adequate to fund the adopted budget. The school district retains no equity in the net position of the co-op, but does have a responsibility to fund deficits of the co-op in proportion to the relative participation described above. Separate financial statements for this joint venture are available from the Cornbelt Educational Cooperative.

At June 30, 2015, this joint venture had total assets of \$833,778.26, total liabilities of \$163,125.98, and net position of \$670,652.28.

NOTE 15 - RISK MANAGEMENT

The school district is exposed to various risks of loss related to tort; 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 school district managed its risks as follows:

Employee Health Insurance

The school district joined the South Dakota School District Health Benefits Fund. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The school district pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage

with the premiums it receives from the members. The coverage also includes a \$1,000,000 lifetime maximum payment per person.

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

Liability Insurance

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

Worker's Compensation

The school district purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage in the past three years.

Unemployment Benefits

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

During the year ended June 30, 2015, no claims were filed for unemployment benefits and none are anticipated in the next fiscal year.

NOTE 16 – INTERFUND TRANSFERS

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

	<u>Transfers to:</u>
	Capital
<u>Transfers From:</u>	<u>Projects</u>
Capital Outlay	\$ 5,175,000.00
Debt Service	5,144,630.15

The capital outlay fund and debt service received debt proceeds from the issuance of new debt for projects listed in the debt agreements.

NOTE 17 – PRIOR PERIOD ADJUSTMENT

The School 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 and deferred outflows of resources as of July 1, 2014 as follows:

Net Position July 1, 2014, as previously reported	\$ 449,793.13
Restatement for pension accounting:	
Net Pension Asset	936,918.87
Pension related Deferred Outflows of Resources	<u>366,791.50</u>
Net Position July 1, 2014, as restated	<u>\$ 1,753,503.50</u>

NOTE 18– SIGNIFICANT CONTINGENCIES - LITIGATION

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

REQUIRED SUPPLEMENTARY INFORMATION
TEA AREA SCHOOL DISTRICT NO. 41-5
BUDGETARY COMPARISON SCHEDULE-BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		Actual	Variance
	Original	Final	(Budgetary Basis)	Positive (Negative)
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 1,858,182.00	\$ 1,858,182.00	\$ 1,923,586.69	\$ 65,404.69
Prior Years' Ad Valorem Taxes	25,000.00	25,000.00	65,987.93	40,987.93
Utility Taxes	100,000.00	100,000.00	102,035.01	2,035.01
Penalties and Interest on Taxes	4,000.00	4,000.00	1,104.28	(2,895.72)
Tuition and Fees:				
Tuition from Pupils or Parents	2,000.00	2,000.00		(2,000.00)
Earnings on Investments/ Deposits	5,000.00	5,000.00	6,062.94	1,062.94
Cocurricular Activities:				
Admissions	42,000.00	42,000.00	45,097.45	3,097.45
Rentals	30,000.00	30,000.00	10,932.72	(19,067.28)
Other Pupil Activity Income	12,000.00	12,000.00	36,862.19	24,862.19
Other Revenue from Local Sources:				
Rentals	22,000.00	22,000.00	32,484.00	10,484.00
Contributions and Donations				
Charges for Services	50,000.00	50,000.00	21,710.11	(28,289.89)
Other	25,000.00	25,000.00	66,170.22	41,170.22
Revenue from Intermediate Sources:				
County Sources:				
County Apportionment	45,000.00	45,000.00	40,883.65	(4,116.35)
Revenue from State Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	5,513,981.00	5,513,981.00	5,347,188.11	(166,792.89)
Restricted Grants-in-Aid			1,000.00	1,000.00
Revenue from Federal Sources:				
Restricted Grants-in-Aid Received from Federal Government through the State	118,593.00	118,593.00	162,795.41	44,202.41
Total Revenue	<u>7,852,756.00</u>	<u>7,852,756.00</u>	<u>7,863,900.71</u>	<u>11,144.71</u>
Expenditures:				
Instruction:				
Regular Programs:				
Elementary School	2,571,163.52	2,592,224.52	2,573,884.09	18,340.43
Middle/Junior High	549,505.88	549,505.88	548,656.68	849.20
High School	1,420,613.87	1,431,113.87	1,431,107.45	6.42
Special Programs:				
Educationally Deprived	94,645.69	94,645.69	94,236.55	409.14

REQUIRED SUPPLEMENTARY INFORMATION
TEA AREA SCHOOL DISTRICT NO. 41-5
BUDGETARY COMPARISON SCHEDULE-BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
	Original	Final		
Support Services:				
Pupils:				
Attendance and Social Work	4,000.00	4,000.00	4,000.00	
Guidance	190,657.14	192,514.14	191,979.21	534.93
Health	76,271.61	76,271.61	68,280.05	7,991.56
Support Services - Instructional Staff:				
Improvement of Instruction	111,321.84	111,781.84	62,591.16	49,190.68
Educational Media	268,201.91	295,107.91	284,021.42	11,086.49
Support Services - General Administration:				
Board of Education	129,144.75	174,044.75	168,518.40	5,526.35
Executive Administration	157,881.96	157,881.96	157,104.61	777.35
Support Services - School Administration:				
Office of the Principal	554,104.68	568,429.68	567,775.45	654.23
Other	2,000.00	2,000.00	1,209.33	790.67
Support Services - Business:				
Fiscal Services	178,618.52	183,678.52	183,671.41	7.11
Operation and Maintenance of Plant	963,868.64	963,868.64	933,328.58	30,540.06
Pupil Transportation	272,507.14	296,232.14	301,419.19	(5,187.05)
Cocurricular Activities:				
Male Activities	75,254.86	75,254.86	67,883.91	7,370.95
Female Activities	58,174.35	58,174.35	45,090.41	13,083.94
Transportation	32,730.00	32,730.00	32,642.47	87.53
Combined Activities	304,152.69	331,582.69	267,520.76	64,061.93
Contingencies	20,000.00	1,572.00		1,572.00
Total Expenditures	<u>8,034,819.05</u>	<u>8,192,615.05</u>	<u>7,984,921.13</u>	<u>207,693.92</u>
Net Change in Fund Balances	(182,063.05)	(339,859.05)	(121,020.42)	218,838.63
Beginning Fund Balance	<u>1,471,394.28</u>	<u>1,471,394.28</u>	<u>1,471,394.28</u>	
ENDING FUND BALANCE	<u>\$ 1,289,331.23</u>	<u>\$ 1,131,535.23</u>	<u>\$ 1,350,373.86</u>	<u>\$ 218,838.63</u>

REQUIRED SUPPLEMENTARY INFORMATION
TEA AREA SCHOOL DISTRICT NO. 41-5
BUDGETARY COMPARISON SCHEDULE-BUDGETARY BASIS
CAPITAL OUTLAY FUND
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary</u> <u>Basis)</u>	<u>Positive</u> <u>(Negative)</u>
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 897,531.00	\$ 897,531.00	\$ 898,211.01	\$ 680.01
Prior Years' Ad Valorem Taxes	16,000.00	16,000.00	22,420.45	6,420.45
Penalties and Interest on Taxes			437.89	437.89
Earnings on Investments/ Deposits			10,665.00	10,665.00
Other			10,373.99	10,373.99
Total Revenue	<u>913,531.00</u>	<u>913,531.00</u>	<u>942,108.34</u>	<u>28,577.34</u>
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	82,356.00	82,356.00	16,925.88	65,430.12
Middle/Junior High	32,900.00	32,900.00	211,160.90	(178,260.90)
High School	109,080.00	305,521.00	251,075.51	54,445.49
Support Services:				
Support Services - Instructional Staff:				
Educational Media	43,717.00	134,373.00	201,471.94	(67,098.94)
Support Services - Business:				
Facilities Acquisition and Construction		33,911.00		33,911.00
Operation and Maintenance of	127,946.00	127,946.00	125,107.11	2,838.89
Pupil Transportation	30,246.00	274,287.00	283,779.26	(9,492.26)
Debt Services	475,286.00	6,201,290.96	718,912.87	5,482,378.09
Cocurricular Activities:				
Male Activities	4,000.00	4,000.00	2,893.30	1,106.70
Female Activities	4,000.00	4,000.00	2,893.30	1,106.70
Combined Activities	4,000.00	4,000.00	2,000.00	2,000.00
Total Expenditures	<u>913,531.00</u>	<u>7,204,584.96</u>	<u>1,816,220.07</u>	<u>5,388,364.89</u>
Excess Revenue Over (Under)				
Expenditures	0.00	(6,291,053.96)	(874,111.73)	5,416,942.23
Other Financing Sources (Uses):				
Transfers Out			(5,175,000.00)	(5,175,000.00)
Proceeds of Capital Lease Issued			727,596.22	727,596.22
Payment to Refunding Debt Escrow			(1,525,056.99)	(1,525,056.99)
Proceeds of Long Term Debt Issued			7,090,000.00	7,090,000.00
Premium/(Discount) on Bonds Issued		(1,571,856.99)	189,899.45	1,761,756.44
Total Other Financing Sources (Uses)		<u>(1,571,856.99)</u>	<u>1,307,438.68</u>	<u>2,879,295.67</u>
Net Change in Fund Balances	0.00	(7,862,910.95)	433,326.95	8,296,237.90
Beginning Fund Balance	95,532.91	95,532.91	95,532.91	
ENDING FUND BALANCE	<u>\$ 95,532.91</u>	<u>\$ (7,767,378.04)</u>	<u>\$ 528,859.86</u>	<u>\$ 8,296,237.90</u>

REQUIRED SUPPLEMENTARY INFORMATION
TEA AREA SCHOOL DISTRICT NO. 41-5
BUDGETARY COMPARISON SCHEDULE-BUDGETARY BASIS
SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		Actual	Variance
	<u>Original</u>	<u>Final</u>	(Budgetary	Positive
			Basis)	(Negative)
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 534,408.00	\$ 534,408.00	\$ 540,819.61	\$ 6,411.61
Prior Years' Ad Valorem Taxes			13,463.88	13,463.88
Penalties and Interest on Taxes			259.05	259.05
Other Revenue from Local Sources:				
Charges for Services	65,448.00	65,448.00	56,928.27	(8,519.73)
Revenue from State Sources:				
Restricted Grants-in-Aid	<u>1,103,083.00</u>	<u>1,103,083.00</u>	<u>1,483,578.00</u>	<u>380,495.00</u>
Total Revenue	<u>1,702,939.00</u>	<u>1,702,939.00</u>	<u>2,095,048.81</u>	<u>392,109.81</u>
Expenditures:				
Special Programs:				
Programs for Special Education	606,394.69	735,029.69	653,070.10	81,959.59
Severe Disabilities	354,277.43	354,277.43	355,225.82	(948.39)
Day Programs	384,332.00	384,332.00	218,618.50	165,713.50
Residential Programs	136,549.00	136,549.00	206,948.73	(70,399.73)
Homebound Programs			10,602.16	(10,602.16)
Early Childhood Programs	38,606.76	38,606.76	38,508.26	98.50
Support Services				
Pupils:				
Guidance	392.17	392.17	392.17	
Health		16,095.00	16,092.00	3.00
Psychological	21,664.06	28,084.06	28,077.22	6.84
Speech Pathology	102,234.43	115,364.43	115,364.33	0.10
Audiology	75,000.00	132,970.00	132,966.83	3.17
Support Services - Instructional Staff				
Educational Media	487.50	1,062.50	1,061.96	0.54
Support Services - General Administration				
Board of Education	2,663.94	2,663.94	2,663.94	
Executive Administration	7,046.12	7,046.12	7,046.12	
Support Services - Special Education				
Administrative Costs	113,772.20	230,835.20	117,169.35	113,665.85
Transportation	31,095.05	51,535.05	20,419.54	31,115.51
Other Special Education		174,085.00	188,343.59	(14,258.59)
Early Retirement	<u>1,731.93</u>	<u>1,731.93</u>	<u>1,731.93</u>	
Total Expenditures	<u>1,876,247.28</u>	<u>2,410,660.28</u>	<u>2,114,302.55</u>	<u>296,357.73</u>
Net Change in Fund Balance	(173,308.28)	(707,721.28)	(19,253.74)	688,467.54
Beginning Fund Balance	<u>7,965.40</u>	<u>7,965.40</u>	<u>7,965.40</u>	
ENDING FUND BALANCE	<u>\$ (165,342.88)</u>	<u>\$ (699,755.88)</u>	<u>\$ (11,288.34)</u>	<u>\$ 688,467.54</u>

REQUIRED SUPPLEMENTARY INFORMATION
TEA AREA SCHOOL DISTRICT NO. 41-5
BUDGETARY COMPARISON SCHEDULE-BUDGETARY BASIS
PENSION FUND
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		Actual	Variance
	<u>Original</u>	<u>Final</u>	(Budgetary	Positive
			Basis)	(Negative)
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 100,688.00	\$ 100,688.00	\$ 107,331.92	\$ 6,643.92
Prior Years' Ad Valorem Taxes	2,000.00	2,000.00	2,714.29	714.29
Penalties and Interest on Taxes			53.09	53.09
Total Revenue	<u>102,688.00</u>	<u>102,688.00</u>	<u>110,099.30</u>	<u>7,411.30</u>
Expenditures:				
Regular Programs:				
Elementary School	80,000.00	80,000.00	80,000.00	
Middle/Junior High	24,000.00	24,000.00	24,000.00	
High School	43,000.00	43,000.00	43,000.00	
Nonprogrammed Charges:				
Early Retirement Payments	<u>40,500.00</u>	<u>40,540.00</u>	<u>40,538.18</u>	<u>1.82</u>
Total Expenditures	<u>187,500.00</u>	<u>187,540.00</u>	<u>187,538.18</u>	<u>1.82</u>
Net Change in Fund Balances	(84,812.00)	(84,852.00)	(77,438.88)	7,413.12
Beginning Fund Balance	<u>268,666.50</u>	<u>268,666.50</u>	<u>268,666.50</u>	
ENDING FUND BALANCE	<u>\$ 183,854.50</u>	<u>\$ 183,814.50</u>	<u>\$ 191,227.62</u>	<u>\$ 7,413.12</u>

**REQUIRED SUPPLEMENTARY INFORMATION
 TEA AREA SCHOOL DISTRICT NO. 41-5
 SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS
 FOR THE YEAR ENDED JUNE 30, 2015**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AL) - Unit Credit (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll** (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
6/30/2009	\$ 0.00	\$ 125,319	\$ 125,319	0.0%	\$2,570,852.70	4.9%
6/30/2012	0.00	116,894	116,894	0.0%	2,825,112.85	4.1%
6/30/2015	0.00	199,511	199,511	0.0%	3,576,309.00	5.6%

**2009 Fiscal Year Restated

Schedule of Required Supplementary Information
TEA AREA SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY (ASSET)
South Dakota Retirement System

	2015
District's proportion of the net pension liability (asset)	0.3323052%
District's proportionate share of net pension liability (asset)	\$ (2,394,123)
District's covered-employee payroll	\$ 5,812,707
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-41.19%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107.3%

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30 of the previous fiscal year

Schedule of Required Supplementary Information
TEA AREA SCHOOL DISTRICT
SCHEDULE OF THE SCHOOL DISTRICT CONTRIBUTIONS
South Dakota Retirement System

	<u>2014</u>	<u>2015</u>
Contractually required contribution	<u>\$ 348,666</u>	<u>\$ 366,792</u>
Contributions in relation to the contractually required contribution	<u>\$ 348,666</u>	<u>\$ 366,792</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>
District's covered-employee payroll	\$5,812,707	\$6,111,548
Contributions as a percentage of covered-employee payroll	6.00%	6.00%

TEA AREA SCHOOL DISTRICT NO. 41-5
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
Schedules of Budgetary Comparisons for the General Fund
And for each major Special Revenue Fund with a legally required budget

NOTE 1 – BUDGET AND BUDGETARY ACCOUNTING

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

1. Prior to the first regular board meeting in May of each year the board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the 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 board must approve the budget for the ensuing fiscal year for each fund, except fiduciary funds.
6. After adoption by the board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the 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 moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and each major special revenue fund.
11. Budgets for the General Fund and each major special revenue fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

NOTE 2- GAAP/BUDGETARY ACCOUNTING BASIS DIFFERENCES

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new school bus would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a school bus would be reported as an expenditure of the Support Services-Business/Pupil Transportation function of government, along with all other current Pupil Transportation related expenditures.

QUAM & BERGLIN, P.C.

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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
Tea Area School District No. 41-5
Lincoln County, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Tea Area School District No. 41-5, Lincoln County, South Dakota (School District), as of June 30, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Tea Area School District's basic financial statements and have issued our report thereon dated February 29, 2016.

Internal Control Over Financial Reporting

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

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section 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. Given those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control that we consider to be a significant deficiency, described in the accompanying Schedule of Audit Findings as Finding No 2015-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Audit Findings as Finding No. 2015-002.

School District's Response to Findings

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

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 School 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Quam and Berglin, P.C.
Certified Public Accountants

February 29, 2016

TEA AREA SCHOOL DISTRICT NO. 41-5
SCHEDULE OF AUDIT FINDINGS
JUNE 30, 2015

PRIOR AUDIT FINDINGS:

Prior Finding Number 2014-001:

A significant deficiency in internal controls was reported for a lack of segregation of duties for revenues. This comment results from the size of the district, which precludes staffing at a level sufficient to provide an ideal environment for internal control. This finding is still present and is being restated as a significant deficiency in Audit Finding Number 2015-001.

Prior Finding Number 2014-002:

A compliance related finding was reported for Capital Outlay expenditures which exceeded the budgeted amounts for the year. This finding has been corrected.

CURRENT AUDIT FINDING:

Internal Control-Related Findings – Significant Deficiency:

Audit Finding Number 2015-001:

There is a significant deficiency resulting from the lack of segregation of duties for revenues.

Criteria:

In order to achieve proper internal control, it is necessary to have segregation of duties provided between performance, review and record keeping of the tasks related to revenue. Lack of this segregation of duties could adversely affect the organization's ability to record, process, summarize and report financial data consistent with management assertions.

Condition, Cause, and Effect:

The size of the accounting staff employed by the entity precludes an adequate segregation of duties.

Recommendation:

We recommend that Tea Area School District officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating controls, whenever and wherever possible and practical.

Corrective Action Plan:

The Board of Education of this entity has prepared a response to this audit finding and that response is found in the Corrective Plan of Action on the following pages.

Compliance Related Finding-Material Weakness:

Audit Finding Number 2015-002:

Criteria:

There is a material weakness resulting from the issuance of a promissory note exceeding 24 months.

Condition, Cause and Effect:

SDCL 13-19-1 requires that promissory notes not exceed 24 consecutive months. The school board signed a promissory note during fiscal year 2015 with Reliabank of Tea, SD, for a period of 9 years.

Recommendation:

We recommend that Tea Area School District officials be aware of and adhere to the codified laws concerning the issuance of promissory notes. It would also be advisable to search for other ways to achieve necessary funding.

Corrective Action Plan:

The Business Manager for Tea Area School District is the contact person responsible for the corrective action plan for these comments. The School District is aware of these problems and has prepared a response to the findings found in the Corrective Action Plan, which can be found on the following page.



Tea Area School District No. 41-5

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Jennifer Nebelsick Lowery Ed.D., Superintendent • Collin Knudson M.A., High School Principal • Chris Fehner M.A., Middle School Principal
David Prehelm, M.A., Intermediate School Principal • Kristi Nelson M.A., Frontier Elementary Principal
Betsy Drew M.A., Legacy Elementary Principal • Tonia Warzecha M.A., Curriculum Director/Assistant Principal
Brent DeBoer M.A., Activities Director • Jody Taylor Ed.S., Special Education Director • Chris Esping, Business Manager

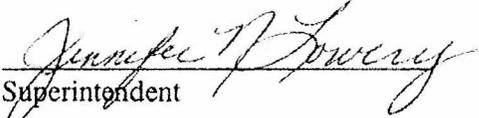
CORRECTIVE PLAN OF ACTION June 30, 2015

Tea Area School District No. 41-5 has considered the lack of segregation of duties for revenues. At this time, it is not cost effective for Tea Area School District to hire the additional staff needed to achieve segregation of duties. Alternate procedures have been implemented by Tea Area School District to decrease the likelihood that financial data is adversely affected.

The Tea Area School District's Board will continue to monitor the necessity to have segregation of duties for revenues and implement such segregation as budget dollars and board authority allow.

Tea Area School District No. 41-5 has considered the finding for the nine-year promissory note. The school district will research and implement other methods to finance the promissory note for a length of only 24 consecutive months.


Business Manager


Superintendent

To educate and empower each student for success in a global society.