# VERMILLION SCHOOL DISTRICT NO. 13-1

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

## JUNE 30, 2016

VERMILLION SCHOOL DISTRICT NO. 13-1
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2016

School Board

Shannon Fairholm – President

Tim Schwasinger- Vice President

Rachel Olson

Doug Peterson

Jim Peterson

Business Manager

Sheila Beermann

Superintendent

Mark Froke

VERMILLION SCHOOL DISTRICT NO. 13-1
TABLE OF CONTENTS


| | Page |
|---|---|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 4 |
| BASIC FINANCIAL STATEMENTS: | |
| Government-Wide Financial Statements: | |
| Statement of Net Position | 14 |
| Statement of Activities | 15 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds | 16 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position | 17 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds | 18 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities | 21 |
| Statement of Net Position – Proprietary Funds | 22 |
| Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds | 23 |
| Statement of Cash Flows – Proprietary Funds | 24 |
| Statement of Net Position – Fiduciary Funds | 25 |
| Notes to the Financial Statements | 26 |
| Required Supplementary Information: | |
| Budgetary Comparison Schedules – Budgetary Basis: | |
| General Fund | 46 |
| Capital Outlay Fund | 48 |
| Special Education Fund | 49 |
| Pension Fund | 50 |
| Schedule of Funding Progress for Other Post-employment Benefits | 51 |
| Schedule of the District's Proportionate Share of the Net Pension Liability (Asset) | 52 |
| Schedule of the School District Contributions | 53 |
| Notes to the Required Supplementary Information | 54 |
| Supplementary Information: | |
| Schedule of Expenditures of Federal Awards | 55 |
| 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* | 57 |
| Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance | 59 |
| Schedule of Prior Audit Findings and Questioned Costs | 61 |
| Schedule of Current Audit Findings and Questioned Costs | 62 |

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## INDEPENDENT AUDITOR'S REPORT

School Board
Vermillion School District No. 13-1
Clay County, South Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Vermillion School District No. 13-1, Clay County, South Dakota (School District), as of June 30, 2016 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, business-type activities, each major fund, and the aggregate remaining fund information of Vermillion School District No. 13-1 as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedule of Funding Progress, the Schedule of the Proportionate Share of the Net Pension Asset, the Schedule of the School District Contributions, and the Budgetary Comparison Schedules 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 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.

*Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Vermillion School District's basic financial statements. The Schedule of Expenditures of Federal Awards, which is required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2016, on our consideration of the Vermillion School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering the Vermillion School District's internal control over financial reporting and compliance.

Quam, Berglin & Post P.C.

Quam, Berglin & Post, P.C.
Elk Point, SD

September 8, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Vermillion School District #13-1's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2016. Please read it in conjunction with the District's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The School's net position from governmental and business-type activities increased approximately $697,999 primarily due to an increase in cash assets.
- During the year, the School's revenues generated from taxes and other revenues of the governmental funds were $2,224,787 less than the $14,956,996 governmental expenditures.
- In the General Fund, revenue exceeded expenditures by $5,739. The General Fund's fund balance increased from $2,420,647 to $2,426,386.
- The total cost of the School's programs held steady which was primarily due to controlling expenses and maintaining budget cuts previously implemented by the school board.
- The District reduced its General Obligation Bond indebtedness by a net of $250,000. G.O. Bond debt payable on June 30, 2016, was $770,000.
- The District reduced its Capital Outlay Certificate indebtedness by $425,463. Capital Outlay Certificates payable on June 30, 2016, was $6,064,161.

### 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 basic services, e.g., regular and special education, 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 a business and the activities that provide services for its other programs and activities, i.e., internal service activities. The District has business-type activities in the Food Service Fund and the Other Enterprise Fund.
    - Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent of resources that belong to others, e.g., student clubs (agency funds) and scholarships (trust funds).

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 Vermillion School's Annual Financial Report

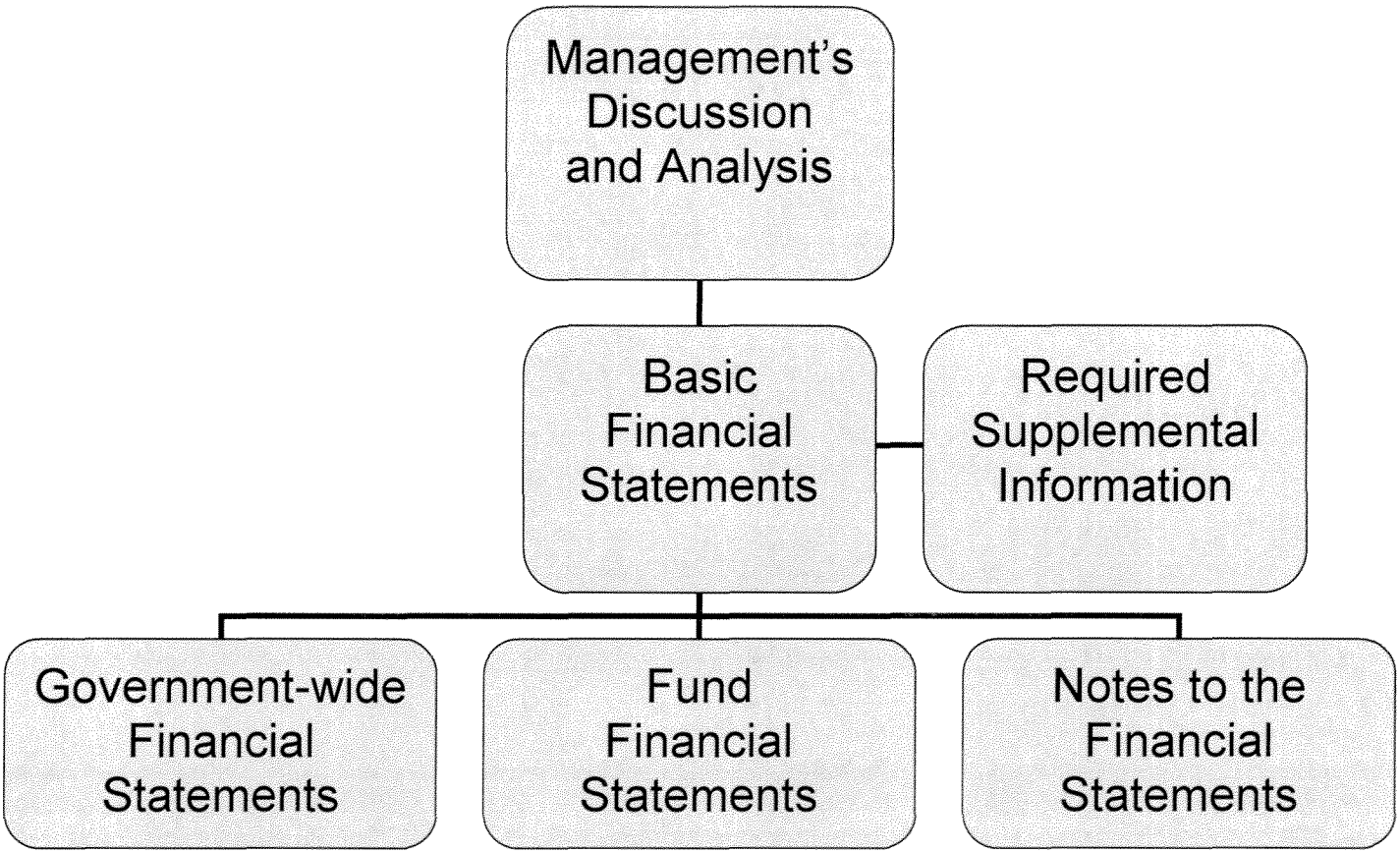



Figure A-2 summarizes the major features of the School's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents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

FIGURE A-2

Major Features of Vermillion School's Government-wide and Fund Financial Statements

| | Government-wide Statements | Fund Statements | | |
|---|---|---|---|---|
| | | Government Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire School government (except 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 operation fund and other enterprise fund | 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 Balance | *Balance Sheet *Statement of Revenues, Expenses and Changes in Net Position *Statement of Cash Flows | *Statement of Fiduciary Net Position |
| Accounting Basis and Measurement Focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of Asset/Liability Information | All assets and liabilities, both financial and capital, and short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included | All assets and liabilities, both financial and capital, and short-term and long-term | All assets and liabilities, both short-term and long-term; the 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 District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

- Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating.
- To assess the overall financial health of the District, additional factors, e.g., changes in the District's property tax base and changes in the state school aid funding formula, also need to be considered.

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

- Governmental Activities - This category includes the District's basic instructional services, such as elementary, middle and high school educational programs, support services (guidance, executive administration, school board, fiscal services, etc.), debt service payments, extracurricular activities (sports, debate, music, etc.) and capital equipment purchases. Property taxes, state grants and federal grants finance most of these activities.
- Business-type Activities - The District charges a fee to students to help cover the costs of providing services to all students. The district has the Food Service Fund and the Other Enterprise Fund (consisting of the after school program, preschool program, and drivers education program) which are all business-type activities of the District.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the District's most significant or "major" funds rather than the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some funds.
- The School District also establishes agency funds that are used to account for resources held by the school district in a purely custodial capacity. eg., various agency funds.

The School has three generic fund types:

- Governmental Funds - Most of the District's basic services are included in the governmental funds which focus on (1) how cash and other financial assets that can 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 the reader determine if there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains relationship and reconciles the differences between the fund financial statements and the governmental-wide statements.

- Proprietary Funds - Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary fund statements, like the government-wide statements, provide both short-and long-term financial information. The District uses an enterprise fund (one type of proprietary fund) to report the activities of its Food Service Program and Other Enterprise Fund which includes the after school program, the preschool program, and the driver's education program, all business-type activities.

- Fiduciary Funds - The District is the trustee, or fiduciary, for various external and internal parties. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. These activities are excluded from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

### Net Position

The School's combined net position increased as follows:

Table A-1
VERMILLION SCHOOL DISTRICT 13-1
Statement of Net Position

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 6/30/2015 | 6/30/2016 | 6/30/2015 | 6/30/2016 | 6/30/2015 | 6/30/2016 |
| Current and Other Assets | 14,172,922 | 10,623,379 | 343,305 | 339,889 | 14,516,227 | 10,963,268 |
| Net Pension Assets | 2,218,825 | 1,280,544 | | | 2,218,825 | 1,280,544 |
| Capital Assets | 18,672,224 | 21,133,714 | 31,546 | 28,747 | 18,703,770 | 21,162,461 |
| Total Assets | 35,063,971 | 33,037,637 | 374,851 | 368,636 | 35,438,822 | 33,406,273 |
| Pension Related Deferred Outflows | 1,966,861 | 2,419,831 | | | 1,966,861 | 2,419,831 |
| Total Deferred Outflows of Resources | 1,966,861 | 2,419,831 | | | 1,966,861 | 2,419,831 |
| Long-Term Debt Outstanding | 8,664,379 | 8,351,658 | - | - | 8,664,379 | 8,351,658 |
| Other Liabilities | 2,531,283 | 1,138,054 | 42,447 | 40,760 | 2,573,730 | 1,178,814 |
| Total Liabilities | 11,195,662 | 9,489,712 | 42,447 | 40,760 | 11,238,109 | 9,530,472 |
| Taxes Levied for Future Period | 3,363,916 | 3,474,281 | - | - | 3,363,916 | 3,474,281 |
| Pension Related Deferred Inflows | 2,569,773 | 1,889,467 | - | - | 2,569,773 | 1,889,467 |
| Total Deferred Inflows of Resources | 5,933,689 | 5,363,748 | - | - | 5,933,689 | 5,363,748 |
| Net Position: | | | | | | |
| Net Investment in Capital Assets | 13,533,788 | 14,299,553 | 31,546 | 28,748 | 13,565,334 | 14,328,301 |
| Restricted | 4,882,393 | 4,950,359 | - | - | 4,882,393 | 4,950,359 |
| Unrestricted | 1,485,301 | 1,354,095 | 300,858 | 299,129 | 1,786,159 | 1,653,224 |
| Total Net Position | 19,901,482 | 20,604,007 | 332,404 | 327,877 | 20,233,886 | 20,931,884 |
| Beginning Net Position | 18,315,615 | 19,901,482 | 334,335 | 332,404 | 18,649,950 | 20,233,886 |
| Increase (Decrease) in Net Position | 1,585,867 | 702,525 | (1,931) | (4,527) | 1,583,936 | 697,998 |
| Percentage of Increase (Decrease) in Net Position for 2014-2015 | 8.66% | 3.53% | -0.58% | -1.36% | 8.49% | 3.45% |

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

## Changes in Net Position

The district was able to increase the Governmental Activities Net Position for the fiscal year end June 30, 2016 by $702,526. The district did this by taking advantage of opportunities to generate additional revenues along with continuous review through out the year of various options to reduce costs. The district was able to end the fiscal year in a more positive financially sound position than recent years.

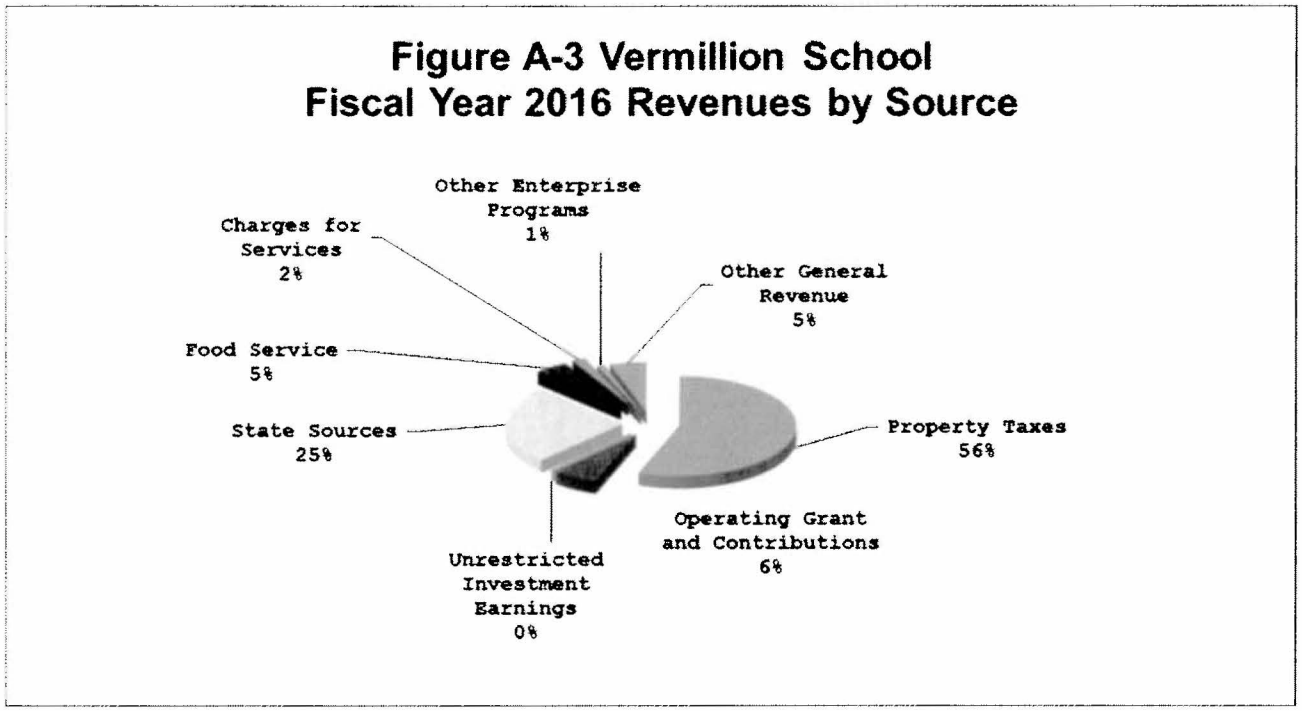
## GOVERNMENTAL ACTIVITIES

Table A-2 and the narrative above consider the operations of the government-wide activities.

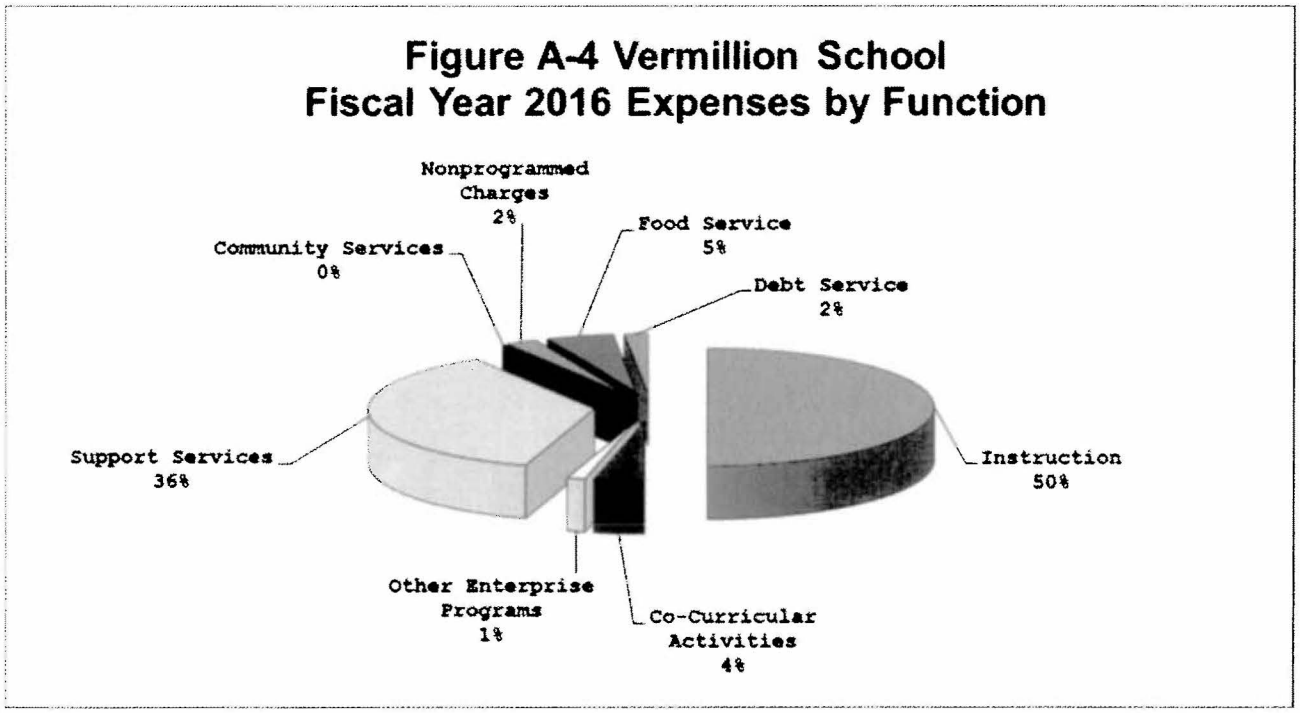
Table A-2
VERMILLION SCHOOL DISTRICT 13-1
Changes in Net Position

| | Governmental Activities | | Business-Type Activities | | Total | | % |
|---|---|---|---|---|---|---|---|
| | 6/30/2015 | 6/30/2016 | 6/30/2015 | 6/30/2016 | 6/30/2015 | 6/30/2016 | Change |
| Revenues | | | | | | | |
| Program Revenues | | | | | | | |
| Charges for Services | 53,666 | 243,891 | 449,319 | 431,735 | 502,985 | 675,626 | 34.32% |
| Operating Grants & Contributions | 868,946 | 838,098 | 355,604 | 328,040 | 1,224,550 | 1,166,138 | -4.77% |
| Capital Grants and Contributions | - | - | - | - | - | - | |
| General Revenues | | | | | | | |
| Property Taxes | 7,444,709 | 7,462,749 | - | - | 7,444,709 | 7,462,749 | 0.24% |
| State Sources | 3,491,151 | 3,421,236 | - | - | 3,491,151 | 3,421,236 | -2.00% |
| Federal Sources | | | - | - | - | - | |
| Unrestricted Investment Earnings | 28,451 | 29,641 | 1,128 | 1,151 | 29,579 | 30,792 | 4.10% |
| Other General Revenues | 656,270 | 673,616 | - | - | 656,270 | 673,616 | 2.64% |
| Total Revenues | 12,543,193 | 12,669,231 | 806,051 | 760,926 | 13,349,244 | 13,430,157 | 0.61% |
| Expenses | | | | | | | |
| Instruction | 5,714,040 | 6,364,979 | - | - | 5,714,040 | 6,364,979 | 11.39% |
| Support Services | 4,543,916 | 4,627,138 | - | - | 4,543,916 | 4,627,138 | 1.83% |
| Community Services | 7,766 | 9,500 | - | - | 7,766 | 9,500 | 22.33% |
| Nonprogrammed Charges | 177,414 | 286,186 | - | - | 177,414 | 286,186 | 61.31% |
| Debt Service | 63,313 | 213,120 | - | - | 63,313 | 213,120 | 236.61% |
| Co-Curricular Activities | 447,082 | 456,915 | - | - | 447,082 | 456,915 | 2.20% |
| Food Service | - | - | 647,168 | 608,468 | 647,168 | 608,468 | -5.98% |
| Other Enterprise Funds | - | - | 164,608 | 165,852 | 164,608 | 165,852 | 0.76% |
| Total Expenses | 10,953,531 | 11,957,838 | 811,776 | 774,320 | 11,765,307 | 12,732,158 | 8.22% |
| Increase (decrease) in Net Position | 1,589,662 | 711,393 | (5,725) | (13,394) | 1,583,937 | 697,999 | -55.93% |
| Transfers | (3,795) | (8,867) | 3,795 | 8,867 | | - | |
| Prior Period Adjustment | 1,191,455 | - | | | 1,191,455 | - | |
| Net Position-Ending | 19,901,481 | 20,604,007 | 332,404 | 327,877 | 20,230,090 | 20,931,884 | 3.47% |

The District's total revenues totaled $13,430,157 (See Table A-2). Roughly 55% of the district's revenue comes from property taxes, with approximately 25% coming from state aid. (See Figure A-3).




The District's expenses totaled $12,732,158 (See Table A-2) and covered a range of services, including instruction, support services, debt service, co-curricular activities and food services (See Figure A-4).



BUSINESS-TYPE ACTIVITIES

Revenues and Expenditures of the District's business-type activities:
Food Service revenues decreased by 4.53% from $641,571 in FY2015 to $612,529 in FY2016 and expenses decreased about 5.98% from $647,168 in FY2015 TO $608,468 in FY2016. Other Enterprise Fund revenue decreased by 9.86% from $163,352 in FY2015 to $147,245 in FY2016 and expenses increased by .76% from $164,608 in FY2015 to $165,852 in FY2016. The enterprise fund consists of the district preschool, the after school program, as well as driver's education.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

Fund balances changed as follows: General Fund increased $5,739 as a result of revenue exceeding expenditures. Capital Outlay Fund decreased $20,031 due to expenditures exceeding revenues. Special Education Fund increased $36,182 as a result of revenues exceeding expenditures. Pension Fund increased $114,424 due to revenue exceeding expenditures. Bond Redemption Fund increased $10,087 due to revenues exceeding expenditures.

**BUDGETARY HIGHLIGHTS**

During the course of the year, the School Board revised the District budget several times. These amendments fall into three categories:

- Supplemental appropriations approved to prevent budget overruns for unanticipated but necessary expenses.
- Changes in actual federal revenue receipts versus budgeted amounts.
- Increases in appropriations, primarily by supplemental transfer, to prevent budget overruns.

**CAPITAL ASSET ADMINISTRATION**

By the end of fiscal year 2016, the District had invested $37,807,500 in a broad range of capital assets, including land, buildings, improvements, and equipment (See Table A-3). This amount represents a net increase (including additions and deductions) of $2,774,168, or 7.92%, over the previous year. This includes a portion of the summer of 2015 construction project: high school HVAC update project and a portion of the summer of 2016 construction project: high school locker room renovation and Austin school air conditioning upgrade. Primary capital asset additions include the indoor and outdoor scoreboards at the high school as well as various other equipment including library collection items and food service equipment. Total assets net of depreciation for the governmental activities increased $2,461,490, or an increase of 13.18. Total assets net of depreciation for business-type activities decreased $2,799 or 8.87%. For more information, see Note 6 of the Notes to Financial Statements.

Table A-3
VERMILLION SCHOOL DISTRICT 13-1
Capital Assets (Net of Depreciation)

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 6/30/2015 | 6/30/2016 | 6/30/2015 | 6/30/2016 | 6/30/2015 | 6/30/2016 |
| Capital Assets not being Depreciated | | | | | | |
| Land | 107,245 | 107,245 | | | 107,245 | 107,245 |
| Construction in Progress | 2,906,281 | 528,420 | | | 2,906,281 | 528,420 |
| | 3,013,526 | 635,665 | | | 3,013,526 | 635,665 |
| Other Capital Assets, being Depreciated | | | | | | |
| Buildings and Improvements | 30,826,045 | 36,256,685 | | | 30,826,045 | 36,256,685 |
| Equipment | 996,403 | 915,150 | 197,359 | 200,726 | 1,193,762 | 1,115,876 |
| | 31,822,448 | 37,171,835 | 197,359 | 200,726 | 32,019,807 | 37,372,561 |
| Accumulated Depreciation | (16,163,750) | (16,673,786) | (165,813) | (171,979) | (16,329,563) | (16,845,765) |
| Total Other Capital Assets (net of Depreciation) | 15,658,698 | 20,498,049 | 31,546 | 28,747 | 15,690,244 | 20,526,796 |
| Total All Capital Assets (net of Depreciation) | 18,672,224 | 21,133,714 | 31,546 | 28,747 | 18,703,770 | 21,162,461 |

This year's capital asset purchases were primarily building improvements and equipment.

## LONG-TERM DEBT

At year-end, the District had $6,834,161 in Capital Outlay Certificates and General Obligation Bonds. Other obligations include the vacation and sick leave of $67,416, early retirement of $224,515, financing leases for capital acquisition of $173,385, and other post-employment benefits of $1,052,180. The net effect from the prior year is a decrease of 3.61% as shown on Table A-4 below. For more information, see Note 8 of the Notes to Financial Statements.

The District is liable for the accrued vacation leave payable to full time year round staff. The district also has a sick leave reimbursement policy for retiring staff which meet certain qualifications.

The School also maintains an early retirement plan, which allows those meeting certain qualifications, to retire early and receive 70% of their last year's salary in equal payments spread over the next two to three years. This plan allows the school to potentially reduce the overall program cost by hiring lower paid teachers to replace the higher paid teachers.

Table A-4
VERMILLION SCHOOL DISTRICT 13-1
Outstanding Debt and Obligations

| | Governmental Activities | | Business-Type Activities | | Total Change | |
|---|---|---|---|---|---|---|
| | | | | | Amount | Percentage |
| | 6/30/2015 | 6/30/2016 | 6/30/2015 | 6/30/2016 | 6/30/2016 | 6/30/2016 |
| General Obligation Bonds | 1,020,000 | 770,000 | | | (250,000) | -24.51% |
| Capital Outlay Certificates | 6,489,624 | 6,064,161 | | | (425,463) | -6.56% |
| Compensated Absences | 62,523 | 67,416 | | | 4,893 | 7.83% |
| Financing (Capital Acquisition Leases) | 75,381 | 173,385 | | | 98,004 | 130.01% |
| Early Retirement Benefits | 146,698 | 224,515 | | | 77,817 | 53.05% |
| Other Post Employment Benefits | 870,153 | 1,052,180 | | | 182,027 | 20.92% |
| Total Outstanding Debt and Obligations | 8,664,379 | 8,351,657 | $ - | $ - | $ (312,722) | -3.61% |

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Based on fund balances for governmental activities, the District's economic position decreased by $2,224,787 or 27.27%. The fund balance for the largest fund, the General Fund, increased by $5,739 or .24%. The fund balance for the capital outlay fund decreased by $20,031 or 1.26%. The fund balance for the special education fund increased by $36,182 or 8.51%. The District did experience a $40,708,304 or 6.52% increase in total property valuation in 2015. While the growth in property valuation does increase the amount of revenue the District can generate from property taxes, the total amount which can be levied is limited by the State of South Dakota. In addition, growth in property valuation does not improve revenues for the General Fund or Special Education because major revenues for these funds are based on an annual per pupil allocation that is set by the State. The allocation is based on a combination of local property tax revenue and state funds. For the General Fund, the per pupil allocation multiplied by the District's average daily membership (ADM) for the previous year determines local need. Levies against property valuation determine local effort. This amount is subtracted from the local need and the difference is provided by the State as state aid. With regard to General Fund revenues, therefore, increases in local property valuation essentially increase the local effort and decrease the amount of state aid the District receives if the ADM remains unchanged.

As noted above, one of the District's primary sources of revenue for the General Fund is the per student allocation received from the State of South Dakota. The state aid formula for FY2016 ensured that property taxes plus state aid equaled $4,876.76 per pupil. The allocation for FY2017 is based on a new state aid formula that combines a formula certified instructional staff salary/benefit need with an overhead need to get to the state aid total need. The District's enrollment was 1204 students for the fall of 2015 which was a decrease of 23 students in comparison to the previous year. The District's enrollment was 1227 students for the fall of 2014. The District reviewed the FY2017 General Fund budget very carefully resulting in a budget that anticipates using $317,950 of the fund balance. With close monitoring of the budget and an additional $880,000 dollars that can be generated due to passage of the Opt-Out Election, the District hopes to maintain a fund balance that accommodates the cash flow needs and is closely aligned with the limits allowed by the state.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, patrons, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Vermillion School District 13-1 Business Office, 17 Prospect, Vermillion, SD 57069.

**VERMILLION SCHOOL DISTRICT NO. 13-1**
**STATEMENT OF NET POSITION**
**JUNE 30, 2016**

| | Primary Government | | |
|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total |
| **ASSETS:** | | | |
| Cash and Cash Equivalents | $ 5,763,769.84 | $ 314,348.42 | $ 6,078,118.26 |
| Investments | 1,000,000.00 | | 1,000,000.00 |
| Taxes Receivable | 3,550,792.53 | | 3,550,792.53 |
| Accounts Receivable | 61,257.67 | 5,139.75 | 66,397.42 |
| Due from Other Governments | 247,558.62 | 15,826.37 | 263,384.99 |
| Inventories | | 4,574.22 | 4,574.22 |
| Net Pension Asset | 1,280,543.84 | | 1,280,543.84 |
| Capital Assets: | | | |
| Land and Construction in Progress | 635,664.52 | | 635,664.52 |
| Other Capital Assets, Net of Depreciation | 20,498,049.53 | 28,747.55 | 20,526,797.08 |
| TOTAL ASSETS | 33,037,636.55 | 368,636.31 | 33,406,272.86 |
| **DEFERRED OUTFLOWS OF RESOURCES:** | | | |
| Pension Related Deferred Outflows | 2,419,830.69 | | 2,419,830.69 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 2,419,830.69 | | 2,419,830.69 |
| **LIABILITIES :** | | | |
| Accounts Payable | 244,663.18 | 16,975.76 | 261,638.94 |
| Other Current Liabilities | 893,390.87 | 8,226.44 | 901,617.31 |
| Unearned Revenues | | 15,557.44 | 15,557.44 |
| Noncurrent Liabilities: | | | |
| Due Within One Year | 974,867.00 | | 974,867.00 |
| Due in More than One Year | 7,376,790.65 | | 7,376,790.65 |
| TOTAL LIABILITIES | 9,489,711.70 | 40,759.64 | 9,530,471.34 |
| **DEFERRED INFLOWS OF RESOURCES:** | | | |
| Taxes Levied for Future Period | 3,474,280.89 | | 3,474,280.89 |
| Pension Related Deferred Inflows | 1,889,466.93 | | 1,889,466.93 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 5,363,747.82 | | 5,363,747.82 |
| **NET POSITION:** | | | |
| Net Investment in Capital Assets | 14,299,553.05 | 28,747.55 | 14,328,300.60 |
| Restricted for: | | | |
| Capital Outlay | 1,407,233.03 | | 1,407,233.03 |
| Special Education | 469,532.02 | | 469,532.02 |
| Debt Service | 368,701.15 | | 368,701.15 |
| Pension | 893,985.64 | | 893,985.64 |
| SDRS Pension Purposes | 1,810,907.60 | | 1,810,907.60 |
| Unrestricted | 1,354,095.23 | 299,129.12 | 1,653,224.35 |
| TOTAL NET POSITION | $ 20,604,007.72 | $ 327,876.67 | $ 20,931,884.39 |

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

## VERMILLION SCHOOL DISTRICT NO. 13-1
## STATEMENT OF ACTIVITIES
## FOR THE YEAR ENDED JUNE 30, 2016

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Net (Expense) Revenue and Changes in Net Position – Primary Government: Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|---|---|---|
| Primary Government: | | | | | | |
| Governmental Activities: | | | | | | |
| Instruction | $ 6,364,979.06 | $ | $ 824,495.63 | $ (5,540,483.43) | $ | $ (5,540,483.43) |
| Support Services | 4,627,137.87 | 203,281.67 | 13,602.81 | (4,410,253.39) | | (4,410,253.39) |
| Community Services | 9,499.90 | | | (9,499.90) | | (9,499.90) |
| Nonprogrammed Charges | 286,186.17 | | | (286,186.17) | | (286,186.17) |
| *Interest on Long-term Debt | 213,120.05 | | | (213,120.05) | | (213,120.05) |
| Cocurricular Activities | 456,914.90 | 40,609.40 | | (416,305.50) | | (416,305.50) |
| Total Governmental Activities | 11,957,837.95 | 243,891.07 | 838,098.44 | (10,875,848.44) | | (10,875,848.44) |
| Business-type Activities: | | | | | | |
| Food Service | 608,468.79 | 293,169.10 | 319,360.08 | | 4,060.39 | 4,060.39 |
| Preschool | 54,478.25 | 51,680.00 | | | (2,798.25) | (2,798.25) |
| Afterschool | 98,613.13 | 71,886.05 | 8,679.65 | | (18,047.43) | (18,047.43) |
| Driver's Education | 12,760.62 | 15,000.00 | | | 2,239.38 | 2,239.38 |
| Total Business-type Activities | 774,320.79 | 431,735.15 | 328,039.73 | | (14,545.91) | (14,545.91) |
| Total Primary Government | $ 12,732,158.74 | $ 675,626.22 | $ 1,166,138.17 | (10,875,848.44) | (14,545.91) | (10,890,394.35) |
| **General Revenues:** | | | | | | |
| Taxes: | | | | | | |
| Property Taxes | | | | 7,259,779.63 | | 7,259,779.63 |
| Utility Tax | | | | 202,969.76 | | 202,969.76 |
| Revenue from State Sources: | | | | | | |
| State Aid | | | | 3,112,283.54 | | 3,112,283.54 |
| Other | | | | 308,952.00 | | 308,952.00 |
| Unrestricted Investment Earnings | | | | 29,641.47 | 1,151.20 | 30,792.67 |
| Other General Revenues | | | | 673,615.54 | | 673,615.54 |
| Transfers | | | | (8,867.59) | 8,867.59 | |
| Total General Revenues and Transfers | | | | 11,578,374.35 | 10,018.79 | 11,588,393.14 |
| Change in Net Position | | | | 702,525.91 | (4,527.12) | 697,998.79 |
| Net Position - Beginning | | | | 19,901,481.81 | 332,403.79 | 20,233,885.60 |
| NET POSITION - ENDING | | | | $ 20,604,007.72 | $ 327,876.67 | $ 20,931,884.39 |

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

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

**VERMILLION SCHOOL DISTRICT NO. 13-1**
**BALANCE SHEET**
**GOVERNMENTAL FUNDS**
**JUNE 30, 2016**

| | General Fund | Capital Outlay Fund | Special Education Fund | Pension Fund | Bond Redemption Fund | Total Governmental Funds |
|---|---|---|---|---|---|---|
| **ASSETS:** | | | | | | |
| Cash and Cash Equivalents | $ 1,949,922.89 | $1,768,044.55 | $ 562,947.20 | $ 1,116,838.88 | $ 366,016.32 | $ 5,763,769.84 |
| Investments | 1,000,000.00 | | | | | 1,000,000.00 |
| Taxes Receivable-Current | 1,870,559.64 | 942,070.59 | 442,459.89 | 94,206.39 | 124,984.38 | 3,474,280.89 |
| Taxes Receivable-Delinquent | 47,304.65 | 16,627.17 | 8,232.87 | 1,662.12 | 2,684.83 | 76,511.64 |
| Accounts Receivable | 59,987.67 | | 1,270.00 | | | 61,257.67 |
| Due from Other Governments | 235,257.81 | 5,287.50 | 7,013.31 | | | 247,558.62 |
| TOTAL ASSETS | $ 5,163,032.66 | $2,732,029.81 | $ 1,021,923.27 | $ 1,212,707.39 | $ 493,685.53 | $10,623,378.66 |
| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:** | | | | | | |
| Liabilities: | | | | | | |
| Accounts Payable | $ 19,640.90 | $ 209,340.81 | $ 15,681.47 | $ | $ | $ 244,663.18 |
| Contracts Payable | 581,691.86 | | 50,700.45 | | | 632,392.31 |
| Payroll Deductions and Withholdings and Employer Matching Payable | 217,449.12 | | 43,549.44 | | | 260,998.56 |
| Total Liabilities | 818,781.88 | 209,340.81 | 109,931.36 | | | 1,138,054.05 |
| Deferred Inflows of Resources: | | | | | | |
| Taxes Levied for a Future Period | 1,870,559.64 | 942,070.59 | 442,459.89 | 94,206.39 | 124,984.38 | 3,474,280.89 |
| Unavailable Revenue-Property Taxes | 47,304.65 | 16,627.17 | 8,232.87 | 1,662.12 | 2,684.83 | 76,511.64 |
| Total Deferred Inflows of Resources | 1,917,864.29 | 958,697.76 | 450,692.76 | 95,868.51 | 127,669.21 | 3,550,792.53 |
| Fund Balances: | | | | | | |
| Restricted | | 1,563,991.24 | 461,299.15 | 1,116,838.88 | 366,016.32 | 3,508,145.59 |
| Assigned | 629,611.61 | | | | | 629,611.61 |
| Unassigned | 1,796,774.88 | | | | | 1,796,774.88 |
| Total Fund Balances | 2,426,386.49 | 1,563,991.24 | 461,299.15 | 1,116,838.88 | 366,016.32 | 5,934,532.08 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | $ 5,163,032.66 | $2,732,029.81 | $ 1,021,923.27 | $ 1,212,707.39 | $ 493,685.53 | $10,623,378.66 |

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

**VERMILLION SCHOOL DISTRICT NO. 13-1**
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**
**TO THE STATEMENT OF NET POSITION**
**JUNE 30, 2016**

| | | |
|---|---|---|
| Total Fund Balances - Governmental Funds | | $ 5,934,532.08 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is: | $ 37,807,499.75 | |
| and the accumulated depreciation is: | (16,673,785.70) | 21,133,714.05 |
| 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: | | |
| Bonds Payable | (770,000.00) | |
| Capital Outlay Certificates Payable | (5,610,000.00) | |
| Qualified School Construction Bonds Payable | (454,161.00) | |
| Early Retirement Payable | (224,515.36) | |
| Accrued Vacation Payable | (37,515.79) | |
| Accrued Sick Leave Payable | (29,900.12) | |
| Capital Lease Payable | (173,385.38) | |
| Other Postemployment Benefits Payable | (1,052,180.00) | (8,351,657.65) |
| Net Pension Asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds. | | 1,280,543.84 |
| Pension related deferred outflows are components of pension asset and therefore are not reported in the funds. | | 2,419,830.69 |
| Pension related deferred inflows are components of pension liability and therefore are not reported in the funds | | (1,889,466.93) |
| Assets such as taxes receivable (delinquent) are not available to pay for current period expenditures and therefore are deferred in the funds. | | 76,511.64 |
| Net Position - Governmental Activities | | $ 20,604,007.72 |

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

## VERMILLION SCHOOL DISTRICT NO. 13-1
## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
## GOVERNMENTAL FUNDS
## FOR THE YEAR ENDED JUNE 30, 2016

| | General Fund | Capital Outlay Fund | Special Education Fund | Pension Fund | Bond Redemption Fund | Capital Projects Fund | Total Governmental Funds |
|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | |
| Revenue from Local Sources: | | | | | | | |
| Taxes: | | | | | | | |
| Ad Valorem Taxes | $ 3,840,563.70 | $ 1,935,664.31 | $ 929,141.37 | $ 193,567.05 | $ 264,344.18 | $ | $ 7,163,280.61 |
| Prior Years' Ad Valorem Taxes | 67,504.39 | 24,614.32 | 12,158.32 | 2,461.45 | 3,982.07 | | 110,720.55 |
| Utility Taxes | 202,969.76 | | | | | | 202,969.76 |
| Penalties and Interest on Taxes | 16,331.45 | 6,463.19 | 3,161.72 | 646.61 | 1,068.92 | | 27,671.89 |
| Tuition and Fees: | | | | | | | |
| Regular Day School Transportation Fees | 17,970.00 | | | | | | 17,970.00 |
| Earnings on Investments and Deposits | 12,379.28 | 7,630.42 | 2,456.01 | 5,089.36 | 2,086.40 | | 29,641.47 |
| Cocurricular Activities: | | | | | | | |
| Admissions | 40,609.40 | | | | | | 40,609.40 |
| Other Revenue from Local Sources: | | | | | | | |
| Rentals | 14,969.75 | | | | | | 14,969.75 |
| Contributions and Donations | 36,291.57 | 83,850.38 | | | | | 120,141.95 |
| Charges for Services | 195,916.04 | | 40,526.03 | | | | 236,442.07 |
| Other | 99,406.04 | | 19,200.00 | | | | 118,606.04 |
| Revenue from Intermediate Sources: | | | | | | | |
| County Sources: | | | | | | | |
| County Apportionment | 169,455.73 | | | | | | 169,455.73 |
| Revenue from State Sources: | | | | | | | |
| Grants-in-Aid: | | | | | | | |
| Unrestricted Grants-in-Aid | 3,112,283.54 | | | | | | 3,112,283.54 |
| Restricted Grants-in-Aid | | | 308,952.00 | | | | 308,952.00 |
| Revenue from Federal Sources: | | | | | | | |
| Grants-in-Aid: | | | | | | | |
| Restricted Grants-in-Aid Received Directly from Federal Government | 13,602.81 | | | | | | 13,602.81 |
| Restricted Grants-in-Aid Received from Federal Government Through State | 511,117.51 | 5,287.50 | 308,090.62 | | | | 824,495.63 |
| Total Revenue | 8,351,370.97 | 2,063,510.12 | 1,623,686.07 | 201,764.47 | 271,481.57 | | 12,511,813.20 |

VERMILLION SCHOOL DISTRICT NO. 13-1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

| | General Fund | Capital Outlay Fund | Special Education Fund | Pension Fund | Bond Redemption Fund | Capital Projects Fund | Total Governmental Funds |
|---|---|---|---|---|---|---|---|
| Expenditures: | | | | | | | |
| Instruction: | | | | | | | |
| Regular Programs: | | | | | | | |
| Elementary | 1,741,609.21 | 115,380.14 | | | | | 1,856,989.35 |
| Middle/Junior High | 1,123,897.18 | 279,595.30 | | | | | 1,403,492.48 |
| High School | 1,476,112.63 | 96,589.02 | | | | | 1,572,701.65 |
| Other Regular Programs | | | | | | | |
| Special Programs: | | | | | | | |
| Programs for Special Education | | 1,999.95 | 969,940.38 | | | | 971,940.33 |
| Culturally Different | 13,602.81 | | | | | | 13,602.81 |
| Educationally Deprived | 364,569.56 | | | | | | 364,569.56 |
| Support Services: | | | | | | | |
| Pupils: | | | | | | | |
| Guidance | 276,023.87 | | | | | | 276,023.87 |
| Health | 58,565.27 | | | | | | 58,565.27 |
| Speech Pathology | | | 216,118.67 | | | | 216,118.67 |
| Student Therapy Services | | | 180,180.57 | | | | 180,180.57 |
| Support Services - Instructional Staff: | | | | | | | |
| Improvement of Instruction | 16,658.12 | | | | | | 16,658.12 |
| Educational Media | 229,170.18 | 1,663.75 | | | | | 230,833.93 |
| Support Services - General Administration: | | | | | | | |
| Board of Education | 88,629.79 | | | | | | 88,629.79 |
| Executive Administration | 202,947.69 | 330.11 | | | | | 203,277.80 |
| Support Services - School Administration: | | | | | | | |
| Office of the Principal | 701,422.75 | | | | | | 701,422.75 |
| Other | 1,325.12 | | | | | | 1,325.12 |
| Support Services - Business: | | | | | | | |
| Fiscal Services | 210,296.61 | 2,852.23 | | | | | 213,148.84 |
| Facilities Acquisition & Construction | | 12,913.17 | | | | | 12,913.17 |
| Operation and Maintenance of Plant | 969,748.55 | 254,496.14 | | | | | 1,224,244.69 |
| Pupil Transportation | 288,833.50 | | | | | | 288,833.50 |
| Internal Services | 46,409.98 | 28,834.98 | | | | | 75,244.96 |
| Support Services - Special Education: | | | | | | | |
| Administrative Costs | | | 116,962.87 | | | | 116,962.87 |
| Transportation Costs | | | 48,013.71 | | | | 48,013.71 |

**VERMILLION SCHOOL DISTRICT NO. 13-1**
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**
**GOVERNMENTAL FUNDS**
**FOR THE YEAR ENDED JUNE 30, 2016**

| | General Fund | Capital Outlay Fund | Special Education Fund | Pension Fund | Bond Redemption Fund | Capital Projects Fund | Total Governmental Funds |
|---|---|---|---|---|---|---|---|
| Support Services - Central: | | | | | | | |
| Food Service | | 9,213.63 | | | | | 9,213.63 |
| Other Special Education Costs | | | 53,831.55 | | | | 53,831.55 |
| Community Services: | | | | | | | |
| Nonpublic School | 9,791.67 | | | | | | 9,791.67 |
| Nonprogrammed Charges: | | | | | | | |
| Insurance Costs | 121,028.96 | | | | | | 121,028.96 |
| Early Retirement Payments | | | | 87,340.13 | | | 87,340.13 |
| Debt Services | | 741,079.41 | | | 261,395.00 | | 1,002,474.41 |
| Cocurricular Activities: | | | | | | | |
| Male Activities | 89,534.18 | | | | | | 89,534.18 |
| Female Activities | 67,514.21 | | | | | | 67,514.21 |
| Combined Activities | 244,895.79 | 25,118.49 | | | | | 270,014.28 |
| Capital Outlay | | 727,407.65 | | | | 2,383,151.26 | 3,110,558.91 |
| Total Expenditures | 8,342,587.63 | 2,297,473.97 | 1,585,047.75 | 87,340.13 | 261,395.00 | 2,383,151.26 | 14,956,995.74 |
| Excess of Revenue Over (Under) Expenditures | 8,783.34 | (233,963.85) | 38,638.32 | 114,424.34 | 10,086.57 | (2,383,151.26) | (2,445,182.54) |
| Other Financing Sources (Uses) | | | | | | | |
| Transfers In | 2,456.01 | | | | | 11,963.05 | 14,419.06 |
| Transfers (Out) | (5,500.00) | (11,963.05) | (2,456.01) | | | | (19,919.06) |
| General Long-Term Debt Issued | | 1,350,817.00 | | | | | 1,350,817.00 |
| Compensation for Loss of General Capital Assets | | 14,000.00 | | | | | 14,000.00 |
| Payment to Refunded Debt Escrow Agency | | (1,138,921.25) | | | | | (1,138,921.25) |
| Total Other Financing Sources (Uses) | (3,043.99) | 213,932.70 | (2,456.01) | | | 11,963.05 | 220,395.75 |
| Net Change in Fund Balance | 5,739.35 | (20,031.15) | 36,182.31 | 114,424.34 | 10,086.57 | (2,371,188.21) | (2,224,786.79) |
| Fund Balance - Beginning | 2,420,647.14 | 1,584,022.39 | 425,116.84 | 1,002,414.54 | 355,929.75 | 2,371,188.21 | 8,159,318.87 |
| FUND BALANCE - ENDING | $ 2,426,386.49 | $ 1,563,991.24 | $ 461,299.15 | $ 1,116,838.88 | $ 366,016.32 | $ | $ 5,934,532.08 |

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

## VERMILLION SCHOOL DISTRICT NO. 13-1
## 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, 2016

| | | |
|---|---|---|
| Net Change in Fund Balances - Total Governmental Funds | | $(2,224,786.79) |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as capital outlay expense. This is the amount by which capital outlay expense exceeds depreciation expense in the period. | | |
| Capital Outlays | $ 3,110,558.91 | |
| Depreciation Expense | (649,068.74) | 2,461,490.17 |
| Repayment of long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities. | | |
| General Obligation Bonds | 250,000.00 | |
| Capital Outlay Certificates | 1,590,463.00 | |
| Capital Lease Payments | 87,812.61 | 1,928,275.61 |
| When long-term debt is issued, it is reported as an other financing source in the fund financial statements but increases the liability in the government-wide financial statements. | | |
| Capital Outlay Certificates | (1,165,000.00) | |
| Capital Lease | (185,817.00) | (1,350,817.00) |
| In the statement of activities, certain operating expenses - compensated absences, early retirement benefits, and other post-employment benefits - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (amounts actually paid). | | |
| Accrued Vacation Payable | (658.16) | |
| Accrued Sick Leave Payable | (4,235.37) | |
| Early Retirement Payable | (77,817.08) | |
| OPEB Payable | (182,027.00) | (264,737.61) |
| Changes in the pension related deferred outflows/inflows are direct components of pension liability(asset) and are not reflected in the governmental funds. | | 194,994.95 |
| 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 increased by this amount this year. | | (41,893.42) |
| Change in Net Position of Governmental Activities | | $ 702,525.91 |

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

**VERMILLION SCHOOL DISTRICT NO. 13-1**
**STATEMENT OF NET POSITION**
**PROPRIETARY FUNDS**
**JUNE 30, 2016**

| | Enterprise Funds | | |
|---|---|---|---|
| | Food Service Fund | Other Enterprise Fund | Totals |
| **ASSETS:** | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | $ 244,469.00 | $ 69,879.42 | $ 314,348.42 |
| Accounts Receivable | 4,542.50 | 597.25 | 5,139.75 |
| Due from Other Governments | 15,826.37 | | 15,826.37 |
| Inventories | 4,574.22 | | 4,574.22 |
| Total Current Assets | 269,412.09 | 70,476.67 | 339,888.76 |
| Noncurrent Assets: | | | |
| Capital Assets: | | | |
| Machinery and Equipment | 200,726.36 | | 200,726.36 |
| Less: Accumulated Depreciation | (171,978.81) | | (171,978.81) |
| Total Noncurrent Assets | 28,747.55 | | 28,747.55 |
| TOTAL ASSETS | 298,159.64 | 70,476.67 | 368,636.31 |
| **LIABILITIES:** | | | |
| Current Liabilities: | | | |
| Accounts Payable | 14,937.88 | 2,037.88 | 16,975.76 |
| Contracts Payable | | 5,824.00 | 5,824.00 |
| Payroll Deductions and Withholdings and Employer Matching Payable | | 2,402.44 | 2,402.44 |
| Unearned Revenue | 15,557.44 | | 15,557.44 |
| Total Current Liabilities | 30,495.32 | 10,264.32 | 40,759.64 |
| **NET POSITION:** | | | |
| Net Investment in Capital Assets | 28,747.55 | | 28,747.55 |
| Unrestricted Net Position | 238,916.77 | 60,212.35 | 299,129.12 |
| TOTAL NET POSITION | $ 267,664.32 | $ 60,212.35 | $ 327,876.67 |

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

**VERMILLION SCHOOL DISTRICT NO. 13-1**
**STATEMENT OF REVENUES, EXPENSES,**
**AND CHANGES IN FUND NET POSITION**
**PROPRIETARY FUNDS**
**FOR THE YEAR ENDED JUNE 30, 2016**

| | Enterprise Funds | | |
|---|---|---|---|
| | Food Service Fund | Other Enterprise Fund | Totals |
| **Operating Revenue:** | | | |
| Food Sales: | | | |
| To Pupils | $ 215,869.40 | $ | $ 215,869.40 |
| To Adults | 5,820.70 | | 5,820.70 |
| A la Carte | 71,479.00 | | 71,479.00 |
| Charges for Service | | | |
| Preschool Tuition | | 51,680.00 | 51,680.00 |
| Non-credit Tuition | | 15,000.00 | 15,000.00 |
| Daycare | | 71,886.05 | 71,886.05 |
| Total Operating Revenue | 293,169.10 | 138,566.05 | 431,735.15 |
| **Operating Expenses:** | | | |
| Food Service: | | | |
| Salaries | | 108,885.82 | 108,885.82 |
| Employee Benefits | | 23,482.88 | 23,482.88 |
| Purchased Services | 561,289.76 | 21,055.64 | 582,345.40 |
| Supplies | 155.00 | 11,487.66 | 11,642.66 |
| Cost of Sales-Donated Food | 41,254.23 | | 41,254.23 |
| Depreciation-Local Funds | 6,166.13 | | 6,166.13 |
| Total Operating Expenses | 608,468.79 | 165,852.00 | 774,320.79 |
| Operating Income (Loss) | (315,299.69) | (27,285.95) | (342,585.64) |
| **Nonoperating Revenue:** | | | |
| Local Sources: | | | |
| Investment Earnings | 1,151.20 | | 1,151.20 |
| State Sources: | | | |
| Cash Reimbursements | 4,046.57 | 8,679.65 | 12,726.22 |
| Federal Sources: | | | |
| Cash Reimbursements | 273,180.99 | | 273,180.99 |
| Donated Food | 42,132.52 | | 42,132.52 |
| Total Nonoperating Revenue | 320,511.28 | 8,679.65 | 329,190.93 |
| Income(Loss) Before Contributions and Transfers | 5,211.59 | (18,606.30) | (13,394.71) |
| Capital Contributions | 3,367.59 | | 3,367.59 |
| Transfers | | 5,500.00 | 5,500.00 |
| Change in Net Position | 8,579.18 | (13,106.30) | (4,527.12) |
| Net Position - Beginning | 259,085.14 | 73,318.65 | 332,403.79 |
| NET POSITION - ENDING | $ 267,664.32 | $ 60,212.35 | $ 327,876.67 |

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

**VERMILLION SCHOOL DISTRICT NO. 13-1**
**STATEMENT OF CASH FLOWS**
**PROPRIETARY FUNDS**
**FOR THE YEAR ENDED JUNE 30, 2016**

| | Enterprise Funds | | |
|---|---|---|---|
| | Food Service Fund | Other Enterprise Fund | Totals |
| **Cash Flows from Operating Activities:** | | | |
| Receipts from Customers and Others | $ 295,112.98 | $ 137,968.80 | $ 433,081.78 |
| Payments to Suppliers | (588,762.77) | (33,770.74) | (622,533.51) |
| Payments to Employees | | (132,368.70) | (132,368.70) |
| Net Cash Provided (Used) by Operating Activities | (293,649.79) | (28,170.64) | (321,820.43) |
| **Cash Flows from Noncapital Financing Activities:** | | | |
| Operating Subsidies | 277,227.56 | 8,679.65 | 285,907.21 |
| Transfers In | | 5,500.00 | 5,500.00 |
| Net Cash Flows from Noncapital Financing Activities: | 277,227.56 | 14,179.65 | 291,407.21 |
| **Cash Flows from Investing Activities:** | | | |
| Investment Earnings | 1,151.20 | | 1,151.20 |
| Net Increase (Decrease) in Cash and Cash Equivalents | $ (15,271.03) | $ (13,990.99) | $ (29,262.02) |
| Cash and Cash Equivalents at Beginning of Year | $ 259,740.03 | $ 83,870.41 | $ 343,610.44 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 244,469.00 | 69,879.42 | 314,348.42 |
| Net Increase (Decrease) in Cash and Cash Equivalents | $ (15,271.03) | $ (13,990.99) | $ (29,262.02) |

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:**

| | | | |
|---|---|---|---|
| Operating Income (Loss) | $ (315,299.69) | $ (27,285.95) | $ (342,585.64) |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | | | |
| Depreciation Expense | 6,166.13 | | 6,166.13 |
| Value of Commodities Used | 41,254.23 | | 41,254.23 |
| Change in Assets and Liabilities: | | | |
| Accounts and Other Receivables | 1,647.06 | (597.25) | 1,049.81 |
| Accounts and Other Payables | (27,714.34) | (287.44) | (28,001.78) |
| Unearned Revenue | 296.82 | | 296.82 |
| Net Cash Provided (Used) by Operating Activities | $ (293,649.79) | $ (28,170.64) | $ (321,820.43) |

**Noncash Investing, Capital and Financing Activities:**

| | |
|---|---|
| Value of Commodities Received | $ 42,132.52 |
| Equipment Purchased by Capital Outlay Fund | 3,367.59 |

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

**VERMILLION SCHOOL DISTRICT NO. 13-1**
**STATEMENT OF NET POSITION**
**FIDUCIARY FUNDS**
**JUNE 30, 2016**

| | Agency Funds |
|---|---|
| **ASSETS:** | |
| Cash and Cash Equivalents | $ 40,811.75 |
| TOTAL ASSETS | 40,811.75 |
| **LIABILITIES:** | |
| Accounts Payable and Other Payables | 181.85 |
| Amount Held for Others | 40,629.90 |
| TOTAL LIABILITIES | 40,811.75 |
| **NET POSITION:** | |
| TOTAL NET POSITION | $ 0.00 |

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

## 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 Vermillion School District No.13 -1, 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.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The School District is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the School District (primary government). The School District may also be financially accountable for another organization if that organization is fiscally dependent on the School District.

Vermillion Public Schools Foundation is a legally separate related entity of the School District and is designed to benefit the students of the School District. One member of the Vermillion School District Board serves on the Vermillion Public School Foundation Board. The component unit had insignificant transactions and balances for the year and is therefore not presented.

### 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 minus liabilities equal net position). Net Position is displayed in three components, as applicable, net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the 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 School District or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 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 Law (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 School District. This fund is financed by grants and property taxes. This is a major fund.

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

**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 frees 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 frees 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 financial transactions related to preschool services, drivers education program and after school programs all conducted for the benefit of the children. The fund is financed by user charges and grants. This is a major fund.

**Fiduciary Funds**:

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

*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: Science Clubs, Student Council, Language Clubs, National Honor Society, Natural Helpers, Class Funds 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 funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the School District is 10 days. The revenues that were accrued at June 30, 2016 are amounts due from other governments for grants, and other receivables.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred 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 funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

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 charges 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 entirely (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 capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

The total June 30, 2016 balance of capital assets for governmental activities includes approximately 43 percent for which the costs were determined by estimates of the original costs. The total June 30, 2016 balance of capital assets for business-type activities includes approximately 5 percent for which the values were determined by estimates of the original cost. These estimated original costs were established by deflated current replacement cost.

Depreciation of all exhaustible capital 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 Land | NA | NA |
| Buildings | $ 50,000.00 | Straight Line | 50 yrs. |
| Building Improvements | 25,000.00 | Straight Line | 10-50 yrs. |
| Improvements other than Buildings | 15,000.00 | Straight Line | 10-50 yrs. |
| Machinery and Equipment | 5,000.00 | Straight Line | 5-10 yrs. |
| Food Service Machinery and Equipment | 3,000.00 | Straight Line | 12 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 compensated absences, early retirement benefits payable, capital leases, capital outlay certificates payable, general obligation bonds payable and other post-employment benefits.

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

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 Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for

which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

j. Cash and Cash Equivalents

The School District pools its cash resources for depositing and investing purposes. Accordingly, the enterprise funds have access to all their cash resources on demand and 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 its 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 positions 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 position, when an expense is incurred for purposes for which both restricted and unrestricted position is 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 nor committed. Fund Balance may be assigned by the School Board, Superintendent, or Business Manager.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

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

A schedule of fund balances is provided as follows:

VERMILLION SCHOOL DISTRICT NO. 13-1
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

| | General Fund | Capital Outlay Fund | Special Education Fund | Pension Fund | Bond Redemption Fund | Total Governmental Funds |
|---|---|---|---|---|---|---|
| Fund Balances: | | | | | | |
| Restricted for: | | | | | | |
| Capital Outlay Fund | $ | $ 1,563,991.24 | $ | $ | $ | $ 1,563,991.24 |
| Special Education Fund | | | 461,299.15 | | | 461,299.15 |
| Pension Fund | | | | 1,116,838.88 | | 1,116,838.88 |
| Debt Service Requirements | | | | | 366,016.32 | 366,016.32 |
| Assigned to: | | | | | | |
| Unemployment | 29,038.48 | | | | | 29,038.48 |
| Medical Expense Reimbursement Plan | 600,573.13 | | | | | 600,573.13 |
| Unassigned | 1,796,774.88 | | | | | 1,796,774.88 |
| Total Fund Balances | $ 2,426,386.49 | $ 1,563,991.24 | $ 461,299.15 | $ 1,116,838.88 | $ 366,016.32 | $ 5,934,532.08 |

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

Concentration of Credit Risk – The School District places no limit on the amount that may be invested in any one issuer.

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

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 investments to the fund making the investment, except the Special Education Fund whose income is credited to the General Fund. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities. These interfund transfers are not violations of the statutory restrictions on interfund transfers.

## NOTE 3 – RECEIVABLES AND PAYABLES

The School District aggregates certain receivables in the financial statements. Detail of the significant components is as follows:

Receivables June 30, 2016 were as follows:

| | Due from Other Governments | Other Receivables | Total Other Assets |
|---|---|---|---|
| Governmental Activities: | | | |
| General Fund | $ 235,257.81 | $ 59,987.67 | $ 295,245.48 |
| Special Education Fund | 7,013.31 | 1,270.00 | 8,283.31 |
| Capital Outlay | 5,287.50 | | 5,287.50 |
| Total - Governmental Activities | $ 247,558.62 | $ 61,257.67 | $ 308,816.29 |
| Business-Type Activities: | | | |
| Food Service | $ 15,826.37 | $ 4,542.50 | $ 20,368.87 |
| Other Enterprise | | 597.25 | 597.25 |
| Total - Business - Type Activities | $ 15,826.37 | $ 5,139.75 | $ 20,966.12 |

The School District expects all receivables to be collected within one year.

The School District does not aggregate the payables in these financial statements.

## NOTE 4 – 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. Reported inventories are equally offset by Nonspendable Fund Balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. No material inventories were on hand as of June 30, 2016 in the governmental funds.

## NOTE 5 – 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 6 – CHANGES IN CAPITAL ASSETS

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

| Primary Government | Balance 07/01/15 | Increases | Decreases | Balance 06/30/16 |
|---|---|---|---|---|
| Governmental Activities: | | | | |
| Capital Assets, not being depreciated: | | | | |
| Land | $ 107,245.00 | $ | $ | $ 107,245.00 |
| Construction in Progress | 2,906,280.74 | 528,419.52 | (2,906,280.74) | 528,419.52 |
| Total not being depreciated | 3,013,525.74 | 528,419.52 | (2,906,280.74) | 635,664.52 |
| Capital Assets, being depreciated: | | | | |
| Buildings and Improvements | 30,826,044.53 | 5,430,640.50 | | 36,256,685.03 |
| Machinery and Equipment | 557,919.45 | 40,385.00 | (21,030.00) | 577,274.45 |
| Library Books | 438,484.22 | 17,394.63 | (118,003.10) | 337,875.75 |
| Total being depreciated | 31,822,448.20 | 5,488,420.13 | (139,033.10) | 37,171,835.23 |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | (15,418,091.37) | (595,903.46) | | (16,013,994.83) |
| Machinery and Equipment | (424,447.54) | (20,875.28) | 21,030.00 | (424,292.82) |
| Library Books | (321,211.15) | (32,290.00) | 118,003.10 | (235,498.05) |
| Total Accumulated Depreciation | (16,163,750.06) | (649,068.74) | 139,033.10 | (16,673,785.70) |
| Total Capital Assets, being depreciated, net | 15,658,698.14 | 4,839,351.39 | | 20,498,049.53 |
| Governmental activities capital assets, net | $ 18,672,223.88 | $ 5,367,770.91 | $ (2,906,280.74) | $ 21,133,714.05 |

Depreciation expense was charged to functions as follows:

| Governmental Activities: | |
|---|---|
| Instruction | $ 4,394.65 |
| Support Services | 613,986.00 |
| Cocurricular | 30,688.09 |
| Total Depreciation expense-governmental activities | $ 649,068.74 |

| | Balance 7/1/2015 | Increases | Decreases | Balance 06/30/2016 |
|---|---|---|---|---|
| Business-type activities: | | | | |
| Capital Assets, being depreciated: | | | | |
| Machinery and Equipment | $ 197,358.77 | $ 3,367.59 | $ | $ 200,726.36 |
| Less Accumulated Depreciation: | | | | |
| Machinery and Equipment | (165,812.68) | (6,166.13) | | (171,978.81) |
| Business-type activity capital assets, net | $ 31,546.09 | $ (2,798.54) | $ 0.00 | $ 28,747.55 |

**Depreciation expense was charged to functions as follows:

| Business-type Activity | |
|---|---|
| Total Depreciation expense-business-type activities | $ 6,166.13 |

Construction Work in Progress at June 30, 2016 is composed of the following:

| Project Name | Project Authorization | Expended thru 6/30/16 | Committed |
|---|---|---|---|
| High School Locker Rooms | $ 1,100,874.00 | $ 528,419.52 | $ 572,454.48 |

## NOTE 7 – OPERATING LEASES

The School District is obligated under certain leases accounted for as operating leases. The School District leases copy machines and buildings. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the district's long term debt. Payments are made from the Capital Outlay Fund.

The following are the minimum payments on the existing operating leases:

| Year | Capital Outlay Amount |
|---|---|
| 2017 | $ 62,014.32 |
| 2018 | 25,650.12 |
| 2019 | 9,512.76 |

## NOTE 8 – LONG -TERM LIABILITIES

A summary of the changes in long-term liabilities for the year ended June 30, 2016 is as follows:

| Governmental Activities | Capital Outlay Certificates | General Obligation Bonds | Financing (Capital Acquisition) Leases | Early Retirement Benefits Payable | Comp-ensated Absences | Other Post Employment Benefits | Totals |
|---|---|---|---|---|---|---|---|
| Liabilities Payable, July 1, 2015 | $ 6,489,624 | $ 1,020,000 | $ 75,381 | $ 146,698 | $ 62,523 | $ 870,153 | $ 8,664,379 |
| Additions | 1,165,000 | | 185,817 | 165,157 | 36,709 | 182,027 | 1,734,710 |
| Retired Amounts | (1,590,463) | (250,000) | (87,813) | (87,340) | (31,816) | | (2,047,432) |
| LIABILITIES PAYABLE, JUNE 30, 2016 | $ 6,064,161 | $ 770,000 | $ 173,385 | $ 224,515 | $ 67,416 | $ 1,052,180 | $ 8,351,657 |
| Due within One Year | $ 495,463 | $ 255,000 | $ 85,486 | $ 102,926 | $ 35,993 | $ | $ 974,868 |

Compensated absences for governmental activities typically have been liquidated from the General Fund and Special Education Fund. Early Retirements Benefits payable for governmental activities typically have been liquidated from the Pension Fund. Other Post-Employment Benefits have been liquidated from the General Fund.

The annual debt service requirements to maturity for all debt outstanding, excluding compensated Absences and postemployment benefits as of June 30, 2016 are as follows:

Annual Requirements to Maturity for Long Term Debt
June 30, 2016

| Year | Capital Outlay Certificates | | G.O. Bonds | | Financing (Capital Acquisition) Leases | | Early Retirement | Total | |
|---|---|---|---|---|---|---|---|---|---|
| Ending | Principal | Interest | Principal | Interest | Principal | Interest | | Principal | Interest |
| 2017 | $ 495,463 | $ 124,896 | $ 255,000 | $ 9,240 | $ 85,486 | $ 4,897 | $ 102,926 | $ 938,875 | $ 139,033 |
| 2018 | 500,463 | 122,113 | 260,000 | 7,073 | 87,900 | 2,483 | 66,537 | 914,900 | 131,669 |
| 2019 | 500,463 | 116,293 | 255,000 | 3,952 | | | 55,052 | 810,515 | 120,245 |
| 2020 | 330,462 | 109,696 | | | | | | 330,462 | 109,696 |
| 2021 | 330,462 | 103,910 | | | | | | 330,462 | 103,910 |
| 2022-2026 | 1,706,848 | 444,196 | | | | | | 1,706,848 | 444,196 |
| 2027-2031 | 1,200,000 | 259,959 | | | | | | 1,200,000 | 259,959 |
| 2032-2036 | 1,000,000 | 71,750 | | | | | | 1,000,000 | 71,750 |
| Totals | $ 6,064,161 | $ 1,352,813 | $ 770,000 | $ 20,265 | $ 173,386 | $ 7,380 | $ 224,515 | $ 7,232,062 | $ 1,308,708 |

During fiscal year 2016, the School District issued $1,165,000 in refunding bonds with an average interest rate of 1 to 2 percent, to refund the following:

| Year Issued | Interest Rate | Unpaid principal at time of refunding |
|---|---|---|
| 2011 | 2.2%-4.2% | $ 1,125,000.00 |

The School District refunded the debt to reduce its total debt service payments over the next 11 years by $107,413.33 and to obtain an economic gain of $97,950.80.

The entire proceeds of the refunding issue in the amount of $1,138,921.25 were deposited into an irrevocable trust with an escrow agent to provide for all future debt service requirements on the re-funded issue. As a result, the refunded issue is considered to be defeased and the liability for that issue has been removed from the financial statements of the School District

| | |
|---|---|
| Governmental Activities: | |
| General Obligation Bonds: | |
| Series 2014 | |
| Dated April 4, 2014 with varying interest rates from .55 to 1.55%, depending on the length to maturity; bonds mature on June 1, 2019; Payments from Bond Redemption Fund | $ 770,000.00 |
| Capital Outlay Certificates: | |
| Series 2009 | |
| Dated September 17, 2009 at 1.75% interest rate Final maturity on July 15, 2024. Payments from the Capital Outlay Fund. | 454,161.00 |
| Series 2016 | |
| Dated February 24, 2016 with varying interest rates Final maturity on January 15, 2027. Payments from the Capital Outlay Fund. | 1,165,000.00 |
| Series 2013 | |
| Dated May 1, 2013 with varying interest rates from .55 to 1.50%, depending on length to maturity; Final maturity on June 15, 2019. Payments from the Capital Outlay Fund. | 520,000.00 |
| Series 2015 | |
| Dated April 28, 2015 with varying interest rates from .30 to 3.50%, depending on length to maturity; Final maturity on December 1, 2034. Payments from the Capital Outlay Fund. | 3,925,000.00 |
| Compensated Absences: | |
| Represents annual vacation leave benefits earned by employees as of June 30, 2015. These benefits are paid from the General Fund | 37,515.79 |
| Represents annual sick leave benefits earned by employees as of June 30, 2015. These benefits are paid from the General Fund | 29,900.12 |
| Early Retirement Benefits Payable: | |
| Represents obligations to employees who have chosen to take advantage of the district's early retirement plan. Payments are made from the Pension Fund | 224,515.35 |
| Other Postemployment Benefits: | |
| Obligation to individuals who are retired or will retire from the School District and will receive postemployment benefits. Payments are made from the General Fund | 1,052,180.00 |
| Capital Financing Leases: | |
| Lease of Apple Macbooks. Interest rate of 3.41%. Final Payment due July 1, 2017. Payments from the Capital Outlay Fund | 51,091.67 |
| Lease of Apple iPads. Interest rate of 2.58%. Final Payment due July 15, 2017. Payments from the Capital Outlay Fund | 122,293.71 |

## NOTE 9 – PENSION PLAN

**Plan Information:**

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer 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, 2016, 2015, and 2014 were $340,419.18, $330,735.90, and $323,136.79, 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, 2015, SDRS is 104.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the School District as of June 30, 2016 are as follows:

| | |
|---|---|
| Proportionate share of net position restricted for pension benefits | $ 32,536,887.47 |
| Less proportionate share of total pension assets | 31,256,343.63 |
| Proportionate share of net pension asset | $ 1,280,543.84 |

At June 30 2016, the School District reported an asset of $1,280,543.84 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015 and the total pension asset used to calculate the net pension asset was based on a projection of the School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the School District's proportion was .30192350%, which is a decrease of .0060502% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School District recognized pension revenue of $185,311.67. At June 30, 2016 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ 262,197.17 | $ |
| Changes in assumption | 1,015,390.67 | |
| Net difference between projected and actual earnings on pension plan investments | 782,262.51 | 1,889,466.93 |
| Changes in proportion and difference between District contributions and proportionate share of contributions | 19,561.15 | |
| District contributions subsequent to the measurement date | 340,419.18 | |
| TOTAL | $ 2,419,830.68 | $ 1,889,466.93 |

$340,419.18 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, 2017. 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: | |
|---|---|
| 2017 | $ 66,364.24 |
| 2018 | 66,364.24 |
| 2019 | (157,553.63) |
| 2020 | 214,769.73 |
| TOTAL | $ 189,944.58 |

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

| | |
|---|---|
| Inflation | 3.25 percent |
| Salary Increases | 5.83 percent at entry to 3.87 percent after 30 years of service |
| Investment Rate of Return | 7.25 percent through 2017 and 7.50 percent thereafter, net of pension plan investment expense |

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

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

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Global Equity | 61.0% | 4.5% |
| Fixed Income | 27.0% | 1.8% |
| Real Estate | 10.0% | 5.2% |
| Cash | 2.0% | 0.8% |
| Total | 100.0% | |

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

| | 1% Decrease | Current Discount Rate | 1% Increase |
|---|---|---|---|
| School District's proportionate share of the net pension liability (asset) | $ 3,223,114.49 | $ (1,280,543.84) | $ (4,952,889.35) |

**Pension Plan Fiduciary Net Position:**
Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

## NOTE 10 – EARLY RETIREMENT PLAN

The School District maintains an early retirement plan for certified teachers and administrators. The plan is available to employees who meet the requirements of age and years of service. Under the plan, employees who meet these requirements are entitled to payments totaling 70% of their salary in their final year of service. This amount is payable in two to three years as determined by the parties. Payments totaling $87,340.13 were made during the year ended June 30, 2016 from the Pension Fund.

## NOTE 11 – RESTRICTED POSITION

Restricted net position for the fiscal year ended June 30, 2016 was as follows:

| Major Purposes | Restricted by | Amount |
|---|---|---|
| Capital Outlay Purposes | Law | $ 1,407,233.03 |
| Special Education Purposes | Law | 469,532.02 |
| Pension Purposes | Law | 893,985.64 |
| Debt Service Purposes | Debt Covenants | 368,701.15 |
| SDRS Pension Purposes | Law | 1,810,907.60 |
| Total Restricted Net Position | | $ 4,950,359.44 |

## NOTE 12 – RISK MANAGEMENT

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

### Employee Health Insurance

The School District purchases health insurance for its employees from a commercial insurance carrier. 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 during the past three years.

### Unemployment Benefits

The School District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. The school has Assigned Fund Balances in the amount of $29,038.48 in the General Fund for the payment of future unemployment benefits. There were no claims filed during the year ended June 30, 2016. There are no future expected claims at this time.

## NOTE 13 – POSTEMPLOYMENT HEALTHCARE PLAN

*Plan Description*: Vermillion 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 a publicly available actuarial report that includes required supplementary information. That report may be obtained by writing to the Vermillion School District, 17 Prospect, Vermillion, SD 57069, or by calling (605) 677-7000.

*Funding Policy:* The District funds the other post-employment benefits on a pay-as-you-go basis. Because the District does not use a trust fund to administer the financing of other post-employment benefits, no separate financial statements are required.

*Annual OPEB Cost and Net OPEB Obligation:* The School District's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the financial components of the plan:

| | |
|---|---|
| Annual required contribution | $ 221,755 |
| Interest on net OPEB obligation | 26,105 |
| Adjustment to annual required contribution | (43,101) |
| Annual OPEB cost (expense) | 204,759 |
| Contributions made | (22,732) |
| Increase in net OPEB obligation | 182,027 |
| Net OPEB obligation - beginning of year | 870,153 |
| Net OPEB obligation - end of year | $ 1,052,180 |

The school district's annual OPEB cost data and net OPEB obligation for the current year and the two preceding years were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 06/30/14 | 148,951 | 25.25% | 673,251 |
| 06/30/15 | 204,448 | 3.69% | 870,153 |
| 06/30/16 | 204,759 | 11.10% | 1,052,180 |

*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 $1,595,488 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $1,595,488.

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 the benefit costs between the employer and plan members to the 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 was used. The actuarial assumptions include a 4 percent rate of return and an annual healthcare cost trend rate of 9.3 percent initially, reduced by decrements to an ultimate rate of 4.7 percent after 45 years. Both rates include a 2.0 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis over a period of 30 years.

## NOTE 14 – INTERFUND TRANSFERS

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

| Transfer To: | Transfer From: Special Education |
|---|---|
| General Fund | $ 2,456.01 |

| Transfer To: | Transfer From: Capital Outlay |
|---|---|
| Capital Projects | $ 11,963.05 |

| Transfer To: | Transfer From: General Fund |
|---|---|
| Enterprise Funds | $ 5,500.00 |

Transfers of investment and deposit earnings to the General Fund are reported. SDCL 4-5-9 and 13-16-18 give the school board the authority to designate whether all such earnings should be retained by any individual funds or credited to the General Fund. These interfund transfers are not violations of the statutory restrictions on interfund transfers. Certain other statutes and debt covenants require earnings from investments and deposits to be retained in the fund that services the long-term debt.

The Capital Outlay Fund purchased capital assets for the Food Service Fund.

## NOTE 15 – SIGNIFICANT CONTINGENCIES – LITIGATION

At June 30, 2016, the School District was not involved in any litigation.

**REQUIRED SUPPLEMENTARY INFORMATION**
**VERMILLION SCHOOL DISTRICT NO. 13-1**
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**
**GENERAL FUND**
**FOR THE YEAR ENDED JUNE 30, 2016**

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | | |
| **Revenues:** | | | | |
| Revenue from Local Sources: | | | | |
| Taxes: | | | | |
| Ad Valorem Taxes | $ 3,811,535.00 | $ 3,811,535.00 | $ 3,840,563.70 | $ 29,028.70 |
| Prior Years' Ad Valorem Taxes | 32,000.00 | 32,000.00 | 67,504.39 | 35,504.39 |
| Utility Taxes | 200,000.00 | 200,000.00 | 202,969.76 | 2,969.76 |
| Penalties and Interest on Taxes | 11,000.00 | 11,000.00 | 16,331.45 | 5,331.45 |
| Tuition and Fees: | | | | |
| Regular Day School Transportation | 17,000.00 | 17,000.00 | 17,970.00 | 970.00 |
| Earnings on Investments and Deposits | 9,000.00 | 9,000.00 | 12,379.28 | 3,379.28 |
| Cocurricular Activities: | | | | |
| Admissions | 33,000.00 | 33,000.00 | 40,609.40 | 7,609.40 |
| Other Revenue from Local Sources: | | | | |
| Rentals | 9,500.00 | 9,500.00 | 14,969.75 | 5,469.75 |
| Contributions and Donations | 41,455.00 | 41,455.00 | 36,291.57 | (5,163.43) |
| Charges for Services | 40,000.00 | 40,000.00 | 195,916.04 | 155,916.04 |
| Other | 35,000.00 | 35,000.00 | 99,406.04 | 64,406.04 |
| Revenue from Intermediate Sources: | | | | |
| County Sources: | | | | |
| County Apportionment | 165,000.00 | 165,000.00 | 169,455.73 | 4,455.73 |
| Revenue from State Sources: | | | | |
| Grants-in-Aid: | | | | |
| Unrestricted Grants-in-Aid | 3,124,080.00 | 3,125,580.00 | 3,112,283.54 | (13,296.46) |
| Revenue from Federal Sources: | | | | |
| Grants-in-Aid: | | | | |
| Restricted Grants-in-Aid Received Directly from Federal Government | | | 13,602.81 | 13,602.81 |
| Restricted Grants-in-Aid Received from Federal Government Through the State | | 543,946.00 | 511,117.51 | (32,828.49) |
| Total Revenue | 7,528,570.00 | 8,074,016.00 | 8,351,370.97 | 277,354.97 |
| **Expenditures:** | | | | |
| Instruction: | | | | |
| Regular Programs: | | | | |
| Elementary | 1,649,252.00 | 1,777,161.00 | 1,741,609.21 | 35,551.79 |
| Middle/Junior High | 1,112,907.00 | 1,132,907.00 | 1,123,897.18 | 9,009.82 |
| High School | 1,486,961.00 | 1,561,497.00 | 1,476,112.63 | 85,384.37 |
| Special Programs: | | | | |
| Culturally Different | | 15,110.00 | 13,602.81 | 1,507.19 |
| Educationally Deprived | | 379,815.00 | 364,569.56 | 15,245.44 |

**REQUIRED SUPPLEMENTARY INFORMATION**
**VERMILLION SCHOOL DISTRICT NO. 13-1**
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**
**GENERAL FUND**
**FOR THE YEAR ENDED JUNE 30, 2016**

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | | |
| Support Services: | | | | |
| Pupils: | | | | |
| Guidance | 284,190.00 | 284,190.00 | 276,023.87 | 8,166.13 |
| Health | 58,655.00 | 59,655.00 | 58,565.27 | 1,089.73 |
| Support Services - Instructional Staff: | | | | |
| Improvement of Instruction | 16,900.00 | 18,700.00 | 16,658.12 | 2,041.88 |
| Educational Media | 191,435.00 | 240,435.00 | 229,170.18 | 11,264.82 |
| Support Services - General Administration: | | | | |
| Board of Education | 100,710.00 | 100,710.00 | 88,629.79 | 12,080.21 |
| Executive Administration | 206,100.00 | 206,100.00 | 202,947.69 | 3,152.31 |
| Support Services - School Administration: | | | | |
| Office of the Principal | 709,343.00 | 710,343.00 | 701,422.75 | 8,920.25 |
| Other | 5,000.00 | 6,326.00 | 1,325.12 | 5,000.88 |
| Support Services - Business: | | | | |
| Fiscal Services | 231,620.00 | 231,620.00 | 210,296.61 | 21,323.39 |
| Operation and Maintenance of Plant | 1,074,950.00 | 1,078,950.00 | 969,748.55 | 109,201.45 |
| Pupil Transportation | 247,850.00 | 297,850.00 | 288,833.50 | 9,016.50 |
| Internal Services | 48,315.00 | 48,315.00 | 46,409.98 | 1,905.02 |
| Community Services: | | | | |
| Nonpublic School | | 10,150.00 | 9,791.67 | 358.33 |
| Nonprogrammed Charges: | | | | |
| Insurance Costs | | 123,000.00 | 121,028.96 | 1,971.04 |
| Cocurricular Activities: | | | | |
| Male Activities | 93,895.00 | 96,895.00 | 89,534.18 | 7,360.82 |
| Female Activities | 73,650.00 | 75,150.00 | 67,514.21 | 7,635.79 |
| Transportation | 62,165.00 | 66,165.00 | | 66,165.00 |
| Combined Activities | 185,080.00 | 195,540.00 | 244,895.79 | (49,355.79) |
| Total Expenditures | 7,838,978.00 | 8,716,584.00 | 8,342,587.63 | 373,996.37 |
| Excess of Revenue Over (Under) Expenditures | (310,408.00) | (642,568.00) | 8,783.34 | 651,351.34 |
| Other Financing Sources: | | | | |
| Transfers In | | | 2,456.01 | 2,456.01 |
| Transfers (Out) | (7,500.00) | (7,500.00) | (5,500.00) | 2,000.00 |
| Total Other Financing Sources | (7,500.00) | (7,500.00) | (3,043.99) | 4,456.01 |
| Net Change in Fund Balance | (317,908.00) | (650,068.00) | 5,739.35 | 655,807.35 |
| Fund Balance - Beginning | 2,420,647.14 | 2,420,647.14 | 2,420,647.14 | |
| FUND BALANCE - ENDING | $ 2,110,239.14 | $ 1,770,579.14 | $ 2,426,386.49 | $ 655,807.35 |

REQUIRED SUPPLEMENTARY INFORMATION
VERMILLION SCHOOL DISTRICT NO. 13-1
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL OUTLAY FUND
FOR THE YEAR ENDED JUNE 30, 2016

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | | |
| **Revenues:** | | | | |
| Revenue from Local Sources: | | | | |
| Taxes: | | | | |
| Ad Valorem Taxes | $ 1,902,000.00 | $ 1,902,000.00 | $ 1,935,664.31 | $ 33,664.31 |
| Prior Years' Ad Valorem Taxes | | | 24,614.32 | 24,614.32 |
| Penalties and Interest on Taxes | 2,500.00 | 2,500.00 | 6,463.19 | 3,963.19 |
| Investment Earnings | 2,500.00 | 2,500.00 | 7,630.42 | 5,130.42 |
| Revenue from Local Sources: | | | | |
| Contributions and Donations | 74,000.00 | 74,000.00 | 83,850.38 | 9,850.38 |
| Revenue from Federal Sources: | | | | |
| Restricted Grants-in-Aid Received from Federal Government Through State | | | 5,287.50 | 5,287.50 |
| Total Revenue | 1,981,000.00 | 1,981,000.00 | 2,063,510.12 | 82,510.12 |
| **Expenditures:** | | | | |
| Instruction: | | | | |
| Regular Programs: | | | | |
| Elementary | 104,690.00 | 116,690.00 | 115,380.14 | 1,309.86 |
| Middle/Junior High | 86,550.00 | 94,550.00 | 279,595.30 | (185,045.30) |
| High School | 130,590.00 | 130,590.00 | 101,609.02 | 28,980.98 |
| Special Programs: | | | | |
| Programs for Special Education | 2,000.00 | 2,000.00 | 1,999.95 | 0.05 |
| Support Services - Instructional Staff: | | | | |
| Educational Media | 20,000.00 | 20,000.00 | 19,058.38 | 941.62 |
| Support Services - General Administration: | | | | |
| Executive Administration | 2,000.00 | 2,000.00 | 330.11 | 1,669.89 |
| Support Services - Business: | | | | |
| Fiscal Services | 10,000.00 | 10,000.00 | 9,617.23 | 382.77 |
| Facilities Acquisition and Construction | 35,000.00 | 585,000.00 | 541,332.69 | 43,667.31 |
| Operation and Maintenance of Plant | 346,500.00 | 346,500.00 | 303,796.64 | 42,703.36 |
| Pupil Transportation | 392,620.00 | 392,620.00 | 28,600.00 | 364,020.00 |
| Food Services | 5,000.00 | 10,000.00 | 9,213.63 | 786.37 |
| Internal Services | 30,000.00 | 30,000.00 | 28,834.98 | 1,165.02 |
| Debt Services | 721,550.00 | 721,550.00 | 741,079.41 | (19,529.41) |
| Cocurricular Activities: | | | | |
| Combined Activities | 114,500.00 | 117,500.00 | 117,026.49 | 473.51 |
| Total Expenditures | 2,001,000.00 | 2,579,000.00 | 2,297,473.97 | 281,526.03 |
| Excess of Revenue Over (Under) Expenditures | (20,000.00) | (598,000.00) | (233,963.85) | 364,036.15 |
| Other Financing Sources (Uses): | | | | |
| Transfers Out | | (12,000.00) | (11,963.05) | 36.95 |
| Proceeds of Long Term Debt | | | 1,350,817.00 | 1,350,817.00 |
| Payments to Long-Term Debt Escrow | | | (1,138,921.25) | (1,138,921.25) |
| Compensation for Loss on General Capital Assets | | | 14,000.00 | 14,000.00 |
| Total Other Financing Sources (Uses): | | (12,000.00) | 213,932.70 | 225,932.70 |
| Net Change in Fund Balance | (20,000.00) | (610,000.00) | (20,031.15) | 589,968.85 |
| Fund Balance - Beginning | 1,584,022.39 | 1,584,022.39 | 1,584,022.39 | |
| FUND BALANCE - ENDING | $ 1,564,022.39 | $ 974,022.39 | $ 1,563,991.24 | $ 589,968.85 |

**REQUIRED SUPPLEMENTARY INFORMATION**
**VERMILLION SCHOOL DISTRICT NO. 13-1**
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**
**SPECIAL EDUCATION FUND**
**FOR THE YEAR ENDED JUNE 30, 2016**

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | | |
| **Revenues:** | | | | |
| Revenue from Local Sources: | | | | |
| Taxes: | | | | |
| Ad Valorem Taxes | $ 893,000.00 | $ 893,000.00 | $ 929,141.37 | $ 36,141.37 |
| Prior Years' Ad Valorem Taxes | | | 12,158.32 | 12,158.32 |
| Penalties and Interest on Taxes | 1,200.00 | 1,200.00 | 3,161.72 | 1,961.72 |
| Investment Earnings | 1,000.00 | 1,000.00 | 2,456.01 | 1,456.01 |
| Revenue From Local Sources: | | | | |
| Charges for Services | 25,000.00 | 25,000.00 | 40,526.03 | 15,526.03 |
| Other | 19,200.00 | 19,200.00 | 19,200.00 | |
| Revenue from State Sources: | | | | |
| Restricted Grant in Aid | 341,585.00 | 341,585.00 | 308,952.00 | (32,633.00) |
| Revenue from Federal Sources: | | | | |
| Grants-in-Aid: | | | | |
| Restricted Grants-in-Aid Received from Federal Government through State | 299,310.00 | 299,310.00 | 308,090.62 | 8,780.62 |
| Total Revenue | 1,580,295.00 | 1,580,295.00 | 1,623,686.07 | 43,391.07 |
| **Expenditures:** | | | | |
| Special Programs | | | | |
| Programs for Special Education | 1,107,125.00 | 1,107,125.00 | 969,940.38 | 137,184.62 |
| Support Services | | | | |
| Pupils: | | | | |
| Speech Pathology | 193,810.00 | 223,810.00 | 216,118.67 | 7,691.33 |
| Audiology | 200.00 | 200.00 | | 200.00 |
| Student Therapy Services | 169,825.00 | 194,825.00 | 180,180.57 | 14,644.43 |
| Support Services - Special Education: | | | | |
| Instructional Staff | | | | |
| Administrative Costs | 107,510.00 | 124,310.00 | 116,962.87 | 7,347.13 |
| Transportation Costs | 53,425.00 | 58,425.00 | 48,013.71 | 10,411.29 |
| Other | 72,900.00 | 73,450.00 | 53,831.55 | 19,618.45 |
| Total Expenditures | 1,704,795.00 | 1,782,145.00 | 1,585,047.75 | 197,097.25 |
| Excess of Revenue Over (Under) Expenditures | (124,500.00) | (201,850.00) | 38,638.32 | 240,488.32 |
| Other Financing Sources/(Uses): | | | | |
| Transfers (Out) | | | (2,456.01) | (2,456.01) |
| Net Change in Fund Balance | (124,500.00) | (201,850.00) | 36,182.31 | 238,032.31 |
| Fund Balance - Beginning | 425,116.84 | 425,116.84 | 425,116.84 | |
| FUND BALANCE - ENDING | $ 300,616.84 | $ 223,266.84 | $ 461,299.15 | $ 238,032.31 |

**REQUIRED SUPPLEMENTARY INFORMATION**
**VERMILLION SCHOOL DISTRICT NO. 13-1**
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**
**PENSION FUND**
**FOR THE YEAR ENDED JUNE 30, 2016**

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | | |
| **Revenues:** | | | | |
| Revenue from Local Sources: | | | | |
| Taxes: | | | | |
| Ad Valorem Taxes | $ 190,200.00 | $ 190,200.00 | $ 193,567.05 | $ 3,367.05 |
| Prior Years' Ad Valorem Taxes | | | 2,461.45 | 2,461.45 |
| Penalties and Interest on Taxes | | | 646.61 | 646.61 |
| Investment Earnings | | | 5,089.36 | 5,089.36 |
| Total Revenue | 190,200.00 | 190,200.00 | 201,764.47 | 11,564.47 |
| **Expenditures:** | | | | |
| Early Retirement Payments | 232,065.00 | 232,065.00 | 87,340.13 | 144,724.87 |
| Total Expenditures | 232,065.00 | 232,065.00 | 87,340.13 | 144,724.87 |
| Net Change in Fund Balance | 0.00 | 0.00 | 114,424.34 | 114,424.34 |
| Fund Balance - Beginning | 1,002,414.54 | 1,002,414.54 | 1,002,414.54 | |
| FUND BALANCE - ENDING | $ 1,002,414.54 | $ 1,002,414.54 | $ 1,116,838.88 | $ 114,424.34 |

REQUIRED SUPPLEMENTARY INFORMATION
VERMILLION SCHOOL DISTRICT NO. 13-1
SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS
JUNE 30, 2016

| 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) |
|---|---|---|---|---|
| 06/30/09 | $ 0 | $ 1,054,782 | $ 1,054,782 | 0.0% |
| 06/30/12 | 0 | 1,113,065 | 1,113,065 | 0.0% |
| 06/30/15 | 0 | 1,595,488 | 1,595,488 | 0.0% |

| Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|---|---|
| $ 5,095,885 | 20.7% |
| 4,999,465 | 22.3% |
| 4,459,299 | 35.8% |

## Schedule of Required Supplementary Information
## VERMILLION SCHOOL DISTRICT
## SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
## South Dakota Retirement System

| | 2015 | 2016 |
|---|---|---|
| District's proportion of the net pension liability (asset) | 0.3079737% | 0.3019235% |
| District's proportionate share of net pension liability (asset) | $ (2,218,825) | $ (1,280,544) |
| District's covered-employee payroll | $ 5,385,402 | $ 5,511,875 |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | -41.20% | -23.23% |
| Plan fiduciary net position as a percentage of the total pension liability (asset) | 107.3% | 104.1% |

* 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**
**VERMILLION SCHOOL DISTRICT**

**SCHEDULE OF THE SCHOOL DISTRICT CONTRIBUTIONS**

**South Dakota Retirement System**

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| Contractually required contribution | $ 323,137 | $ 330,736 | $ 340,419 |
| Contributions in relation to the contractually required contribution | $ 323,137 | $ 330,736 | $ 340,419 |
| Contribution deficiency (excess) | $ | $ | $ |
| District's covered-employee payroll | $ 5,385,402 | $ 5,511,875 | $ 5,671,029 |
| Contributions as a percentage of covered-employee payroll | 6.00% | 6.00% | 6.00% |

VERMILLION SCHOOL DISTRICT NO.13-1
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 – BUDGETS 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. No amount of expenditures may be charged directly to the contingency line item in the budget.

8. If it is determined, during the year, that sufficient amounts have not been budgeted, state statute allows 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.

**VERMILLION SCHOOL DISTRICT NO. 13-1**
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**FOR THE YEAR ENDED JUNE 30, 2016**

| Federal Grantor/Pass-Through Grantor | Federal CFDA Number | Pass-Through Grantor's Number | Expenditures Amount 2016 |
|---|---|---|---|
| U.S. Department of Agriculture: | | | |
| Pass-Through the SD Department of Education: | | | |
| Child Nutrition Cluster: (Note 4) | | | |
| Non-Cash Assistance (Commodities): | | | |
| National School Lunch Program | 10.555 | N/A | $ 41,254.23 |
| Cash Assistance: (Note 3) | | | |
| National School Lunch Program | 10.555 | N/A | 203,188.81 |
| School Breakfast Program | 10.553 | N/A | 37,504.29 |
| Summer Food Service Lunch Program | 10.559 | N/A | 32,487.89 |
| **Total U.S. Department of Agriculture** | | | **314,435.22** |
| U.S. Department of Education: | | | |
| Direct Federal Funding: | | | |
| Indian Education - Grants to Local Educational Agencies (Note 3) | 84.060 | N/A | 13,602.81 |
| Pass-Through the SD Department of Education: | | | |
| Title I Cluster: | | | |
| Title I Grants to Local Educational Agencies | 84.010 | N/A | 373,361.31 |
| Special Education Cluster: | | | |
| Special Education - Grants to States | 84.027 | N/A | 286,865.68 |
| Special Education - Preschool Grants | 84.173 | N/A | 21,225.41 |
| Total Special Education Cluster | | | 308,091.09 |
| Career and Technical Education - Basic Grants - Basic Grants to States | 84.048 | N/A | 25,710.88 |
| Improving Teacher Quality State Grants | 84.367 | N/A | 111,407.60 |
| Federal Work-Study Program | 84.033 | N/A | 636.85 |
| **Total U.S. Department of Education** | | | **832,810.54** |
| U.S. Department of Homeland Security: | | | |
| Pass-Through the SD Department of Public Safety-Office of Homeland Security: | | | |
| **Homeland Security Grant** | 97.067 | N/A | **5,287.50** |
| Grand Total | | | **$ 1,152,533.26** |

**VERMILLION SCHOOL DISTRICT NO. 13-1**
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**FOR THE YEAR ENDED JUNE 30, 2016**
**(continued)**

**Note 1: *Basis of Presentation***

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the School District under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School District.

**Note 2: *Summary of Significant Accounting Policies***

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. The School District has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**Note 3: *Federal Reimbursement***

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

**Note 4: *Major Federal Financial Assistance Program***

This represents a Major Federal Financial Assistance Program.

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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
Vermillion School District No. 13-1
Clay 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 Vermillion School District No. 13-1, Clay County, South Dakota (School District), as of June 30, 2016 and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated September 8, 2016.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Vermillion 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 Vermillion 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 a 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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Vermillion School District's financial statements are free of material misstatement, we performed tests of its compliance with certain

provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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, Berglin & Post P.C.

Quam, Berglin & Post, P.C.
Elk Point, SD

September 8, 2016

# QUAM, BERGLIN & POST, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

School Board
Vermillion School District No. 13-1
Clay County, South Dakota

**Report on Compliance for Each Major Federal Program**

We have audited the Vermillion School District No. 13-1, South Dakota (School District) compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. The Vermillion School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the School District's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).* Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### *Opinion on Each Major Federal Program*

In our opinion, Vermillion School District No. 13-1 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### Report on Internal Control Over Compliance

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

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

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

### Purpose of this Report

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

Quam, Berglin & Post P.C.

Quam, Berglin & Post, P.C.
Elk Point, SD

September 8, 2016

## VERMILLION SCHOOL DISTRICT NO. 13-1
## SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
## JUNE 30, 2016

**PRIOR AUDIT FINDING:**

**Prior Other Audit Findings**:

There are no prior other audit findings to report.

**VERMILLION SCHOOL DISTRICT NO. 13-1**
**SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS**
**FOR THE YEAR ENDED JUNE 30, 2016**

## SUMMARY OF INDEPENDENT AUDITOR'S RESULTS:

### *Financial Statements*

a. An unmodified opinion was issued on the financial statements of each opinion unit.

b. Our audit did not disclose any noncompliance that was material to the financial statements.

### *Federal Awards*

d. An unmodified opinion was issued on compliance with the requirements applicable to major programs.

e. Our audit did not disclose any audit findings that need to be disclosed in accordance with the Uniform Guidance.

f. The federal awards tested as major programs were:

| | CFDA # |
|---|---|
| Child Nutrition Cluster: | |
| National School Lunch Program | 10.555 |
| School Breakfast Program | 10.553 |
| Summer Food Service Lunch Program | 10.559 |

g. The dollar threshold used to distinguish between Type A and Type B federal award programs was $750,000.00.

h. Vermillion School District did qualify as a low-risk auditee.

# VERMILLION SCHOOL DISTRICT NO. 13-1
# SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
# FOR THE YEAR ENDED JUNE 30, 2016

## CURRENT FEDERAL AUDIT FINDINGS:

There are no current federal compliance audit findings to report.

## CURRENT OTHER AUDIT FINDINGS:

There are no current other audit findings to report.