



Financial Statements
June 30, 2018

Faith School District No. 46-2

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School Board President	Scott Vance
School Board Vice-President	Noma Welter
School Board Members	Justin Haines Lynn Halligan Kevin Groves
Superintendent	Kelly Daughters
Business Manager	Amie Schauer



Independent Auditor's Report

Members of the School Board
Faith School District No. 46-2
Meade County, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Faith School District No. 46-2, Meade County, South Dakota (the "School District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Faith School District No. 46-2, as of June 30, 2018, and the respective changes in financial position 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, budgetary comparison schedules, and the schedule of employer's share of net pension liability (asset) and employer's contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Faith School District No. 46-2's financial statements. The school district officials listing is presented for purposes of additional analysis and is not a required part of the financial statements. The school district officials listing has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2019 on our consideration of Faith School District No. 46-2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of Faith School District No. 46-2's 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 Faith School District No. 46-2's internal control over financial reporting and compliance.



Bismarck, North Dakota
March 28, 2019

This section of Faith School District 46-2's annual financial report presents our discussion and analysis of the School District's financial performance during the fiscal year ended on June 30, 2018. Please read it in conjunction with the School District's financial statements, which follow this section.

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 District:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the School District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School District government, reporting the School District's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
 - Fiduciary fund statements provide information about the financial relationships – such as the Class of 2018, or the Athletic Fund - in which the School District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Figure A-2 summarizes the major features of the School District's financial statements, including the portion of the School District government covered and the types of information contained. 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 Faith School District's Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire School government (except fiduciary funds)	The activities of the School that are not fiduciary, such as elementary and high school education programs.	Instances in which the School is the trustee or agent for someone else's resources.
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Fiduciary Net Position *Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.
Type of Asset/Deferred Outflow of Resources/Liability/Deferred Inflow of Resources Information	All assets, deferred outflows, liabilities, and deferred inflows of resources 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, deferred outflows, liabilities, and deferred inflows, 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.

Government-Wide Statements

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

The two government-wide statements report the School District's net position and how they have changed. Net position – the difference between the School District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources – are one way to measure the School District's financial health or position.

- Increases or decreases in the School District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the School District you need to consider additional non-financial factors such as changes in the School District's property tax base and changes in the School District's state aid funding formula from the State of South Dakota.
- Governmental Activities - This category includes the School District's basic instructional services, such as elementary, middle and high school educational programs, support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, Student Council, Quiz Bowl, etc.) and capital equipment purchases. Property taxes, state grants, federal grants and interest earnings finance most of these activities.

Fund Financial Statements

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

- State Law requires some of the funds (such as Capital Outlay and Special Education.)
- The School Board establishes other funds to control and manage money for particular purposes (such as class accounts).

The School District has two kinds of funds:

- Governmental Funds – All of the School District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- Fiduciary Funds – The School District is the trustee, or fiduciary, for various external and internal parties. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the School District's government-wide financial statements because the School District cannot use these assets to finance its operations.

Financial Analysis of the School District as a Whole

Net Position

The School District's combined net position increased as follows:

**Table A-1
Faith School District 46-2
Statement of Net Position**

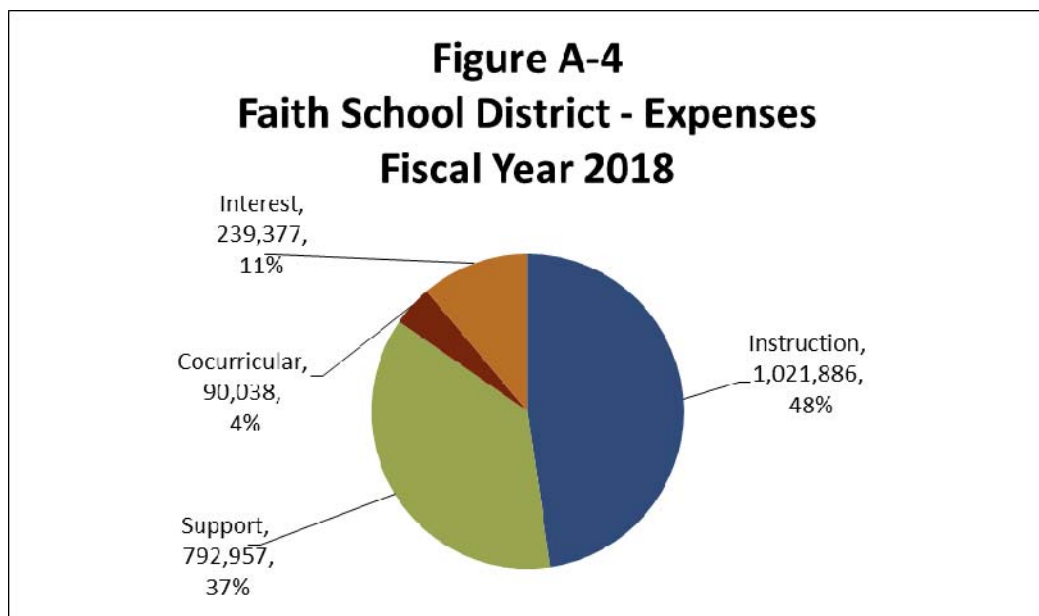
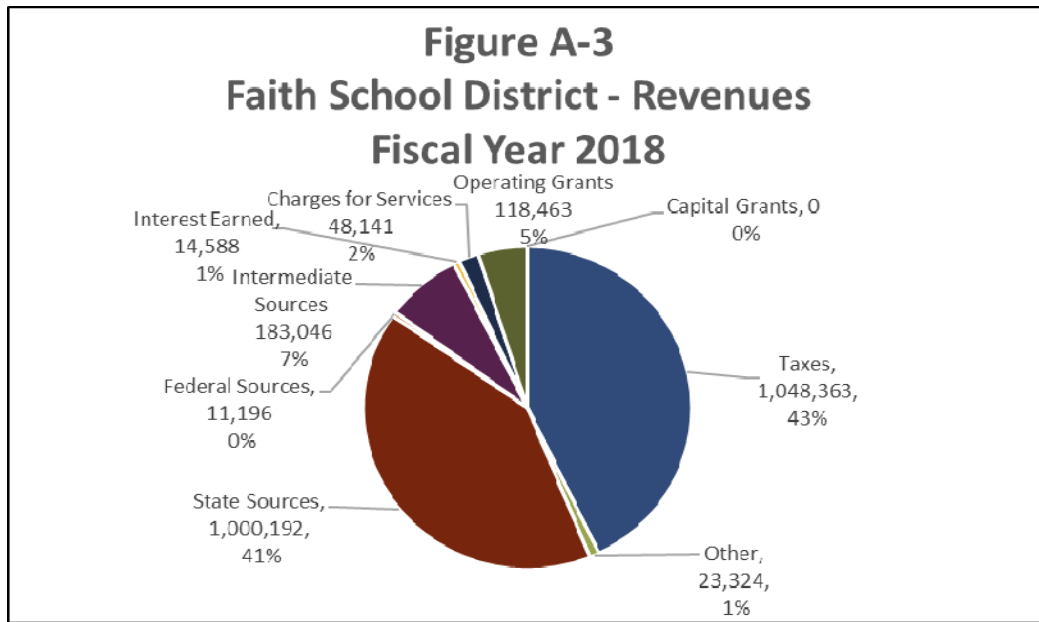
	2018	2017
Assets		
Current and other assets	\$ 3,781,056	\$ 3,523,909
Capital assets	4,919,894	5,001,074
Total assets	8,700,950	8,524,983
Deferred outflows of resources		
Pension plans	488,663	402,914
-		
Liabilities		
Long-term debt outstanding	3,713,934	3,882,405
Other liabilities	215,112	178,701
Total liabilities	3,929,046	4,061,106
Deferred inflows of resources		
Pension plans	93,429	-
Taxes levied for future periods	528,187	522,020
Total deferred inflows of resources	621,616	522,020
Net position		
Net investment in capital assets	1,279,894	1,701,074
Restricted	2,870,429	2,077,954
Unrestricted	488,628	565,743
Total net position	\$ 4,638,951	\$ 4,344,771

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and deferred outflows of resources, and liabilities and deferred inflows of resources in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the School District, consisting of compensated absences payable, Qualified Zoning Academy Bonds Payable, and capital outlay certificates payable, have been reported on the Statement of Net Position. The difference between the School District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources is its net position.

Changes in Net Position

The School District's total revenues totaled \$2,447,313. (See Table A-2.) Approximately 44% of the School District's revenue comes from property and other tax revenue, with another 41% coming from state aid. (See Figure A-3).

The School District's expenditures totaled \$2,144,258 with approximately 48% to instruction and 37% going to support services. The School District's expenses cover a range of services, encompassing instruction, support services, co-curricular, and interest expense. (See Figure A-4).



Governmental Activities

Table A-2 and the narrative that follows consider the operations of the governmental activities of the School District.

**Table A-2
Faith School District 46-2
Changes in Net Position**

	<u>Total Governmental Activities 2018</u>	<u>Total Governmental Activities 2017</u>
Revenues		
Program revenues		
Charges for services	\$ 48,141	\$ 50,129
Operating grants and contributions	118,463	124,070
Capital grants and contributions	-	9,327
General revenues		
Taxes	1,048,363	1,035,664
Other	23,324	25,544
Revenue state sources	1,000,192	1,059,870
Revenue federal sources	11,196	7,634
Revenue intermediate sources	183,046	187,489
Unrestricted investment earnings	14,588	5,278
Total revenues	<u>2,447,313</u>	<u>2,505,005</u>
Expenses		
Instruction	1,021,886	1,163,611
Support services	792,957	811,882
Cocurricular activities	90,038	81,277
Interest (unallocated)	239,377	210,072
Total expenses	<u>2,144,258</u>	<u>2,266,842</u>
Revenues over expenses	303,055	238,163
Loss on sale of capital assets	<u>(8,875)</u>	<u>-</u>
Increase in Net Position	294,180	238,163
Net Position - Beginning of Year	<u>4,344,771</u>	<u>4,106,608</u>
Net Position - End of Year	<u>\$ 4,638,951</u>	<u>\$ 4,344,771</u>

Revenues for governmental activities were \$2,447,313, while total expenses amounted to \$2,144,258, an increase of \$303,055 in net position. The main reasons are:

- An increase in ad valorem taxes and other taxes collected.
- An increase in Interest Earned.
- A decrease Instructional expenses.
- A decrease in Support Services expenses.

Financial Analysis of the School District's Funds

- In governmental funds, major fund balances changed as follows: General Fund decreased \$135,807 due to a mandated teacher salary increase and payment of the SDSDBF assessment; Capital Outlay increased \$135,158 over 2017 due to the substantial completion of the cafeteria/lunchroom/building project in FY17; and Special Education increased \$29,413 due to additional tax revenue as well as fewer cooperative expenditures.

Budgetary Highlights

- Fiscal Year 2013 was the first year in the new school facility funded by 16-year 0% federal bonds.
- Faith School District staff base salary was increased from \$35,520 to \$35,720 based on the new funding formula which mandated average teacher salary and benefits total at least \$48,500.
- Enrollment is always a major factor. The fewer the enrollment the less State Aid.

Net Pension Liability (Asset)

The School District had a net pension asset of \$4,449 at June 30, 2018 due to the implementation of GASB Statement No.68, which required the reporting of the asset as well as the other pension amounts on the statement of activities.

Capital Asset Administration

By the end of 2018, the School District had invested \$4,919,894 in a broad range of capital assets, including, land, buildings, and various machinery and equipment. (See Table A-3.) This amount represents a net decrease of \$81,180 (including additions and deletions) over last year resulting from the addition and deletion of equipment and net accumulated depreciation and the restatement of assets as well as construction in progress. See Note 3 for further information on capital assets.

Table A-3
Faith School District 46-2
Capital Assets (Net of Depreciation)

	Governmental Activities	
	2018	2017
Land	\$ 17,377	\$ 17,377
Construction in progress	-	949,211
Buildings (net)	4,717,806	3,837,784
Machinery and equipment (net)	184,711	196,702
Total capital assets (net)	<u>\$ 4,919,894</u>	<u>\$ 5,001,074</u>

A group of landowners who have students that attend the Faith School District and also have land that borders the Faith School District but is included in the Meade 46-1 district, petitioned the Meade 46-1 school board to have their land moved from Meade 46-1 into the Faith School District. Their petition was denied and the landowners appealed to the Circuit Court. The appeal failed was appealed to the South Dakota Supreme Court and was denied in April 2013.

The Faith Education Foundation is a foundation to help benefit the Faith School District and its students. The group worked tirelessly to raise funding for our new building built in 2012. Those plans needed to be scaled back for funding reasons and as a result the kitchen/cafeteria alternate of the plans was cut. It was the desire of the Faith Education Foundation board to complete the new campus with a kitchen/cafeteria when an affordable plan could be found. With a donation of \$326,887 the Faith Education Foundation and the Faith School District were able to renovate the existing kitchen and build a new lunchroom facility beginning during fiscal year 2016. This project was completed in 2018.

Long-Term Debt

During Fiscal Year 2011, Qualified School Construction Bonds for the new school were acquired as newly acquired debt. During Fiscal Year 2005, Qualified Zoning Academy Bonds and a loan from the US Department of Agriculture were acquired as debt. At year-end the School District had \$3,713,934 in net Capital Outlay Certificates and other long-term obligations. See Table A-4 below.

Table A-4
Faith School District 46-2
Outstanding Debt and Obligations

	Governmental Activities		Change	Change
	2018	2017	2017-2018	2017-2018
Compensated absences	\$ 39,025	\$ 40,157	\$ (1,132)	-2.82%
SD SDBF assessment	34,909	46,209	(11,300)	0.00%
Capital outlay certificates/ QZAB/QSCB	3,640,000	3,640,000	-	0.00%
Total outstanding debt and obligations	<u>\$ 3,713,934</u>	<u>\$ 3,726,366</u>	<u>\$ (12,432)</u>	<u>-0.33%</u>

The School District is liable for the accrued vacation leave payable to 12-month contracts of the superintendent, business manager, and head secretary. Accumulated sick leave of 30 days per qualifying employee is also included here. This increase is the result of the value of the days paid out in accumulated sick leave and vacation leave.

The SDSDBF is a health insurance pool the Faith School District belongs to. As a result of premium increases below the necessary amount and the required Affordable Care Act changes to the plans, the pool has suffered losses. SDSDBF has assessed the member-schools based on a prorated amount of the loss. The assessment for the Faith School District is \$46,209.

The Qualified School Construction Bonds were awarded in the amount of \$3,340,000 at a rate of 0% for 16 years. The transitions projects were funded through a Qualified Zoning Academy Bond, or QZAB. These dollars, awarded in August 2004, are a federal loan in the amount of \$250,000 at 0% interest over 14 years. Another QZAB award of \$50,000 was received in June of 2005. This award was also at the 0% interest rate for 16 years and the total to be repaid being only \$44,219, 88.5% of the original award.

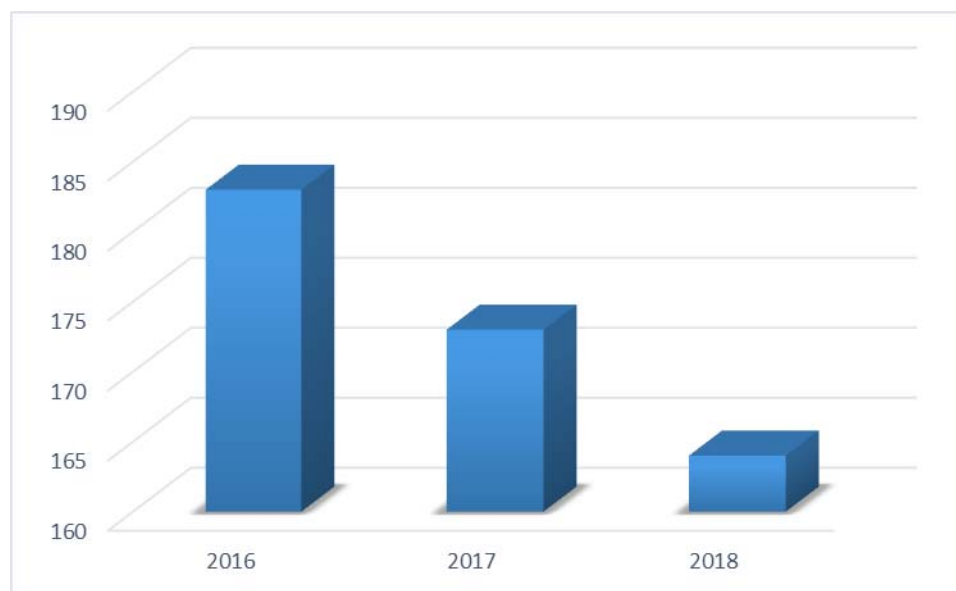
See Note 4 for further information on long-term debt.

Economic Factors and Next Year's Budgets and Rates

The School District's current economic position has shown a shift with both an increase to assets and liabilities with the condemnation of our buildings, the purchase of the modular units in 2004 and the eventual building of the new school in 2012. An increase in property valuation allows the School District the ability to increase the amount of revenue generated from property taxes, however, the total amount that can be levied is limited by the State of South Dakota. That levy amount has decreased from \$1.782 in 2014 (payable 2015) to \$1.568 in 2017 (payable 2018). A new change in the funding formula will have an unknown but presumably negative impact the district. Capital Outlay revenues will be held to the previous year's dollar amounts plus growth (if any) rather than based on the land valuation itself. A Special Education levy of \$1.505/1,000 remains in place. The district passed a \$3 million bond issue to authorize additional taxes to be levied in order to pay for the new building built in 2012.

The major change to the funding formula includes the basis on which State Aid is paid. The new formula is based on a 12:1 certified teacher-student ratio with a target certified teacher salary and benefits package of at least \$48,500. School districts will receive funding based on the number of students enrolled in their districts on the last Friday in September. In 2007 a Sparsity Factor was added to the funding formula. The Sparsity Factor added an additional \$110,000 to the District's fiscal year 2018 state aid payment. This additional Sparsity Factor will help to offset the Opt-Out dollars that expired in 2007; however the limit on the amount of the sparsity factor is \$110,000 and possibly less depending on how the legislature decides to appropriate to the funding. Thus, the further the drop in enrollment and the additional schools meeting the qualifying criteria will result in less revenue for the district will receive.

The School District's enrollment for the last three years has been as follows:



Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Faith School District 46-2; PO Box 619; Faith, SD 57626.

Faith School District No. 46-2
Statement of Net Position – Exhibit I
June 30, 2018

	Governmental Activities
Assets	
Cash	\$ 1,539,634
Taxes receivable	479,364
Inventories	4,063
Other receivables	50,500
Restricted cash	1,703,046
Net pension asset	4,449
Capital assets, not being depreciated	
Land	17,377
Capital assets, net of accumulated depreciation	
Buildings	4,717,806
Machinery and equipment	184,711
Total assets	8,700,950
Deferred outflows of resources	
Pension plans	488,663
Liabilities	
Interest payable	40,607
Retainage payable	33,631
Other current liabilities	140,874
Noncurrent liabilities	
Due within one year	
Bonds	250,000
Compensated absences	15,000
SD SDBF assessment	11,460
Due in more than one year	
Bonds	3,390,000
Compensated absences	24,025
SD SDBF assessment	23,449
Total liabilities	3,929,046
Deferred Inflows of Resources	
Pension plans	93,429
Taxes levied for future periods	528,187
Total deferred inflows of resources	621,616
Net Position	
Net investment in capital assets	1,279,894
Restricted for	
Capital outlay	642,500
Special education	60,674
Debt service	1,696,903
Capital projects	29,421
Pension fund	29,124
Food service	12,124
SDRS Pension Plan	399,683
Unrestricted	488,628
Total net position	\$ 4,638,951

See Notes to Financial Statements

Faith School District No. 46-2
Statement of Activities – Exhibit II
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Total
					Governmental
					Activities
Primary Government					
Governmental activities					
Instruction	\$ 1,021,886	\$ -	\$ 109,509	\$ -	\$ (912,377)
Support services	792,957	27,817	8,954	-	(756,186)
Cocurricular activities	90,038	20,324	-	-	(69,714)
Interest expense- unallocated	<u>239,377</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(239,377)</u>
Total Primary Government	<u>\$ 2,144,258</u>	<u>\$ 48,141</u>	<u>\$ 118,463</u>	<u>\$ -</u>	<u>(1,977,654)</u>
General Revenues					
Taxes					
Property taxes					
1,048,363					
Other					
23,324					
Revenue from state sources					
State aid					
1,000,192					
Revenue from federal sources					
11,196					
Unrestricted investment earnings					
14,588					
Other general revenues					
<u>183,046</u>					
Total general revenues					
<u>2,280,709</u>					
Loss on disposal of fixed assets					
(8,875)					
Change in Net Position					
294,180					
Net Position - June 30, 2017					
<u>4,344,771</u>					
Net Position - June 30, 2018					
<u>\$ 4,638,951</u>					

Faith School District No. 46-2
Balance Sheet – Governmental Funds – Exhibit III
June 30, 2018

	General Fund	Special Revenue Funds		Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Education				
Assets							
101 Cash and cash equivalents	\$ 686,634	\$ 664,589	\$ 81,211	\$ 6,788	\$ 55,562	\$ 44,850	\$ 1,539,634
104 Cash with fiscal agent	-	-	-	1,703,046	-	-	1,703,046
110 Taxes receivable--current	124,054	161,448	86,770	105,295	-	-	477,567
112 Taxes receivable--delinquent	776	460	236	325	-	-	1,797
120 Accounts receivable, net	730	-	-	-	-	439	1,169
130 Due from Debt Service Fund	3,000	-	-	-	-	-	3,000
140 Due from other governments	22,589	1,202	646	794	-	-	25,231
150 Advance to Agency Fund	22,873	-	1,227	-	-	-	24,100
170 Inventory	-	-	-	-	-	4,063	4,063
Total assets	\$ 860,656	\$ 827,699	\$ 170,090	\$ 1,816,248	\$ 55,562	\$ 49,352	\$ 3,779,607
Liabilities, Deferred Inflows of Resources, and Fund Balances							
Liabilities							
402 Retainage payable	\$ -	\$ 7,490	\$ -	\$ -	\$ 26,141	\$ -	\$ 33,631
402 Accounts payable	8,667	-	544	-	-	229	9,440
404 Contracts payable	100,807	-	9,793	-	-	4,053	114,653
410 Due to General Fund	-	-	-	3,000	-	-	3,000
450 Payroll deductions and withholdings and employer matching payable	8,999	-	3,960	-	-	3,822	16,781
Total liabilities	118,473	7,490	14,297	3,000	26,141	8,104	177,505
Deferred Inflows of Resources							
551 Unavailable revenue - property taxes	776	460	236	325	-	-	1,797
551 Taxes levied for future periods	139,339	177,709	95,119	116,020	-	-	528,187
Total deferred inflows of resources	140,115	178,169	95,355	116,345	-	-	529,984
Fund Balances							
710 Nonspendable	22,873	-	1,227	-	-	4,063	28,163
720 Restricted							
Debt Service	-	-	-	1,696,903	-	-	1,696,903
Capital Outlay	-	642,040	-	-	-	-	642,040
Special Education	-	-	59,211	-	-	-	59,211
Capital Projects	-	-	-	-	29,421	-	29,421
Pension	-	-	-	-	-	29,124	29,124
Food Service	-	-	-	-	-	8,061	8,061
760 Unassigned	579,195	-	-	-	-	-	579,195
Total fund balances	602,068	642,040	60,438	1,696,903	29,421	41,248	3,072,118
Total liabilities, deferred inflows of resources and fund balances	\$ 860,656	\$ 827,699	\$ 170,090	\$ 1,816,248	\$ 55,562	\$ 49,352	\$ 3,779,607

Total Fund Balances - Governmental Funds		\$ 3,072,118
Amounts reported for governmental activities in the statement of net position are difference because		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		4,919,894
Assets, such as taxes receivable that are not available to pay for current period expenditures, are deferred inflows in the fund level statements.		1,797
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore are not reported in the funds		395,234
The net pension asset is not payable in the current period and therefore is not reported in the funds.		4,449
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Interest payable	\$ (40,607)	
Capital outlay certificates	(340,000)	
Bonds	(3,300,000)	
Compensated absences	(39,025)	
SD SDBF Assessment	(34,909)	
		<u>(3,754,541)</u>
Net Position - Governmental Activities		<u>\$ 4,638,951</u>

Faith School District No. 46-2

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Exhibit V

Year Ended June 30, 2018

	General Fund	Special Revenue Funds		Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Education				
Revenues							
1000 Revenue from local sources							
1100 Taxes							
1110 Ad valorem taxes	\$ 275,260	\$ 350,118	\$ 188,061	\$ 230,268	\$ -	\$ -	\$ 1,043,707
1120 Prior years' ad valorem taxes	3,817	2,408	1,212	1,718	-	1,063	10,218
1140 Utility taxes	23,324	-	-	-	-	-	23,324
1190 Penalties and interest on taxes	1,709	1,340	708	914	-	154	4,825
1500 Earnings on investments and deposits	1,933	1,617	155	10,510	237	136	14,588
1600 Food service	-	-	-	-	-	27,817	27,817
1700 Cocurricular activities							
1710 Admissions	17,807	-	-	-	-	-	17,807
1790 Other student activity income	2,517	-	-	-	-	-	2,517
1900 Other revenue from local sources							
1920 Contributions and donations	908	-	200	-	-	-	1,108
1950 Refund of prior years' expenditures	781	-	-	-	-	-	781
1970 Charges for services	2,132	-	232	-	-	-	2,364
1990 Other	2,555	600	-	153,792	-	-	156,947
2000 Revenue from intermediate sources							
2100 County sources							
2110 County apportionment	16,335	-	-	-	-	-	16,335
3000 Revenue from state sources							
3110 Unrestricted grants-in-aid	1,000,192	-	-	-	-	-	1,000,192
3810 State reimbursements	-	-	-	-	-	249	249
4120 Unrestricted Grants-in-Aid							
Received from Federal government through the State	11,196	-	-	-	-	-	11,196
4150-4199 Restricted grants-in-aid received from Federal government through the State	85,964	-	-	-	-	-	85,964
4810 Federal Reimbursements	-	-	-	-	-	22,107	22,107
4820 Donated food	-	-	-	-	-	7,779	7,779
Total revenue	1,446,430	356,083	190,568	397,202	237	59,305	2,449,825

Faith School District No. 46-2
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Exhibit V
Year Ended June 30, 2018

	General Fund	Special Revenue Funds		Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
		Capital Outlay	Special Education				
Expenditures							
Current							
1000 Instruction							
1110 Elementary	478,171	20,048	-	-	-	-	498,219
1120 Middle/junior high	99,614	1,135	-	-	-	-	100,749
1130 High school	360,235	10,467	-	-	-	-	370,702
1200 Special programs							
1220 Programs for special education	-	-	99,575	-	-	-	99,575
1270 Educationally deprived	43,386	-	-	-	-	-	43,386
2000 Support services							
2120 Guidance	11,707	-	-	-	-	-	11,707
2130 Health	880	-	-	-	-	-	880
2150 Speech pathology	-	-	2,370	-	-	-	2,370
2170 Student therapy services	-	-	22,276	-	-	-	22,276
2200 Support services - instructional staff							
2210 Improvement of instruction	813	-	-	-	-	-	813
2220 Educational media	70,675	-	-	-	-	-	70,675
2300 Support services - general administration							
2310 Board of Education	28,635	-	-	-	-	-	28,635
2320 Executive administration	43,447	-	-	-	-	-	43,447
2400 Support services - school administration							
2410 Office of the principal	62,171	-	-	-	-	-	62,171
2440 Title I Program Adm.	4,561	-	-	-	-	-	4,561
2490 Other	55,257	-	-	-	-	-	55,257
2500 Support services - business							
2520 Fiscal services	52,343	-	-	-	-	-	52,343
2540 Operation and maintenance of plant	189,949	96,220	-	-	-	-	286,169
2550 Pupil transportation	-	31,510	-	-	-	-	31,510
2560 Food service	-	-	-	-	-	62,285	62,285
2700 Support services - special education							
2710 Administrative costs	-	-	36,780	-	-	-	36,780
5000 Debt services	-	-	-	210,070	-	-	210,070
6000 Cocurricular activities							
6100 Male activities	20,842	-	-	-	-	-	20,842
6200 Female activities	17,566	-	-	-	-	-	17,566
6500 Transportation	28,926	-	-	-	-	-	28,926
6900 Combined activities	18,205	-	-	-	-	-	18,205
Capital outlay	-	12,826	-	-	3,641	-	16,467
Total expenditures	1,587,383	172,206	161,001	210,070	3,641	62,285	2,196,586
Excess of revenue over (under) expenditures	(140,953)	183,877	29,567	187,132	(3,404)	(2,980)	253,239
Other Financing Sources (Uses)							
5110 Transfers in	2,096	-	-	47,104	-	-	49,200
8110 Transfers out	-	(48,719)	(154)	-	(238)	(89)	(49,200)
5130 Sale of surplus property	3,050	-	-	-	-	-	3,050
Total other financing sources (uses)	5,146	(48,719)	(154)	47,104	(238)	(89)	3,050
Net Change in Fund Balances	(135,807)	135,158	29,413	234,236	(3,642)	(3,069)	256,289
Fund Balance - June 30, 2017	737,875	506,882	31,025	1,462,667	33,063	44,317	2,815,829
Fund Balance - June 30, 2018	\$ 602,068	\$ 642,040	\$ 60,438	\$ 1,696,903	\$ 29,421	\$ 41,248	\$ 3,072,118

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-
Wide Statement of Activities – Exhibit VI
Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds		\$ 256,289
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. This amount represents capital asset purchases which are reported as expenditures on the fund financial statements but increase assets on the government wide statements.		16,467
In the statement of activities, losses on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized.		(8,875)
Capital outlay depreciation expense.		(88,772)
Governmental funds report property taxes as revenue in the period for which the tax is levied, subject to availability, but the statement of activities includes the property taxes as revenue in the period for which the taxes are levied, regardless of when collections occurs.		(5,562)
Principal payments on long-term liabilities are an expenditure in the governmental funds, but the payments decrease long-term liabilities in the statement of net position.		11,300
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Net increase in interest payable	\$ (40,607)	
Net decrease in compensated absences	1,132	
		(39,475)
In the statement of activities the cost of pension benefits earned net of employee contributions is reported in pension expense. In the governmental funds, however, the contributions are reported as expense.		152,808
Change in Net Position of Governmental Activities		\$ 294,180

Faith School District No. 46-2
Statement of Fiduciary Net Position – Fiduciary Funds – Exhibit VII
June 30, 2018

	<u>Agency Funds</u>
Assets	
Cash	<u>\$ 79,063</u>
Liabilities	
Amounts held for others	54,963
Due to general fund	22,873
Due to special educaiton fund	<u>1,227</u>
Total liabilities	<u><u>\$ 79,063</u></u>

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Faith School District No. 46-2 (School District) conform to generally accepted accounting principles applicable to governmental entities in the United States of America.

Reporting Entity

The reporting entity of the Faith School District No. 46-2 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. The School District has no component units.

Faith School District No. 46-2 (the School District) participates in a cooperative service unit with six other school districts, Northwest Area Schools Cooperative. (See detailed note entitled "Joint Ventures" for specific disclosures). Joint Ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit but are discussed in these notes because of the nature of their relationship with the School District.

Basis of Presentation

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

Government-Wide Statements

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

Government-Wide Financial Statements - The statement of net position and statement of activities display information about the School District as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. As a general rule, the effect of interfund activity has been eliminated from the government wide financial statements.

The statement of net position reports all financial and capital resources, in a net position form (assets plus deferred outflows of resources minus liabilities minus deferred inflows of resources 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, and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include a) charges paid by recipients of goods and services offered by the programs and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

Fund financial statements of the 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, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures/expense. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the District or it meets the following criteria.

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

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

	Description
General Fund	The general fund is the general operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund. The general fund is always a major fund.
Special Education Fund	A fund established by South Dakota Codified (SDCL) 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the district. This fund is financed by grants and property taxes.
Capital Outlay Fund	A fund established by SDCL 13-16-6 to meet expenditures which result in the acquisition of or additions to real property, plant or equipment. This fund is financed by property taxes.
Debt Service Fund	This fund is used to account for the sinking fund accounts restricted to use for the payment of principal on the Series 2004 and Series 2005 Qualified Zoning Academy Bonds, Capital Outlay Certificates and 2010 Qualified School Construction Bonds.
Capital Projects Fund	This fund is used to account for the construction or acquisition of major capital facilities.

Fiduciary 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 to hold assets as an agent in a trustee capacity for various classes, clubs and so on.

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, governmental 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 fiduciary funds.

Basis of Accounting

Government-Wide Financial Statements

In the government-wide Statement of Net Position and Statement of Activities, governmental 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 does not exceed one bill-paying cycle, and for the Faith School District No. 46-2, the length of that cycle is 60 days. The revenues which are accrued at June 30, 2018 are revenues from federal, state, and local sources.

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 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.

Interfund Eliminations and Reclassifications

Government-Wide Financial Statements

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

In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the government and business-type activities columns, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Fund Financial Statements

Noncurrent portions of long-term interfund receivables are reported as nonspendable fund balance to the extent that the proceeds from the collection of those receivables are not restricted, committed, or assigned. Current portions of interfund receivables are considered “available spendable resources” and are reported in the appropriate fund balance category.

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

The School District had no investments at June 30, 2018.

Inventory

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list (average for the year).

In the government-wide financial statements and in the fund financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed. In the governmental fund financial statements, the “consumption method” of recording inventory is used.

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.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Interest costs incurred during construction of capital assets are not capitalized along with other capital asset costs.

The total June 30, 2018 balance of capital assets for governmental activities includes estimates of the original costs. These estimated original costs were established by deflated current replacement cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities, with net capital assets reflected in the statement of net position. Capitalization thresholds (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 are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$ 1,000	N/A	N/A
Buildings	50,000	Straight-line	80 years
Machinery/equipment	5,000	Straight-line	5-20 years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition.

Long-Term Liabilities

The accounting treatment of long-term liabilities used in governmental fund operations is reported in the government-wide statements.

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of compensated absences, capital outlay certificates payable, SD SDBF assessment, and QZAB and QSCB bonds payable.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenues and payments of principal and interest are reported as expenditures.

Annual leave is earned by the administrative and support staff employees at the rate of two to four weeks per year. Upon termination, employees are entitled to receive compensation for their accrued annual leave balance up to 30 days on the basis of the current pay.

Sick leave is earned by the employees at the rate of 5 to 10 days per year. Upon termination, certified employees are entitled to receive compensation for their accrued sick leave balance on the basis of \$25 per day up to a maximum of 30 days and \$50 per discretionary day. Discretionary days are earned at the rate of 5 days per year and are non-accumulative.

As of June 30, 2018, a liability of \$39,025 existed for accumulated unpaid leave balance (annual and sick) calculated at the employees' June 30, 2018 pay rates.

Deferred Outflows and Inflows of Resources

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

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

Receivables, such as taxes receivable, may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported unearned revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met. According to SDCL 10-33, unearned revenue would also be recognized for gross receipts tax if they are received after their 60-day period of availability after the current period (September 1st).

Pensions

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

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.

Equity Classifications

Government-wide Statements

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the School District's government-wide financial statements, and is displayed in three components:

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

Restricted and Unrestricted Resources

It is the School District's policy to first apply restricted resources when an expenditure is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Balance Classification Policies and Procedures

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Business Manager.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

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

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

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

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Capital Outlay Fund	Property Taxes
Special Education Fund	Property Taxes

Note 2 - Deposits and 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, 13-16-15.1, 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 110 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.

Deposits are reported at cost plus interest if the account is of the add-on type. State law allows income from deposits and investments to be credited to either the general fund or the fund making the investment. The School District’s policy is to credit all income from deposits and investments to the general fund. U.S. GAAP, 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 deposit and 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 earnings are reported, while in the government-wide financial statements, they have been eliminated. These interfund transfers are not violations of the statutory restrictions on interfund transfers.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the School District’s deposits may not be returned. The School District’s deposit policy requires deposits in excess of the Depository Insurance maximum to be 100% collateralized as required by South Dakota Codified Law. The financial institutions where the collateral is held must be a member of the FDIC. As of June 30, 2018, the financial institution that holds the School District’s deposits was properly collateralized.

Restricted Cash and Investments

The School District’s restricted cash for debt service are as follows:

2004 QZAB Redemption Bond	\$ 232,143
2005 QZAB Redemption Bond	39,333
2010 QSCB Bond Sinking Fund	1,280,330
2010 QSCB Redemption Certificates	151,240
Total restricted cash	\$ 1,703,046

Custodial and Concentration Credit Risk

For deposits and investments, the custodial credit risk is that, in the event of the failure of a depository financial institution, the School District will not be able to recover collateral securities that are in the possession of an outside party. The School District’s deposits are insured and collateralized by the South Dakota Public Deposit Protection Collateral Program. All deposits are held at First National Bank in Faith.

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. All certificates mature within one year.

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

Note 3 - Property Tax

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year. Approximately 50% is considered to be applied to finance the budget of the current fiscal year, and the remaining percentage (50%) is considered to be applied to finance the budget for the subsequent year. The county bills and collects the school’s taxes and remits them to the school. School district property tax revenues are recognized to the extent that they are used to finance each year’s appropriations. Current year property taxes receivable which are not available as a resource that can be used to finance the current year’s appropriations and therefore are not susceptible to accrual have been reported as deferred inflows of resources in both the fund financial statements and the government-wide financial statements. Faith School District No. 46-2

Note 4 - Changes in Capital Assets

A summary of changes in capital assets for the year ended June 30, 2018 is as follows:

Governmental Activities

	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>
Capital assets, not being depreciated				
Land	\$ 17,377	\$ -	\$ -	\$ 17,377
Construction in progress	949,211	3,642	(952,853)	-
Total capital assets not being depreciated	<u>966,588</u>	<u>3,642</u>	<u>(952,853)</u>	<u>17,377</u>
Capital assets, being depreciated				
Buildings	4,307,796	952,853	-	5,260,649
Machinery/equipment	485,554	16,125	(16,235)	485,444
Total capital assets being depreciated	<u>4,793,350</u>	<u>968,978</u>	<u>(16,235)</u>	<u>5,746,093</u>
Less accumulated depreciation for				
Buildings	(470,012)	(72,831)	-	(542,843)
Machinery/equipment	(288,852)	(15,941)	4,060	(300,733)
Total accumulated depreciation	<u>(758,864)</u>	<u>(88,772)</u>	<u>4,060</u>	<u>(843,576)</u>
Total capital assets being depreciated, net	<u>4,034,486</u>	<u>880,206</u>	<u>(12,175)</u>	<u>4,902,517</u>
Governmental type activity capital assets, net	<u>\$ 5,001,074</u>	<u>\$ 883,848</u>	<u>\$ (965,028)</u>	<u>\$ 4,919,894</u>

Depreciation expense was charged to functions as follows:

Governmental activities	
Instruction	\$ 63,195
Support services	21,078
Co-curricular activities	<u>4,499</u>
Total depreciation expense - governmental	<u>\$ 88,772</u>

Note 5 - Non-Current Liabilities

A summary of the changes in long-term liabilities follows:

Governmental Activities

	Capital Outlay Certificate	QZAB	QSCB	Compensated Absences	SD SDBF Assessment	Total
Noncurrent liabilities payable, July 1, 2017	\$ 340,000	\$ 300,000	\$ 3,000,000	\$ 40,157	\$ 46,209	\$ 3,726,366
Payments of debt obligations	-	-	-	-	(11,300)	(11,300)
Payment of compensated absences	-	-	-	(1,132)	-	(1,132)
Noncurrent liabilities payable, June 30, 2018	<u>340,000</u>	<u>300,000</u>	<u>3,000,000</u>	<u>39,025</u>	<u>34,909</u>	<u>3,713,934</u>
Current liabilities, due within one year	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>15,000</u>	<u>11,460</u>	<u>276,460</u>
Noncurrent liabilities, due in more than one year	<u>\$ 340,000</u>	<u>\$ 50,000</u>	<u>\$ 3,000,000</u>	<u>\$ 24,025</u>	<u>\$ 23,449</u>	<u>\$ 3,437,474</u>

Compensated absences for governmental activities typically have been liquidated from the General Fund. The capital outlay certificate and QZAB bonds are paid from property taxes from the Capital Outlay Fund. The QSCB bonds are paid from property taxes from its own Debt Service Fund.

Series 2010 Capital Outlay Certificates are due October 20, 2027. No payment on principal is due until that time. However semi-annual interest payments are required for the Series 2010 certificates at a rate of 6.25%. The annual payment requirements to maturity for the capital outlay certificate outstanding as of June 30, 2018 are as follows:

Year Ending	2010 Capital Outlay Certificate		
	Principal	Interest	Total
2019	\$ -	\$ 21,250	\$ 21,250
2020	-	21,250	21,250
2021	-	21,250	21,250
2022	-	21,250	21,250
2023	-	21,250	21,250
2024-2028	<u>340,000</u>	<u>95,625</u>	<u>435,625</u>
Totals	<u>\$ 340,000</u>	<u>\$ 201,875</u>	<u>\$ 541,875</u>

Series 2004 Qualified Zoning Academy Bonds are due August 10, 2018 and are interest free. Series 2005 Qualified Zoning Academy Bonds are due June 29, 2021 and are interest free. The annual payment requirements to maturity for all qualified zoning academy bonds outstanding as of June 30, 2018 are as follows:

Year Ending	QZAB Bonds		
	Principal	Interest	Total
2019	\$ 250,000	\$ -	\$ 250,000
2020	-	-	-
2021	50,000	-	50,000
Totals	<u>\$ 300,000</u>	<u>\$ -</u>	<u>\$ 300,000</u>

Series 2010 Qualified School Construction Bonds are due October 20, 2027. No payment on principal is due until that time. However semi-annual interest payments are required for the Series 2010 bonds at a rate of 6.25%. The annual payment requirements to maturity for all qualified school construction bonds outstanding as of June 30, 2018 are as follows:

Year Ending	QSCB Bonds		
	Principal	Interest	Total
2019	\$ -	\$ 187,500	\$ 187,500
2020	-	187,500	187,500
2021	-	187,500	187,500
2022	-	187,500	187,500
2023	-	187,500	187,500
2024-2028	3,000,000	843,750	3,843,750
Totals	<u>\$ 3,000,000</u>	<u>\$ 1,781,250</u>	<u>\$ 4,781,250</u>

The South Dakota School District Benefit Fund (SD SDBF) assessment is due October 1, 2020. Annual payments of principal are due on the assessment. The annual payment requirements to maturity for the SD SDBF assessment outstanding as of June 30, 2018 are as follows:

Year Ending	SD SDBF Assessment		
	Principal	Interest	Total
2019	\$ 11,460	\$ -	\$ 11,460
2020	11,640	-	11,640
2021	11,810	-	11,810
Totals	<u>\$ 34,910</u>	<u>\$ -</u>	<u>\$ 34,910</u>

Note 6 - Restricted Net Position

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

<u>Fund</u>	<u>Restricted by</u>	<u>Amount</u>
Capital outlay	Law	\$ 642,500
Special education	Law	60,674
Debt service	Law	1,696,903
Capital projects	Law	29,421
Pension fund	Law	29,124
SDRS Pension Plan	Law	399,683
Food service	Federal Regulation	12,124
Total restricted net position		<u>\$ 2,870,429</u>

Note 7 - Individual Fund Interfund Transactions/Due from/to other Funds

Interfund transactions for the year ended June 30, 2018 were as follows:

Transfer from	Transfer to		Total
	<u>General Fund</u>	<u>Debt Service Fund</u>	
Capital Outlay Fund	\$ 1,615	\$ 47,104	\$ 48,719
Capital Projects Fund	238	-	238
Special Education Fund	154	-	154
Other governmental funds	89	-	89
	<u>\$ 2,096</u>	<u>\$ 47,104</u>	<u>\$ 49,200</u>

South Dakota state law 13-16-18 allows income from deposits and investments to be credited to either the general fund or the fund making the investment. The School District's policy is to credit all income from deposits and investments to the general fund. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for the investment, a transfer to the designated fund is reported. These interfund transfers are not violations of the statutory regulations on interfund transfers.

The transfer from the capital outlay fund to the debt service fund was made to fund the sinking fund accounts for the QZAB bonds. The QZAB debt is an obligation legally required to be repaid from proceeds of the capital outlay fund tax levy, but GAAP requires the use of a debt service fund to account for the accumulation of resources to make the future debt repayment. Accordingly, the reported transfer from the Capital Outlay Fund to the Debt Service Fund is reported to comply with GAAP, and it does not result in a violation of the statutory prohibition of transfers out of the Capital Outlay Fund.

Interfund receivable and payable balances at June 30, 2018 were as follows:

Due From	Due to General
Debt Service	\$ 3,000

Note 8 - Advance from/to Other Funds

Advances from/to other funds for the year ended June 30, 2018 consisted of the following:

	Advance from General	Advance from Special Education
Agency Fund	\$ 22,873	\$ 1,227

The advance between the funds was made to cover the flex spending account paid for out of the agency fund to account for timing differences between the date employee payroll deductions are deposited in the account and the date withdrawals are made.

Note 9 - Retirement Plan

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS 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 the South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, PO 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 3.73 percent for service prior to 2008 and 3.33 percent thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

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

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

The 2017 legislation modified the COLA, effective for the July 1, 2018 increase:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee’s contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District’s share of contributions to the SDRS for the fiscal years ended June 30, 2018, 2017, and 2016 were \$61,765, \$59,790, and \$52,799, respectively, equal to the required contributions each year.

Pension Liability (Asset), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

At June 30, 2017, SDRS is 100.1% funded and accordingly has a net pension asset. The proportionate share of the components of the net pension asset of the South Dakota Retirement System, for the School District as of the measurement period ending June 30, 2017 and reported by the School District as of June 30, 2018 are as follows:

Proportionate share of total pension liability	\$ 5,704,879
Less proportionate share of net position restricted for pension benefits	(5,709,328)
Proportionate share of net pension liability (asset)	<u>\$ (4,449)</u>

At June 30, 2018, the School District reported an asset of \$4,449 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability 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, 2017, the School District's proportion was 0.0490322% which was an increase of 0.0028381% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School District recognized pension expense (reduction of pension expense) of \$(158,846). At June 30, 2018 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	\$ 71,297	\$ -
Changes in assumption	345,493	-
Net difference between projected and actual earnings on pension plan investments	-	85,550
Changes in proportion and difference between School District contributions and proportionate share of contributions	10,108	7,879
School District contributions subsequent to the measurement date	61,765	-
Total	\$ 488,663	\$ 93,429

There is \$61,765 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending</u>				
2019			\$	93,194
2020				152,217
2021				109,426
2022				(21,368)
Totals			\$	333,469

Actuarial Assumptions

The total pension liability in the SDRS June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	Graded by years of service from 6.50 percent at entry to 3.00 percent
Discount Rate	6.50 percent, net of plan investment expense

Mortality rates were based on 97% of the RP-2014 Mortality Table, projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, projected generationally with Scale MP-2016.

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, 2017 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.50 percent. 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 Change in the Discount Rate

The following presents the School District's proportionate share of net pension asset calculated using the discount rate of 6.50 percent, as well as what the School District'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 (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
School District's proportionate share of the net pension liability (asset)	\$ 814,966	\$ (4,449)	\$ (671,721)

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 - Joint Ventures

The School District participates in the NWAS Cooperative, a cooperative service unit (co-op) formed for the purpose of providing vocational and special education services to the member school districts.

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

Dupree School District No. 64-2	14.29%
Faith School District No. 46-2	14.29%
Harding County School District No. 31-1	14.29%
Isabel School District No. 20-2	14.29%
McIntosh School District No. 15-1	14.28%
McLaughlin School District No. 15-2	14.28%
Timber Lake School District No. 20-3	14.28%
	100.00%

The co-ops governing board is composed of seven representatives, one from each member school district, who are School Board members. The board is responsible for adopting the co-op's budget and setting services fees at a level adequate to fund the adopted budget.

The School District retains no equity in the net position of the co-op, but does have responsibility to fund deficits of the co-op. As of June 30, 2018, this joint venture had fund equity of \$2,620,597 and liabilities of \$225,170.

Separate financial statements for this joint venture are available from the Northwest Area Schools Multi-District Education Cooperative.

Note 11 - Risk Management

The School District is exposed to various risk 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, 2018, the School District managed its risks as follows:

Employee Health Insurance

The School purchases health insurance for its employees from South Dakota School District Benefits Fund (ASBSD). The school district pays \$350 per month per employee towards the monthly premium. The coverage provides various deductibles per calendar year and has a co-insurance of 20%. Included in the health insurance premium is a \$15,000 life insurance policy. The School District does not carry any additional health insurance to pay claims in excess of this upper limit. Settled claims from these risks have not exceeded the liability coverage during the past three years.

At June 30, 2016, the South Dakota School District Health Benefits Fund had a deficit net position. During 2017, the Fund issued a fund-wide assessment to all of the districts participating in the Fund to make up this deficit net position. The amount assessed to the School District was \$46,209 which the School District chose to pay in four annual installments maturing October 1, 2020. At June 30, 2018, the SD SDBF has a positive net position.

Liability Insurance

The School District joined the Associated School Boards of South Dakota Property Liability Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota school districts. The School District pays an annual premium to provide coverage related to torts; theft or damage to property; and errors and omissions of public officials.

The agreement with the Associated School Boards of South Dakota Property Liability Fund provides that the above coverage will be provided to a \$2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for re-insurance for claims in excess of \$50,000 to the upper limit. The School District carries a \$1,000 deductible for the liability, property and errors and omissions coverages.

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

Workers Compensation

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provided workers' compensation insurance coverage and the Associated School Boards of South Dakota Property and Liability Fund for participating members of the pool. The School District is responsible for payment of a premium to the insurance pool along with other pool participants. The School District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk.

For the year ended June 30, 2018, the pool's retained risk was \$250,000 per occurrence with additional insurance purchased from a private insurance company for an additional \$750,000 for total coverage of \$1,000,000 per occurrence for the workers compensation.

Unemployment Benefits

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

During the year ended June 30, 2018, there were no claims for unemployment benefits. At June 30, 2018, no claim had been filed for unemployment benefits and none are anticipated in the next fiscal year.

Note 12 - Leases

The District leases gymnasium space under a long-term lease agreement classified as an operating lease. The lease commenced in November 2003 and has a fifteen-year term. Total lease expense under this agreement was \$36,167 for year ended June 30, 2018. The terms of the operating lease were re-negotiated which resulted in a payment of \$30,000 per year over a 5-year term. The District also leases a copier under an operating lease agreement. The lease commenced in June 2016 with a term of 63 months. The District will make annual payments of \$7,385.

The following details the lease payments due under these operating leases:

2019		\$		37,385
2020				37,385
2020				37,385
2021				37,385
2022				31,846
				31,846
		\$		181,386

The capital outlay fund is responsible for making payments under these leases.



Required Supplementary Information
June 30, 2018

Faith School District No. 46-2

Faith School District No. 46-2
 Budgetary Comparison Schedule – General Fund
 Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1100 Ad valorem taxes	\$ 271,150	\$ 271,150	\$ 275,260	\$ 4,110
1120 Prior years' ad valorem taxes	1,500	1,500	3,817	2,317
1140 Utility taxes	2,500	2,500	23,324	20,824
1190 Penalties and interest on taxes	1,500	1,500	1,709	209
1500 Earnings on investments and deposits	2,000	2,000	1,933	(67)
1700 Cocurricular activities				
1710 Admissions	14,900	14,900	17,807	2,907
1790 Other pupil activity income	2,500	2,500	2,517	17
1900 Other revenue from local sources				
1910 Rentals	250	250	-	(250)
1920 Contributions and donations	1,000	1,000	908	(92)
1950 Refund of prior years' expenditures	500	500	781	281
1970 Charges for services	2,800	2,800	2,132	(668)
1990 Other	2,500	2,500	2,555	55
2000 Revenue from intermediate sources				
2100 County source				
2110 County apportionment	25,000	25,000	16,335	(8,665)
3000 Revenue from state sources				
3100 Grants-in-aid				
3110 Unrestricted grants-in-aid	1,019,350	1,019,350	1,000,192	(19,158)
4000 Revenue from federal sources				
4120 Unrestricted grants-in-aid received from Federal Government through State	7,500	7,500	11,196	3,696
4150-4199 Restricted grants-in-aid received from Federal government through the State	102,680	110,305	85,964	(24,341)
Total revenue	<u>1,457,630</u>	<u>1,465,255</u>	<u>1,446,430</u>	<u>(18,825)</u>

Faith School District No. 46-2
 Budgetary Comparison Schedule – General Fund
 Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
1000 Instruction				
1100 Regular program				
1110 Elementary	491,850	494,975	478,171	16,804
1120 Middle/junior high	97,125	102,150	99,614	2,536
1130 High school	360,705	362,880	360,235	2,645
1200 Special programs				
1270 Educationally deprived	48,375	48,375	43,386	4,989
2000 Support services				
2100 Pupils				
2120 Guidance	12,550	12,550	11,707	843
2130 Health	900	900	880	20
2200 Instructional staff				
2210 Improvement of instruction	3,550	3,550	813	2,737
2220 Educational media	77,950	78,450	70,675	7,775
2300 General administration				
2310 Board of education	38,000	38,300	28,635	9,665
2320 Executive administration	44,875	44,875	43,447	1,428
2400 School administration				
2420 Office of the principal	76,775	63,555	62,171	1,384
2440 Title I Director	4,595	4,595	4,561	34
2490 Other	55,150	55,150	55,257	(107)
2500 Business				
2520 Fiscal services	53,850	53,850	52,343	1,507
2540 Operation and maintenance of plant	189,775	194,775	189,949	4,826
2560 Food services	-	1,600	-	1,600
6000 Cocurricular activities				
6100 Male activities	21,550	21,550	20,842	708
6200 Female activities	18,950	18,950	17,566	1,384
6500 Transportation	29,000	34,000	28,926	5,074
6900 Combined activities	22,750	22,750	18,205	4,545
7000 Contingencies	25,000	9,900	-	9,900
Total expenditures	<u>1,673,275</u>	<u>1,667,680</u>	<u>1,587,383</u>	<u>80,297</u>
Revenue over (under) expenditures	<u>(215,645)</u>	<u>(202,425)</u>	<u>(140,953)</u>	<u>61,472</u>

Faith School District No. 46-2
 Budgetary Comparison Schedule – General Fund
 Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Other Financing Sources (Uses)				
5110 Transfers out	21,810	21,810	-	-
5130 Sale of surplus property	-	-	3,050	3,050
5200 Transfers in	-	-	2,096	2,096
Total other financing sources (uses)	<u>21,810</u>	<u>21,810</u>	<u>5,146</u>	<u>5,146</u>
Net Change in Fund Balance	(193,835)	(180,615)	(135,807)	66,618
Fund Balance - June 30, 2017	<u>737,875</u>	<u>737,875</u>	<u>737,875</u>	<u>-</u>
Fund Balance - June 30, 2018	<u>\$ 544,040</u>	<u>\$ 557,260</u>	<u>\$ 602,068</u>	<u>\$ 66,618</u>

Faith School District No. 46-2
Budgetary Comparison Schedule – Capital Outlay
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1110 Ad valorem taxes	\$ 342,740	\$ 342,740	\$ 350,118	\$ 7,378
1120 Prior years' ad valorem taxes	2,000	2,000	2,408	408
1190 Penalties and interest on taxes	1,010	1,010	1,340	330
1500 Earnings on investments and deposits	750	750	1,617	867
1900 Other revenue from local sources				
1990 Other	-	-	600	600
Total revenue	<u>346,500</u>	<u>346,500</u>	<u>356,083</u>	<u>9,583</u>
Expenditures				
1000 Instruction				
1110 Elementary	21,000	20,500	20,048	452
1120 Middle/junior high	2,900	1,135	1,135	-
1130 High School	8,300	10,565	10,467	98
2500 Support services - business				
2540 Operation and maintenance of plant	154,300	154,300	109,046	45,254
2550 Pupil transportation	35,000	35,000	31,510	3,490
Total expenditures	<u>221,500</u>	<u>221,500</u>	<u>172,206</u>	<u>49,294</u>
Revenue over expenditures	<u>125,000</u>	<u>125,000</u>	<u>183,877</u>	<u>58,877</u>
Other financing sources (uses)				
8110 Transfers out	(125,000)	(125,000)	(48,719)	76,281
Total other financing sources (uses)	<u>(125,000)</u>	<u>(125,000)</u>	<u>(48,719)</u>	<u>76,281</u>
Net Change in Fund Balance	-	-	135,158	135,158
Fund Balance - June 30, 2017	<u>506,882</u>	<u>506,882</u>	<u>506,882</u>	-
Fund Balance - June 30, 2018	<u>\$ 506,882</u>	<u>\$ 506,882</u>	<u>\$ 642,040</u>	<u>\$ 135,158</u>

Faith School District No. 46-2
 Budgetary Comparison Schedule – Special Education
 Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1100 Taxes				
1100 Ad valorem taxes	\$ 175,000	\$ 175,000	\$ 188,061	\$ 13,061
1120 Prior years' ad valorem taxes	650	650	1,212	562
1130 tax deed revenue			-	-
1190 Penalties and interest on taxes	600	600	708	108
1500 Earnings on investments and deposits	-	-	155	155
1900 Other revenue from local sources				
1920 contributions and donations	-	-	200	200
1970 Charges for services	-	-	232	232
Total revenue	<u>176,250</u>	<u>176,250</u>	<u>190,568</u>	<u>14,318</u>
Expenditures				
1200 Special program				
1220 Programs for special education	107,440	107,440	99,575	7,865
2000 Support services				
2100 Pupils				
2150 Speech pathology	12,705	12,705	2,370	10,335
2160 Audiology services	1,500	1,500	-	1,500
2170 Student therapy services	31,000	31,000	22,276	8,724
2700 Support Services				
2710 Administrative costs	23,570	36,790	36,780	10
Total expenditures	<u>176,215</u>	<u>189,435</u>	<u>161,001</u>	<u>28,434</u>
Revenue over (under) expenditures	<u>35</u>	<u>(13,185)</u>	<u>29,567</u>	<u>42,752</u>
Other financing sources (uses)				
8110 Transfers out	(35)	(35)	(154)	(119)
Total other financing sources (uses)	<u>(35)</u>	<u>(35)</u>	<u>(154)</u>	<u>(119)</u>
Net Change in Fund Balance	-	(13,220)	29,413	42,633
Fund Balance - June 30, 2017	<u>31,025</u>	<u>31,025</u>	<u>31,025</u>	<u>-</u>
Fund Balance - June 30, 2018	<u>\$ 31,025</u>	<u>\$ 17,805</u>	<u>\$ 60,438</u>	<u>\$ 42,633</u>

Note 1 - Basis of Presentation

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

Note 2 - Budgetary Legal Requirements

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

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

**Schedule of Employer's Share of Net Pension Liability (Asset)
Last 10 Fiscal Years***

<u>Pension Plan</u>	<u>Measurement Date</u>	<u>Employer's Proportion (Percentage) of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)</u>	<u>Employer's Covered Payroll (b)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)</u>
SDRS	6/30/2014	<u>0.0518585%</u>	<u>\$ (373,620)</u>	<u>\$ 900,553</u>	<u>-41.49%</u>	<u>107.30%</u>
SDRS	6/30/2015	<u>0.0481345%</u>	<u>\$ (204,153)</u>	<u>\$ 897,683</u>	<u>-22.74%</u>	<u>104.10%</u>
SDRS	6/30/2016	<u>0.0461941%</u>	<u>\$ 156,039</u>	<u>\$ 879,980</u>	<u>17.73%</u>	<u>96.89%</u>
SDRS	6/30/2017	<u>0.0490322%</u>	<u>\$ (4,449)</u>	<u>\$ 996,506</u>	<u>-0.45%</u>	<u>100.10%</u>

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

**Schedule of Employer's Contributions
Last 10 Fiscal Years***

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>Statutorily Required Contributions (a)</u>	<u>Contributions in Relation to the Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered Payroll (d)</u>	<u>Contributions as a Percentage of Covered Payroll (b/d)</u>
SDRS	6/30/2015	<u>\$ 53,861</u>	<u>\$ 53,861</u>	<u>\$ -</u>	<u>\$ 897,683</u>	<u>6.00%</u>
SDRS	6/30/2016	<u>\$ 52,799</u>	<u>\$ 52,799</u>	<u>\$ -</u>	<u>\$ 879,980</u>	<u>6.00%</u>
SDRS	6/30/2017	<u>\$ 59,790</u>	<u>\$ 59,790</u>	<u>\$ -</u>	<u>\$ 996,506</u>	<u>6.00%</u>
SDRS	6/30/2018	<u>\$ 61,765</u>	<u>\$ 61,765</u>	<u>\$ -</u>	<u>\$ 1,029,416</u>	<u>6.00%</u>

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Changes of Benefit Terms

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition exists this year and limits the maximum COLA payable in 2018 to 1.89%. Legislation was also enacted in 2017 to:

- Modify the definition of Compensation to clarify included and excluded items,
- Expand the caps on increases in Compensation considered in Final Average Compensation,
- Extend the Final Average Compensation period from the current three years to five years for Foundation Members after a phase-in period, and
- Limit Compensation to the Internal Revenue Code Section 401(a)(17) limits for all Members, regardless of date of entry into SDRS.

The changes in benefit provisions reduced the Actuarial Accrued Liability by \$567 million, or 5.0% of the initial Actuarial Accrued Liability, before considering the reduction in maximum COLA payable in 2018 and assumed to be payable for future years. Based on the Fair Value of Assets at June 30, 2017, the maximum 2018 SDRS COLA will be limited to 1.89%. Future years' COLAs are assumed to equal the current maximum limitation. The change in Actuarial Accrued Liability caused by assuming the current restricted maximum COLA remains in effect is reflected in the impact of the actuarial assumption changes.

Changes of Assumptions

As a result of an experience analysis covering the period from July 1, 2011 to June 30, 2016, significant changes to the actuarial assumptions were recommended by the SDRS Senior Actuary and adopted by the Board of Trustees first effective for this June 30, 2017 Actuarial Valuation. The changes to economic assumptions were very significant, and included reducing the inflation assumption to 2.25%, reducing the investment return assumption to 6.5% and reducing the payroll growth assumption to 3.00%. The demographic assumption changes were less impactful. Among those changes were new mortality assumptions, updated retirement, termination and disability rates and updated salary increase assumptions.

The actuarial asset valuation method was changed to the fair value of assets. In addition, the funding method was changed from the frozen entry age actuarial cost method to the entry age actuarial cost method, which was in use for GASB Statement No. 67 and 68 purposes.



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*

Members of the School Board
Faith School District No. 46-2
Meade 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, each major fund, and the aggregate remaining fund information of Faith School District No. 46-2, Meade County, South Dakota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Faith School District No. 46-2’s basic financial statements, and have issued our report thereon dated March 28, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Faith School District No. 46-2’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 Faith School District No. 46-2’s internal control. Accordingly, we do not express an opinion on the effectiveness of Faith School District No. 46-2’s internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying auditor’s comments as items 2018-A, 2018-B, and 2018-C to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Faith School District No. 46-2's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Faith School District No. 46-2's Responses to Findings

Faith School District No. 46-2's responses to the findings identified in our audit are described in the accompanying auditor's comments. Faith School District No. 46-2's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck, North Dakota
March 28, 2019

Financial Statement Findings

**2018-A Segregation of Duties
Material Weakness**

Condition: The District has a lack of segregation of duties in certain areas due to a limited staff.

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

Cause: The control deficiency could result in the improper recording of a transaction.

Effect: Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned function.

Recommendation: While we recognize that your office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the District.

Management's Response – A check listing will be given to the board members each month and signed off on by the Board President at the regular meeting. The current board president does not wish to have a signature stamp. The president and/or vice-president physically sign the checks. Internal controls will be examined to see if we might be able to mitigate this risk. Financially it is not feasible to hire enough additional staff to avoid this finding.

**2018-B Recording of Transactions
Material Weakness**

Condition: We identified misstatements in the District's financial statements causing us to propose material audit adjustments.

Criteria: A good system of internal accounting control contemplates proper reconciliations of all general ledger accounts and adjustments of those accounts to the reconciled balances. This also includes accounting for transactions in accordance with generally accepted accounting principles.

Cause: The District has limited staff available to research and obtain training when transactions outside of the typical day to day activities of the District occur.

Effect: Misstatements to the financial statements could result from inadequate controls over recording of transactions and it affects the District's ability to detect misstatements to the financial statements.

Recommendation: While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the District.

Management's Response – The District is aware that the limited staff poses an issue for all involved. That being said, every effort is made to record all transactions properly. Additional training and advice is sought through the SD Association of School Business Officials and Department of Legislative Audit when questions arise and throughout the year.

2018-C Preparation of Financial Statements
Material Weakness

Condition: The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Criteria: Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Cause: The control deficiency could result in a misstatement in the presentation of the financial statements.

Effect: Inadequate controls over financial reporting of the District result in more than a remote likelihood that the District would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation: While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the District and changes in reporting requirements.

Management's Response – The District is aware that the limited staff poses a risk of misstatement. It is the hope that the additional training through SDASBO will provide insight and clarity for the reporting process.

Status of Prior Audit Recommendations

2017-A Segregation of Duties – Material Weakness

Initial Fiscal Year Finding Occurred: 2008

Finding Summary: The District has a lack of segregation of duties in certain areas due to a limited staff.

Status: This is a repeat finding listed as 2018-A.

2017-B Recording of Transactions – Material Weakness

Initial Fiscal Year Finding Occurred: 2008

Finding Summary: We identified misstatements in the District's financial statements causing us to propose significant audit adjustments.

Status: This is a repeat finding listed as 2018-B.

2017-C Preparation of Financial Statements – Material Weakness

Initial Fiscal Year Finding Occurred: 2008

Finding Summary: The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Status: This is a repeat finding listed as 2018-C.