



Financial Statements

As of and for the period ended May 31, 2016
and the fiscal years ended June 30, 2015, 2014
and 2013

Hub Area Technical School

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Independent Auditor's Report

The Board
Hub Area Technical School
Aberdeen, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hub Area Technical School, as of May 31, 2016, and for eleven month period then ended and the fiscal years ended June 30, 2015, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Technical School'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 respective financial position of the governmental activities and major fund of Hub Area Technical School, as of May 31, 2016, and the respective changes in financial position for eleven month period then ended and the fiscal years ended June 30, 2015, 2014 and 2013 in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As discussed in Notes 1 and 11 to the financial statements, the Technical School has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of July 1, 2014. In accordance with GASB Statement No. 68, the 2014 and 2013 financial statements have not been restated to reflect this change. Our opinions are not modified with respect to this matter.

Dissolution of Technical School

As discussed in Note 12 to the financial statements, the School has discontinued operations and disposed of all of its assets. The financial statements has been presented to show changes in net position for the periods presented and net position as of the final date of the School. Our opinions are not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of funding progress, budgetary comparison schedules, schedule of net pension liability (asset), and schedule of pension contributions on pages 24-31 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 managements responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the 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. Our opinion on the basic financial statements is not affected by the missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated July 6, 2016 on our consideration of the Technical School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Technical School's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota
July 6, 2016

Hub Area Technical School
Statement of Net Position
May 31, 2016

	Primary Government	
	Governmental Activities	Total
Assets		
Petty cash	\$ -	\$ -
Interest bearing accounts	-	-
Other assets	-	-
Inventory	-	-
Capital assets:		
Land	-	-
Other capital assets, net of accumulated depreciation	-	-
Total Assets	<u>\$ -</u>	<u>\$ -</u>
Liabilities		
Accounts payable	\$ -	\$ -
Accrued salaries	-	-
Contracts payable	-	-
Payroll deduction, withholdings and employer match	-	-
Due to Aberdeen School District	-	-
Noncurrent liabilities:		
Due in more than one year	-	-
Total liabilities	<u>-</u>	<u>-</u>
Net Position		
Net investment in capital assets	-	-
Unrestricted	-	-
Total net assets	<u>-</u>	<u>-</u>
Total Liabilities and Net Position	<u>\$ -</u>	<u>\$ -</u>

Hub Area Technical School

Statements of Activities

As of and for the period ended May 31, 2016 and the fiscal years ended June 30, 2015, 2014, and 2013

2016						
Functions/Programs	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
			Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Total
Primary Government						
Governmental activities:						
Instruction	\$ 57,705	\$ -	\$ -	\$ -	\$ (57,705)	\$ (57,705)
Support services	37,520	-	-	-	(37,520)	(37,520)
Total governmental activities	95,225	-	-	-	(95,225)	(95,225)
Total primary government	\$ 95,225	\$ -	\$ -	\$ -	(95,225)	(95,225)
General Revenues						
Other general revenues					3,343	3,343
Net obligation assumed by Aberdeen School District for pension assets, deferred inflow and outflows of resources and OPEB					(98,924)	(98,924)
Loss on sale of building					(138,310)	(138,310)
Loss on disposal of fixed assets					(175,092)	(175,092)
Extraordinary item (see Note 12)					(474,484)	(474,484)
Total general revenues					(883,467)	(883,467)
Change in Net Position					(978,692)	(978,692)
Net Position - Beginning					978,692	978,692
Net Position - Ending					\$ -	\$ -

Hub Area Technical School

Statements of Activities

As of and for the period ended May 31, 2016 and the fiscal years ended June 30, 2015, 2014, and 2013

2015						
Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Total
Primary Government						
Governmental activities:						
Instruction	\$ 443,120	\$ 673,020	\$ -	\$ -	\$ 229,900	\$ 229,900
Support services	252,796	-	-	-	(252,796)	(252,796)
Total governmental activities	695,916	673,020	-	-	(22,896)	(22,896)
Total primary government	<u>\$ 695,916</u>	<u>\$ 673,020</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(22,896)</u>	<u>(22,896)</u>
General Revenues						
Revenue from Federal sources					60,599	60,599
Other general revenues					118,897	118,897
Total general revenues					179,496	179,496
Change in Net Position					156,600	156,600
Net Position - Beginning, as Previously Stated					735,131	735,131
Adjustments:						
Change in reporting, GASB 68 (see Note 11)					86,961	86,961
Net Position - Beginning, as Restated					822,092	822,092
Net Position - Ending					\$ 978,692	\$ 978,692

Hub Area Technical School

Statements of Activities

As of and for the period ended May 31, 2016 and the fiscal years ended June 30, 2015, 2014, and 2013

2014						
Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Primary Government	
		Charges for Services	Operating Grants and Contributions		Governmental Activities	Total
Primary Government						
Governmental activities:						
Instruction	\$ 499,514	\$ 598,335	\$ -	\$ -	\$ 98,821	\$ 98,821
Support services	281,938	-	-	-	(281,938)	(281,938)
Total governmental activities	781,452	598,335	-	-	(183,117)	(183,117)
Total primary government	<u>\$ 781,452</u>	<u>\$ 598,335</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(183,117)</u>	<u>(183,117)</u>
General Revenues						
Revenue from Federal sources					56,817	56,817
Other general revenues					94,002	94,002
Total general revenues					150,819	150,819
Change in Net Position					(32,298)	(32,298)
Net Position - Beginning					767,429	767,429
Net Position - Ending					<u>\$ 735,131</u>	<u>\$ 735,131</u>

Hub Area Technical School

Statements of Activities

As of and for the period ended May 31, 2016 and the fiscal years ended June 30, 2015, 2014, and 2013

2013						
Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions		Governmental Activities	Total
Primary Government						
Governmental activities:						
Instruction	\$ 490,135	\$ 595,808	\$ -	\$ -	\$ 105,673	\$ 105,673
Support services	269,501	-	-	-	(269,501)	(269,501)
Total governmental activities	759,636	595,808	-	-	(163,828)	(163,828)
Total primary government	<u>\$ 759,636</u>	<u>\$ 595,808</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(163,828)</u>	<u>(163,828)</u>
General Revenues						
Revenue from Federal sources					48,855	48,855
Other general revenues					97,404	97,404
Total general revenues					146,259	146,259
Change in Net Position					(17,569)	(17,569)
Net Position - Beginning					784,998	784,998
Net Position - Ending					<u>\$ 767,429</u>	<u>\$ 767,429</u>

Hub Area Technical School
Balance Sheet – Governmental Funds
May 31, 2016

	<u>General Fund</u>
Assets	
Cash and cash equivalents:	
Petty cash	\$ -
Interest bearing accounts	-
Due from Federal Government	-
Inventory	-
Accounts receivable	-
	<u>-</u>
Total Assets	<u>\$ -</u>
Liabilities and Fund Balances	
Liabilities	
Accounts payable	\$ -
Accrued salaries	-
Contracts payable	-
Payroll deductions, withholdings and employer matching payable	-
Due to Aberdeen School District	-
	<u>-</u>
Total liabilities	<u>-</u>
Deferred Inflows of Resources	
Other deferred inflows of resources	<u>-</u>
Fund Balances	
Unassigned	<u>-</u>
Total fund balances	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ -</u>

Hub Area Technical School

Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds As of and for the period ended May 31, 2016 and the fiscal years ended June 30, 2015, 2014, and 2013

	2016	2015	2014	2013
	General Fund	General Fund	General Fund	General Fund
Revenues				
Tuition and fees:				
Tuition from other LEAS within the State	\$ -	\$ 673,020	\$ 598,335	\$ 595,808
Other revenue from local sources:				
Other	70,123	45,276	94,002	97,404
Revenue from Federal sources				
Other Federal revenue	-	60,599	56,817	48,855
Total revenues	<u>70,123</u>	<u>778,895</u>	<u>749,154</u>	<u>742,067</u>
Expenditures				
Instructional:				
Regular programs	57,705	419,845	460,624	449,815
Support services:				
General administration	14,529	14,099	10,998	19,859
School administration	1,516	142,204	140,472	148,297
Business	21,476	102,643	128,525	115,067
Capital Outlay	-	72,251	14,473	7,025
Total expenditures	<u>95,226</u>	<u>751,042</u>	<u>755,092</u>	<u>740,063</u>
Excess of Expenditures under Revenues	<u>(25,103)</u>	<u>27,853</u>	<u>(5,938)</u>	<u>2,004</u>
Other Financing Sources (Uses)				
Sale of surplus property	470,787	-	-	-
Total other financing sources (uses)	<u>470,787</u>	<u>-</u>	<u>-</u>	<u>-</u>
Extraordinary Item (see Note 12)	<u>474,484</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(28,800)	27,853	(5,938)	2,004
Fund Balance - Beginning	<u>28,800</u>	<u>947</u>	<u>6,885</u>	<u>4,881</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ 28,800</u>	<u>\$ 947</u>	<u>\$ 6,885</u>

Hub Area Technical School

Reconciliation of the Statements of Revenues, Expenditures and Changes in Fund Balances to the Government-
Wide Statements of Activities

As of and for the period ended May 31, 2016 and the fiscal years ended June 30, 2015, 2014, and 2013

	2016	2015	2014	2013
Net Change in Fund Balances - Total Governmental Funds	\$ (28,800)	\$ 27,853	\$ (5,938)	\$ 2,004
Amounts reported for governmental activities in the statements of activities are different because:				
Governmental funds report capital outlays as expenditures. However, in the statements of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in 2014 and 2013, and capital outlays exceeded depreciation in 2015.	-	32,549	(24,417)	(33,295)
In the statement of activities, losses on disposal of capital assets, are reported whereas, in the governmental funds, the proceeds of \$470,787 from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized.	(784,187)	-	-	-
Accounting for revenue from house sales in the funds' statements differs from the accounting in the government-wide statements in that the fund financial statements require the amounts to be "available".	(66,780)	66,780	-	-
Governmental funds do not reflect the change in accrued leave and early retirement, but the statements of activities reflect these changes through expenditures.	-	2,072	27	16,959
The accrual of OPEB costs are not reflected in government funds, but the statements of activities reflects the change in this liability from one year to the next.	-	(3,695)	(1,970)	(3,237)
Revenues and reductions of expenses related to pensions do not provide current financial resources and therefore are not reported in the funds.	-	31,041	-	-
Assumption of pension assets, deferred inflow and outflows of resources and OPEB liability by Aberdeen School District which are reflected as expenses on the statement of activities but not reports in the funds.	(98,925)	-	-	-
Change in Net Position of Governmental Activities	<u>\$ (978,692)</u>	<u>\$ 156,600</u>	<u>\$ (32,298)</u>	<u>\$ (17,569)</u>

Hub Area Technical School
Statement of Fiduciary Net Position – Fiduciary Funds
May 31, 2016

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ -
Total Assets	<u>\$ -</u>
Liabilities	
Amount held for others	\$ -
Total Liabilities	<u>\$ -</u>

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Hub Area Technical School conform to generally accepted accounting principles applicable to government entities in the United States of America.

Financial Reporting Entity

The reporting entity of Hub Area Technical School (the Technical School) is a multi-district vocational center created as a result of an agreement between participating school districts as authorized by South Dakota Codified Law (SDCL) 13-39. The multi-district provides vocational educational services for member districts and is governed by a six member board of education. The Technical School consists of all of the funds that make up the legal entity. The participating school districts are as follows:

Participating School District	Board Members	Percent of Participation			
		2016	2015	2014	2013
Aberdeen School District 6-1	3	89.13%	89.88%	87.98%	87.98%
Frederick Area School District 6-2	1	4.75%	4.46%	5.27%	5.27%
Northwestern Area School District 56-3	1	6.12%	5.65%	6.74%	6.74%

The Technical School was closed as of June 30, 2015 with the disposal of assets including final remaining payments being made prior to the end of fiscal year 2016 (See Note 12).

Basis of Presentation

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

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

The statements of activities present a comparison between direct expenses and program revenues for each segment of the business-type activities of the Technical School and for each function of the Technical School'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 Technical School are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Technical School or it meets the following criteria:

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

The funds of the Technical School are described below within their respective fund types.

Governmental Funds

General Fund - A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational cost. The General Fund is always a major fund.

Fiduciary Funds

Fiduciary Funds are never considered to be major funds.

Agency Fund Types - Agency funds are used to account for resources held by the Technical School 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 Technical School maintains agency funds to hold assets in a trustee capacity for student funds generated within the Technical School by the students or other Technical School organizations.

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 statements of activities, governmental activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

In the governmental fund financial statements, inventories in the General Fund consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a non-spendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. The Technical School did not have any material amounts of inventory in the General Fund.

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 fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and similar fiduciary funds.

Basis of Accounting**Government-Wide Financial Statements**

In the government-wide statement of net position and statements 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 Technical School, the length of that cycle is 60 days.

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.

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.

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.

Inventory

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out (FIFO). Donated commodities are valued at estimated market value based on the USDA price list at date of receipt. In the government-wide financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the governmental fund financial statements, inventories in the General Fund consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a non-spendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. The Technical School did not have any material amounts of inventory in the General Fund.

Capital Assets

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

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

Government-Wide Statements

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

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

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land*	All	N/A	N/A
Improvements	\$ 5,000	Straight-line	20-50 years
Buildings	5,000	Straight-line	20-50 years
Machinery and equipment	5,000	Straight-line	5-15 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 appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are reported in the government-wide or fund financial statements.

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

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due.

Program Revenues

In the government-wide statements of activities, reported program revenues derive directly from the program itself or from parties other than the Technical School'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**

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

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

Fund Financial Statements

Governmental fund equity is classified as fund balance, and may distinguish between non-spendable, restricted, committed, assigned and unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for agency funds, which have no fund equity) is reported as net position held in trust for other purposes.

Application of Net Position

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

Fund Balance Classification Policies and Procedures

The Technical School classifies governmental fund balance as follows:

- Nonspendable – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints.
- 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 which is the School Board 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 Technical School Board or Business Manager.
- Unassigned – Includes positive fund balance within the general fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Technical School 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 government would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

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

Rounding

Computer generated rounding variances may exist in the basic financial statements and supplementary information. The variances result from values being entered with cents rather than as whole numbers.

Application of Net Position

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

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense/(revenue) information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deductions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Implementation of GASB Statement No. 68 and GASB Statement No. 71

As of July 1, 2014, the Technical School adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension asset/liability, deferred outflows of resources, deferred inflows of resources, and pension revenue/expense. The effect of the implementation of these standards on beginning net position is disclosed in Note 11 and the additional disclosures required by these standards are included in Note 9.

Deferred Outflows and Deferred 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 (expense/ expenditure) until then. The Technical School has two items that qualify for reporting in this category. These item 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 not included in pension expense 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 qualify for reporting in this category. The School District reports unavailable revenues from sale of inventory on the government-wide statement of net position and the governmental 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 asset (liability) not included in pension expense reported in the government-wide statement of net position.

Note 2 - Deposits and Investments, Concentrations of Credit Risk and Interest Rate Risk

The Technical School 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 Technical School’s deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 110% 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. As of May 31, 2016, the financial institution that holds the Technical School’s deposits was properly collateralized.

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 Technical School’s policy is to credit all income from investments to the fund making the investment.

Concentration of Credit Risk: The Technical School places no limit on the amount that the Technical School may deposit in any one financial institution

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the Technical School’s deposits may not be returned. The Technical School does not have a policy on custodial credit risk. The financial institution where the collateral is held must be a member of the Federal Reserve.

The actual bank balances at May 31, 2016 were as follows:

	<u>Bank Balance</u>
Insured (FDIC/NCUA)	\$ -
Uninsured, collateral jointly held by State's/Technical School's agent in the name of the State and the pledging financial institution	-
	<u>\$ -</u>
The Technical School's carrying amount of deposits at May 31, 2016	<u>\$ -</u>
Cash and cash equivalents	\$ -
Add: Agency fund cash (not included in government-wide statement of net assets)	-
	<u>\$ -</u>

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

The Technical School did not hold any investments at May 31, 2016 or for any time in the four year periods then ended May 31, 2016, June 30, 2015, 2014 and 2013.

Custodial Credit Risk: For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Technical School will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Technical School does not have an investment policy for custodial risk. When the Technical School does own investments, they are held in the Technical School's name.

Interest Rate Risk: The Technical School does not have a policy in regard to interest rate risk.

Credit Risk: Currently, the Technical School has no policy in regard to credit risk.

Concentration of Credit Risk: The Technical School does not have a policy in regard to concentration of credit risk.

Note 3 - Changes in Capital Assets

A summary of changes in capital assets for the period July 1, 2012 through May 31, 2016 is as follows:

Primary Government Governmental Activities	Balance 07/01/12	Increases	Decreases	Balance 05/31/16
Capital assets, not being depreciated:				
Land	\$ 156,334	\$ -	\$ (156,334)	\$ -
Total capital assets not being depreciated	156,334	-	(156,334)	-
Capital assets being depreciated:				
Buildings and improvements	900,316		(900,316)	-
Machinery and equipment	287,254	93,749	(381,003)	-
Totals	1,187,570	93,749	(1,281,319)	-
Less accumulated depreciation for:				
Buildings and improvements	389,063	58,492	(447,555)	-
Machinery and equipment	145,491	60,420	(205,911)	-
Total accumulated depreciation	534,554	118,912	(653,466)	-
Total capital assets being depreciated, net	653,016	(25,163)	(627,853)	-
Governmental activity capital assets, net	\$ 809,350	\$ (25,163)	\$ (784,187)	\$ -

Depreciation expense for the years ending May 31, 2016, and June 30, 2015, 2014, and 2013 was \$0, \$39,702, \$38,890, and \$40,320, respectively, and was allocated to instruction.

Note 4 - Changes in Long-Term Debt

A summary of changes in accrued leave payable for the period ended May 31, 2016 is as follows:

<u>Governmental Activities</u>	<u>Balance 07/01/12</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 05/31/16</u>
Accrued leave payable	\$ 4,378	\$ 5,519	\$ 9,897	\$ -
OPEB Obligation	10,176	8,902	19,078	-
Early retirement payable	14,680	-	14,680	-
	<u>\$ 29,234</u>	<u>\$ 14,421</u>	<u>\$ 43,655</u>	<u>\$ -</u>

Note 5 - Risk Management

The Technical School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the periods ended May 31, 2016, June 30, 2015, 2014 and 2013, the Technical School managed its risks as follows:

Employee Health Insurance

The Technical School employees receive insurance coverage through the Aberdeen School District's self-insurance fund. The Aberdeen School District established this fund for the purpose of paying claims of the employee group health care benefit plan. The Technical School is billed for premiums which are paid by both the Technical School and the Technical School's employees. The Technical School's only liability is to pay these premiums and has no rights or additional responsibilities. All claims are the responsibility of the self-insurance fund. The Aberdeen School District has excess loss insurance provided through private insurance carriers for claims exceeding \$80,000 per individual and \$3,728,706, \$3,698,764, and \$3,261,591 aggregate losses for each plan years ending June 30, 2015, 2014, and 2013 respectively. There were no employees under Hub Area Technical School for fiscal year 2016. Settled claims have not exceeded the liability coverage during the past four years.

Liability Insurance

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

Worker's Compensation

The Technical School purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past four years.

Unemployment Benefits

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

During the periods ended May 31, 2016, June 30, 2015, 2014 and 2013, no claims had been filed. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

Note 6 - Post-Employment Healthcare Plan

As permitted by South Dakota State statutes, the School District allows retirees to continue to participate in the Technical School's group health plan upon retirement if they have: 1) contributed 15 years of service to the Technical School, and 2) reached the age of 55. Retirees will not be able to continue on the plan after they have reached the age of 65 with the exception of: 1) if at the time the retiree participant becomes eligible for Medicare (age 65) and he/she had dependent(s) not eligible for Medicare, coverage for those dependent(s) may be continued under the plan until the spouse reaches age 65 and dependent(s) reach the age of 23 or age 25 if a full-time student. 2) Retirees over the age of 65 on the plan prior to January 1, 2002, have the option of staying on the plan indefinitely as a supplement to Medicare.

As detailed in Note 5, the Technical School receives health insurance benefits through Aberdeen School District's self-insurance fund. As such, the Technical School's employees were included in the calculation of the OPEB obligation of the Aberdeen School District.

Funding Policy Relating to Retired Employees

The contribution requirement of plan members is established by the Technical School's insurance committee in conjunction with the insurance provider. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2015, 2014 and 2013 respectively, the Technical School contributed approximately \$53,541, \$58,311, and \$53,541, respectively, to the plan for current premiums or 100% of total premiums. Retirees are required to pay 100% of the premiums for the retiree and the retiree plus spouse coverage. Monthly contribution rates in effect for retirees under age 65 during fiscal year 2012 were as follows: retiree premium - \$500, retiree plus spouse premium - \$1,000.

Annual OPEB Cost and Net OPEB Obligation

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

	2016	2015	2014	2013
Annual required contribution (ARC)	\$ -	\$ 2,178	\$ 2,178	\$ 2,260
Interest on net OPEB obligation	-	658	569	424
Adjustment to annual required contribution	-	859	(777)	553
Annual OPEB cost	-	3,695	1,970	3,237
Liability absorbed by Aberdeen School District	(19,078)	-	-	-
Increase (decrease) in net OPEB obligation	(19,078)	3,695	1,970	3,237
Net OPEB obligation - July 1	19,078	15,383	13,413	10,176
Net OPEB obligation - June 30	\$ -	\$ 19,078	\$ 15,383	\$ 13,413

The Technical School's annual OPEB cost data and net OPEB obligation was, as of the latest actuarial valuation date as follows:

<u>Fiscal Year Ended,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Costs Contributed</u>	<u>Net OPEB Obligation</u>
May 31, 2016	\$ -	0%	\$ -
June 30, 2015	3,695	0%	19,078
June 30, 2014	1,970	0%	15,383
June 30, 2013	3,237	0%	13,413

Funded Status and Funding Process

As of June 30, 2014, the most recent actuarial valuation date, the plan's actuarial accrued liability (AAL) and the unfunded actuarial accrued liability (UAAL) for benefits was \$1,300,382, with the Technical School's share being approximately \$21,011. The Technical School's plan is considered to be unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because the plan is unfunded, the AAL and UAAL are equal. The covered payroll (annual payroll of active employees covered by the plan) for the fiscal year ended June 30, 2014 was \$297,824 and the ratio of the UAAL to the covered payroll was 7.1%.

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the June 30, 2014, actuarial valuation, the projected unit credit (PUC) actuarial cost method was used. The actuarial assumptions included a 4.5% discount rate assuming the School District will fund the retirement benefit on a pay-as-you-go basis. The valuation assumes that 50% of eligible retirees will actually participate in the retiree medical benefit and 20% of their spouses will participate. The annual healthcare cost trend rate of 7% initially, decreasing approximately 1% per year until reaching an ultimate rate of 5%. The UAAL is being amortized as a level percentage of projected payrolls over a thirty year time period.

As of July 1, 2015, all of the other post benefit employment liabilities were absorbed by the Aberdeen School District.

Note 7 - Litigation

At May 31, 2016, and June 30, 2015, 2014, and 2013, the Technical School was not involved in any litigation.

Note 8 - Special Termination Benefits

Each employee who accepts retirement after the age of 55 and prior to the age of 63 with at least 20 years of service in the Technical School will receive incentive pay equal to 80% of their current annual salary for employees with 30 or more years of service, and 60% of their current annual salary for employees with 20 to 29 years of service, paid out in three equal, annual installments. The liability is recorded based upon the specified annual payments that are due and have not been discounted as the Technical School has determined the discount to not be material. As of May 31, 2016, there were no employees receiving this benefit.

Note 9 - Pension Plan**Plan Information**

All employees, working more than 20 hours per week during the 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 survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained 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% prior to 2008 and 1.55% 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% for service prior to 2008 and 2.0% thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733% for service prior to 2008 and 3.333% thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

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

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

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% 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 Technical School's share of contributions to the SDRS for the period ended May 31, 2016 and the fiscal years ended June 30, 2015, 2014 and 2013 was \$0, \$24,210, \$23,603 and \$23,077, respectively, equal to the required contributions each year.

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

At June 30, 2014, SDRS is 107% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of SDRS, for the Technical School as of June 30, 2015 are as follows: At June 30, 2015, the Technical School reported an asset of \$161,946 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014 and the total pension asset used to calculate the net pension asset was based on a projection of the Technical School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2014, the Technical School's proportion was .0224781%. The employees of the Technical School became employees of the Aberdeen School District and all pension related assets and liabilities were transferred to the Aberdeen School District.

Proportionate share of net position restricted for pension benefits	\$ 2,384,377
Less proportionate share of total pension liability	<u>2,222,431</u>
Proportionate share of net pension asset	<u><u>\$ 161,946</u></u>

For the year ended June 30, 2015, the Technical School recognized pension revenue of \$6,841. At June 30, 2015 the Technical School 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	\$ 13,703	\$ -
Changes in assumption	105,713	-
Net difference between projected and actual earnings on pension plan investments	-	187,560
Changes in proportion and difference between School District contributions and proportionate share of contributions	-	-
School District contributions subsequent to the measurement date	<u>24,199</u>	<u>-</u>
Total	<u><u>\$ 143,615</u></u>	<u><u>\$ 187,560</u></u>

Deferred outflow of resources related to pensions resulting from Technical School contributions subsequent to the measurement date of \$24,199 will be recognized as a increase/reduction of the net pension asset (liability) in the year ending June 30, 2016 by the Aberdeen School District as these amounts were absorbed by the School District as part of the dissolution. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension revenue of the Aberdeen School District as follows:

<u>Year Ended June 30:</u>	<u>Amount</u>
2016	(12,868)
2017	(12,868)
2018	(12,868)
2019	(29,540)
Total	<u>\$ (68,144)</u>

Actuarial Assumptions

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

Inflation	3.25%
Salary increases	5.83% at entry to 3.87% after 30 years of service
Investment rate of return	7.25% through 2016 and 7.50% thereafter, net of pension plan investment expense

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

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

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	61.0%	4.7%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.5%
Cash	2.0%	0.8%
Total	<u>100.0%</u>	

Discount Rate

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

Sensitivity of Asset to Changes in the Discount Rate

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net pension asset (liability)	\$ (160,033)	\$ 161,946	\$ 424,552

Pension Plan Fiduciary Net Position

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

As of July 1, 2015, all net pension assets and related deferred inflows and outflows of resources were absorbed by Aberdeen School District as part of the dissolution process.

Note 10 - Economic Dependency

The Technical School receives a majority of its revenue from the Aberdeen School District. During the years ended June 30, 2015 and 2014 and 2013, the Technical School received \$604,920, \$531,888, and \$523,260, respectively, of its revenues or 78%, 71%, and 71%, respectively, from the Aberdeen School District. The Technical School was not in operation in fiscal year 2016.

Note 11 - Restatement of Beginning Net Position

As of July 1, 2014, the Technical School adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the cost and obligations associated with pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position was restated to retroactively report the beginning net pension asset and deferred outflows of resources related to contributions made after the measurement date as follows:

	<u>Governmental Activities</u>
Net position at June 30, 2014, as previously stated	\$ 735,131
Net pension asset at June 30, 2014	63,376
Deferred outflows of resources related to contributions made during the year ended June 30, 2014	<u>23,585</u>
Net position at July 1, 2014, as restated	<u><u>\$ 822,092</u></u>

Note 12 - Extraordinary Item – Technical School Dissolution

During 2015, the Technical School Board passed a resolution to dissolve the Technical School effective June 30, 2015 with final distributions to participating schools. In accordance with the Resolution for the dissolution of the Hub Area Multi-District Vocation Center, any remaining funds should be divided to the three schools in the percentages outlined in the resolution as outlined for fiscal year 2016 (See Note 1). Total amounts paid were \$474,484, which have been recorded as an extraordinary item in the financial statements. Aberdeen School District became the school of record and assumed all remaining outstanding assets, liabilities, deferred inflows and outflows of resources.



Required Supplementary Information
June 30, 2015, 2014, and 2013

Hub Area Technical School

Hub Area Technical School
Schedule of Funding Progress
June 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Unit Credit (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
June 30, 2014	\$ -	\$ 21,011	\$ 21,011	0.00%	\$ 297,824	7%
June 30, 2012	-	30,166	30,166	0.00%	338,769	9%
June 30, 2009	-	42,992	42,992	0.00%	N/A	N/A

Hub Area Technical School
 Budgetary Comparison Schedules – Budgetary Basis – General Fund
 Years Ended June 30, 2015, 2014, and 2013

	2015			
	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget
				Positive
				(Negative)
Revenues				
1000 Revenue from local sources				
1300 Tuition and fees:				
1310 Regular day school tuition	\$ 539,932	\$ 539,932	\$ 673,020	\$ 133,088
1900 Other revenue from local sources:				
1940 Services provided other LEAs	9,000	9,000	-	(9,000)
1990 Other	69,500	69,500	45,276	(24,224)
4000 Revenue from Federal sources				
4100 Grants-in-aid:				
4150-4199 Restricted grants-in-aid received from Federal government through the State	50,500	50,500	60,599	10,099
Total revenues	668,932	668,932	778,895	109,963
Expenditures				
1000 Instructional				
1100 Regular programs	434,478	434,478	549,609	(115,131)
2000 Support services				
2300 General administration	13,800	13,800	14,099	(299)
2400 School administration	154,429	154,429	142,204	12,225
2500 Business	116,226	116,226	102,643	13,583
7000 Contingencies	10,000	10,000	-	10,000
Total expenditures	728,933	728,933	808,555	(79,622)
Excess of Revenue over (under) Expenditures	(60,001)	(60,001)	(29,660)	30,341
Other Financing Sources (Uses)				
5130 Sale of surplus property	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net Change in Fund Balances	(60,001)	(60,001)	(29,660)	30,341
Fund Balance - Beginning	19,510	19,510	19,510	-
Fund Balance - Ending	\$ (40,491)	\$ (40,491)	\$ (10,150)	\$ 30,341

Hub Area Technical School
 Budgetary Comparison Schedules – Budgetary Basis – General Fund
 Years Ended June 30, 2015, 2014, and 2013

	2014			
	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
Revenues				
1000 Revenue from local sources				
1300 Tuition and fees:				
1310 Regular day school tuition	\$ 572,977	\$ 572,977	\$ 598,335	\$ 25,358
1900 Other revenue from local sources:				
1920 Donations	-	18,000	-	(18,000)
1940 Services provided other LEAs	25,000	25,000	-	(25,000)
1990 Other	69,500	69,500	94,002	24,502
4000 Revenue from Federal sources				
4100 Grants-in-aid:				
4150-4199 Restricted grants-in-aid received from Federal government through the State	56,000	56,000	56,817	817
Total revenues	723,477	741,477	749,154	7,677
Expenditures				
1000 Instruction				
1100 Regular programs	483,299	501,299	475,097	26,202
2000 Support services				
2300 General administration	21,100	21,100	10,998	10,102
2400 School administration	158,442	158,442	140,472	17,970
2500 Business	150,636	150,636	127,688	22,948
7000 Contingencies	10,000	10,000	-	10,000
Total expenditures	823,477	841,477	754,255	87,222
Net Change in Fund Balances	(100,000)	(100,000)	(5,101)	94,899
Fund Balance - Beginning	97,809	97,809	97,809	-
Fund Balance - Ending	\$ (2,191)	\$ (2,191)	\$ 92,708	\$ 94,899

Hub Area Technical School
 Budgetary Comparison Schedules – Budgetary Basis – General Fund
 Years Ended June 30, 2015, 2014, and 2013

	2013			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	
	Original	Final		
Revenues				
1000 Revenue from local sources				
1300 Tuition and fees:				
1310 Regular day school tuition	\$ 594,723	\$ 594,723	\$ 595,808	\$ 1,085
1900 Other revenue from local sources:				
1940 Services provided other LEAs	9,000	9,000	-	(9,000)
1990 Other	69,500	69,500	97,404	27,904
4000 Revenue from Federal sources				
4100 Grants-in-aid:				
4150-4199 Restricted grants-in-aid received from Federal government through the State	50,500	50,500	48,855	(1,645)
Total revenues	723,723	723,723	742,067	18,344
Expenditures				
1000 Instruction				
1100 Regular programs	450,834	450,834	456,840	(6,006)
2000 Support services				
2300 General administration	22,200	22,200	19,859	2,341
2400 School administration	153,974	153,974	148,297	5,677
2500 Business	146,715	146,715	115,067	31,648
7000 Contingencies	10,000	10,000	-	10,000
Total expenditures	783,723	783,723	740,063	43,660
Net Change in Fund Balances	(60,000)	(60,000)	2,004	62,004
Fund Balance - Beginning	4,881	4,881	4,881	-
Fund Balance - Ending	\$ (55,119)	\$ (55,119)	\$ 6,885	\$ 62,004

Note 1 - Basis of Presentation

The budgetary comparison schedules have been prepared on the budgetary basis of accounting. The budgetary comparison schedules present expenditures for capital outlay purposes within each function while the governmental funds statements of revenues, expenditures and changes in fund balances presents capital outlay expenditures as a separate function.

Note 2 - Budgetary Legal Requirements

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

1. Prior to the first regular Board meeting in May of each year, the 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% of the total Technical School 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. Generally accepted accounting principles prescribe that budgetary information is presented for the General Fund of the Technical School only.

Hub Area Technical School
Schedule of Net Pension Liability/Asset
Year Ended June 30, 2015

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>Employer's Percentage of the Net Pension Asset</u>	<u>Employer's Proportionate Share of the Net Pension Asset (a)</u>	<u>Employer's Covered- Employee Payroll (b)</u>	<u>Employer's Proportionate Share of the Net Pension Asset as a Percentage of its Covered- Employee Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
SDRS	6/30/2014	<u>0.0225%</u>	<u>\$ 161,946</u>	<u>\$ 393,082</u>	<u>41.2%</u>	<u>107.3%</u>

Hub Area Technical School
Schedule of Pension Contributions
Year Ended June 30, 2015

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered- Employee Payroll (d)</u>	<u>Contributions Percentage of Covered- Employee Payroll (b/d)</u>
SDRS	6/30/2015	<u>\$ 24,199</u>	<u>\$ 24,199</u>	<u>\$ -</u>	<u>\$ 403,319</u>	<u>6.0%</u>

Notes to Required Supplementary Information

There are no factors that affect trends in the amounts reported, such as change of benefit terms and assumptions. With only one year reported in the RSI, there is no additional information to include in notes. Details, if necessary, can be obtained from the SDRS audited financial statements.

**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***

The Board
Hub Area Technical School
Aberdeen, South Dakota

We have audited, in accordance with auditing standards general 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 and each major fund of Hub Area Technical School, Aberdeen, South Dakota, as of and for the four periods ended June 30, 2015, June 30, 2014, June 30, 2013, and the related notes to the financial statements, which collectively comprise the Technical School's basic financial statements and have issued our report thereon dated July 6, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Technical School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Technical School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Technical School'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 that might be deficiencies, significant deficiencies or material weakness and; therefore, there can be no assurance that all deficiencies, significant deficiencies and material weaknesses have been identified. However, as discussed in the accompanying auditor's comments, we identified certain deficiencies in internal control over financial reporting 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Technical School's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and identified as findings 2016-1 and 2016-2, to be material weaknesses in internal control over financial reporting

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 Technical School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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*.

Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Aberdeen, South Dakota
July 6, 2016

Section II – Findings Related to the Financial Statements

Finding 2016-1 Violation of South Dakota Codified Law

Condition: Hub Area Technical School's checks are not signed by the business manager and the president of the Board of Hub Area Technical School. Instead, the Aberdeen School District business manager and president of their board sign the checks when processing the Aberdeen School District's checks.

Criteria: South Dakota Codified Law 13-18-2 states that the Technical School's business manager shall draw and sign all checks for purposes legally ordered by the Board, and every such check shall be countersigned by the president of the Board unless otherwise provided by law, and shall specify the person, firm or corporation to whom paid.

Cause: Due to the fact that Aberdeen School District issues all of Hub Area Technical School's checks, the business manager and board president of Aberdeen School District sign Hub Area Technical School's checks.

Effect: This condition is in violation of South Dakota Codified Law.

Recommendation: We recommend that the current president of the Board and the business manager of Hub Area Technical School sign the checks.

Views of Responsible Officials: Management agrees with the finding.

Finding 2016-2 Preparation of Financial Statements, Footnotes, and Material Journal Entries

Condition: The Hub Area Technical School requested the external auditors to prepare the financial statements and related notes for the four years ended May 31, 2016. As a part of the financial statement preparation process, at times we propose material audit adjustments that are not identified as a result of the Technical School's existing internal controls and; therefore, could result in a misstatement of the Technical School's financial statements.

Criteria: The Technical School's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with generally accepted accounting principles.

Cause: The Technical School does not have adequate staff trained to prepare financial statements and the related footnotes and could cause the need for auditors to at times propose material journal entries.

Effect: This condition may affect the Technical School's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure that generally accepted accounting principles have been followed for each fund type, especially for transaction types infrequent in occurrence.

Views of Responsible Officials: Management agrees with the finding.

Findings Related to the Financial Statements

Finding 2012-1 Violation of South Dakota Codified Law

Initial Fiscal Year Finding Occurred: 2008

Finding Summary: Hub Area Technical School's checks are not signed by the business manager and the president of the Board of the Technical School. Instead, the Aberdeen School District business manager and president of their board sign the checks when processing the Aberdeen School District's checks.

Current Status: This comment has not been corrected and is restated as a current audit finding 2016-1.

Finding 2012-2 Preparation of Financial Statements, Footnotes, and Material Journal Entries

Initial Fiscal Year Finding Occurred: 2008

Condition: The Technical does not have an internal control system designed to provide for the preparation of the financial statements including required footnotes and disclosures. During the course of our engagement, we were requested to draft the financial statements and accompanying notes to those financial statements. As a result of our audit, we also proposed material audit adjustments to the statement of activities and the balance sheet.

Current Status: This comment has not been corrected and is restated as a current audit finding 2016-2.