

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
WITH SUPPLEMENTARY INFORMATION**

JUNE 30, 2017

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

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INDEPENDENT AUDITOR'S REPORT

To the School Board
Bennett County School District No. 3-1
Bennett County, South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Bennett County School District No. 3-1 (the School District)** as of and for the year ended June 30, 2017, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bennett County School District No. 3-1, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of the School District's share of net pension liability (asset), and schedule of the School District's pension contributions on pages 38 through 46, 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require 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 Government Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Governmental Auditing Standards*, we have also issued our report dated February 16, 2018, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Wohlschlag Ritzman + Co., LLC

Yankton, South Dakota
February 16, 2018

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**STATEMENT OF NET POSITION
JUNE 30, 2017**

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,212,717	\$ 46,396	\$ 3,259,113
Investments	2,624,062		2,624,062
Certificates of deposit	9,060,754	-	9,060,754
Taxes receivable	466,086	-	466,086
Due from other governments	370,033	-	370,033
Interest receivable	22,591	-	22,591
Inventory	9,216	7,710	16,926
Capital assets:			
Not being depreciated	87,585	-	87,585
Being depreciated, net of depreciation	11,352,357	47,599	11,399,956
Total capital assets	<u>11,439,942</u>	<u>47,599</u>	<u>11,487,541</u>
 Total assets	<u>27,205,401</u>	<u>101,705</u>	<u>27,307,106</u>
 DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows	<u>2,049,603</u>	<u>-</u>	<u>2,049,603</u>
 LIABILITIES			
Accounts payable	153,767	33	153,800
Contracts payable	426,859	9,914	436,773
Other accrued liabilities	126,399	4,693	131,092
Long-term liabilities:			
Portion due or payable within one year:			
Compensated absences	168,380	3,776	172,156
Portion due or payable after one year:			
Compensated absences	112,254	2,517	114,771
Net pension liability	<u>552,813</u>	<u>-</u>	<u>552,813</u>
 Total liabilities	<u>1,540,472</u>	<u>20,933</u>	<u>1,561,405</u>
 DEFERRED INFLOWS OF RESOURCES			
Pension related deferred inflows	840,665	-	840,665
Taxes levied for future period	<u>530,306</u>	<u>-</u>	<u>530,306</u>
 Total deferred inflows of resources	<u>1,370,971</u>	<u>-</u>	<u>1,370,971</u>
 NET POSITION			
Investment in capital assets	11,439,942	47,599	11,487,541
Restricted for:			
Capital outlay	23,175	-	23,175
Special education	62,995	-	62,995
Capital projects	384,356	-	384,356
Pension	1,576	-	1,576
SDRS pension purposes	656,125	-	656,125
Unrestricted	<u>13,775,392</u>	<u>33,173</u>	<u>13,808,565</u>
 Total net position	<u>\$ 26,343,561</u>	<u>\$ 80,772</u>	<u>\$ 26,424,333</u>

The accompanying notes are an
integral part of these financial statements

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Instruction	\$ 3,754,780	\$ -	\$ 985,418	\$ -	\$ (2,769,362)		\$ (2,769,362)
Support services	2,935,815	5,693	365,008	24,903	(2,540,211)		(2,540,211)
Cocurricular activities	249,498	20,772	-	-	(228,726)		(228,726)
Total governmental activities	<u>6,940,093</u>	<u>26,465</u>	<u>1,350,426</u>	<u>24,903</u>	<u>(5,538,299)</u>		<u>(5,538,299)</u>
Business-type activities:							
Food service	226,040	41,687	169,442	-		(14,911)	(14,911)
Total school district	<u>\$ 7,166,133</u>	<u>\$ 68,152</u>	<u>\$ 1,519,868</u>	<u>\$ 24,903</u>	<u>(5,538,299)</u>	<u>(14,911)</u>	<u>(5,553,210)</u>
General revenues:							
Taxes:							
Property taxes					1,252,812	-	1,252,812
Revenue from state sources:							
State aid					2,355,485	-	2,355,485
Other							
Revenue from federal sources					1,687,405	-	1,687,405
Earnings on investments					58,712	-	58,712
Miscellaneous					109,985	-	109,985
Gain on sale of capital assets					2,744	-	2,744
Total general revenues					<u>5,467,143</u>	<u>-</u>	<u>5,467,143</u>
Change in net position					(71,156)	(14,911)	(86,067)
Net position - beginning					26,414,717	95,683	26,510,400
Net position - ending					<u>\$ 26,343,561</u>	<u>\$ 80,772</u>	<u>\$ 26,424,333</u>

The accompanying notes are an
integral part of these financial statements

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General</u>	<u>Special Education</u>	<u>Aggregate Other Non-major</u>	
ASSETS				
Cash and cash equivalents	\$ 2,557,324	\$ 108,215	\$ 547,178	\$ 3,212,717
Investments	2,624,062	-	-	2,624,062
Certificates of deposit	9,060,754	-	-	9,060,754
Taxes receivable - current	326,610	139,476	-	466,086
Taxes receivable - delinquent	32,586	5,474	1,459	39,519
Due from other governments	310,524	59,422	87	370,033
Interest receivable	22,591	-	-	22,591
Inventory	9,216	-	-	9,216
Total assets	<u>\$ 14,943,667</u>	<u>\$ 312,587</u>	<u>\$ 548,724</u>	<u>\$ 15,804,978</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 14,214	\$ 1,395	\$ 138,158	\$ 153,767
Contracts payable	363,084	63,775	-	426,859
Employee benefits payable	106,631	19,768	-	126,399
Total liabilities	<u>483,929</u>	<u>84,938</u>	<u>138,158</u>	<u>707,025</u>
Deferred Inflows of Resources:				
Taxes levied for future period	371,126	159,180	-	530,306
Unavailable revenue - Property taxes	32,586	5,474	1,459	39,519
Unavailable revenue - Utility taxes	97,271	-	-	97,271
Total deferred inflows of resources	<u>500,983</u>	<u>164,654</u>	<u>1,459</u>	<u>667,096</u>
Fund Balances:				
Nonspendable:				
Inventory	9,216	-	-	9,216
Restricted:				
Capital outlay	-	-	23,175	23,175
Special education	-	62,995	-	62,995
Capital projects	-	-	384,356	384,356
Pension	-	-	1,576	1,576
Unassigned	<u>13,949,539</u>	<u>-</u>	<u>-</u>	<u>13,949,539</u>
Total fund balances	<u>13,958,755</u>	<u>62,995</u>	<u>409,107</u>	<u>14,430,857</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 14,943,667</u>	<u>\$ 312,587</u>	<u>\$ 548,724</u>	<u>\$ 15,804,978</u>

The accompanying notes are an
integral part of these financial statements

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO GOVERNMENTAL
ACTIVITIES NET POSITION ON STATEMENT OF NET POSITION
JUNE 30, 2017**

Total fund balances for governmental funds		\$ 14,430,857
Total net position reported for governmental activities in the statement of net position is different because:		
Net pension liability reported in governmental activities is not due and payable in the current period and therefore is not reported in the funds.		(552,813)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	\$ 87,585	
Building and improvements, net of \$2,540,287 accumulated depreciation	10,100,944	
Equipment, net of \$1,708,527 accumulated depreciation	<u>1,251,413</u>	
Total capital assets		11,439,942
Some of the School District's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows of resources in the funds.		97,271
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.		2,049,603
Long-term liabilities applicable to the School District's governmental activities are not due and payable in current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position.		
Balances at June 30, 2017 are:		
Compensated absences		(280,634)
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.		<u>(840,665)</u>
Total net position of governmental activities		<u>\$ 26,343,561</u>

The accompanying notes are an
integral part of these financial statements

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017**

	Major Funds		Aggregate Other Non-major	Total Governmental Funds
	General	Special Education		
REVENUES				
Revenue from local sources:				
Taxes	\$ 914,907	\$ 298,209	\$ 30,299	\$ 1,243,415
Interest	58,712	-	-	58,712
Cocurricular activities	20,772	-	-	20,772
Other local revenue	38,845	2,150	-	40,995
Revenue from intermediate sources	43,774	-	-	43,774
Revenue from state sources	2,437,724	187,098	-	2,624,822
Revenue from federal sources	2,566,164	233,239	24,903	2,824,306
Total revenues	<u>6,080,898</u>	<u>720,696</u>	<u>55,202</u>	<u>6,856,796</u>
EXPENDITURES				
Instruction:				
Regular programs	2,220,379	-	193,541	2,413,920
Special programs	511,083	526,543	-	1,037,626
Support services:				
Pupils	138,663	107,985	-	246,648
Instructional staff	155,061	67,995	6,686	229,742
General administration	232,525	-	-	232,525
School administration	450,990	-	-	450,990
Business	1,054,413	-	381,882	1,436,295
Special education	-	148,173	-	148,173
Cocurricular activities:				
Male activities	58,874	-	5,416	64,290
Female activities	38,298	-	-	38,298
Transportation	9,619	-	-	9,619
Combined activities	51,261	-	-	51,261
Capital outlay	-	-	462,873	462,873
Total expenditures	<u>4,921,166</u>	<u>850,696</u>	<u>1,050,398</u>	<u>6,822,260</u>
Excess (deficiency) of revenues over expenditures	<u>1,159,732</u>	<u>(130,000)</u>	<u>(995,196)</u>	<u>34,536</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	190,000	1,350,000	1,540,000
Transfers out	(1,540,000)	-	-	(1,540,000)
Sale of surplus property	-	-	2,744	2,744
Total other financing sources (uses)	<u>(1,540,000)</u>	<u>190,000</u>	<u>1,352,744</u>	<u>2,744</u>
Net change in fund balances	(380,268)	60,000	357,548	37,280
Changes in Nonspendable	(16,527)	-	-	(16,527)
Fund balances - beginning	<u>14,355,550</u>	<u>2,995</u>	<u>51,559</u>	<u>14,410,104</u>
Fund balances - ending	\$ 13,958,755	\$ 62,995	\$ 409,107	\$ 14,430,857

The accompanying notes are an
integral part of these financial statements

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**RECONCILIATION OF STATEMENT OF THE REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

Net change in fund balances - total governmental funds \$ 37,280

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$462,873) exceeded depreciation (\$372,443) in the current period. 90,430

In both the government wide and fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the fund's statement differs from the accounting in the government wide statements in that the fund financial statements require the amounts to be "available". This amount reflects the application of both the application period and "availability criteria". 9,397

Individual governmental funds recognize inventory using the purchase method. In the government wide financial statements, however, inventory is presented using the consumption method. This adjustment recognizes the change in inventory in the individual governmental funds. (16,527)

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment is the net change in compensated absences. (55,699)

Changes in the pension related deferred outflows/inflows are direct components of the pension liability (asset) and are not reflected in the governmental funds. (136,037)

Change in net position of governmental activities \$ (71,156)

The accompanying notes are an
integral part of these financial statements

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017**

	Enterprise Fund Food Service
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 46,396
Inventory:	
Resale	1,578
Donated food	6,132
Total current assets	<u>54,106</u>
Noncurrent assets:	
Capital assets:	
Machinery and equipment	218,576
Less accumulated depreciation	<u>(170,977)</u>
Total noncurrent assets	<u>47,599</u>
Total assets	<u>101,705</u>
LIABILITIES	
Current liabilities:	
Accounts payable	33
Contracts payable	9,914
Employee benefits payable	4,693
Current portion of accrued compensated absences	<u>3,776</u>
Total current liabilities	<u>18,416</u>
Noncurrent liabilities:	
Accrued compensated absences	<u>2,517</u>
Total liabilities	<u>20,933</u>
NET POSITION	
Investment in capital assets	47,599
Unrestricted	<u>33,173</u>
Total net position	<u>\$ 80,772</u>

The accompanying notes are an
integral part of these financial statements

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017**

	Enterprise Fund Food Service
OPERATING REVENUES	
Charges for services	\$ 41,687
OPERATING EXPENSES	
Salaries	69,309
Employee benefits	19,547
Purchased services	3,065
Supplies	11,284
Cost of sales - purchased	96,340
Cost of sales - donated	14,537
Depreciation	11,958
Total operating expenses	226,040
Operating (loss)	(184,353)
NONOPERATING REVENUES	
State sources:	
Cash reimbursements	1,000
Federal sources:	
Cash reimbursements	150,380
Donated food	18,062
Total nonoperating revenues	169,442
Change in net position	(14,911)
Total net position - beginning	95,683
Total net position - ending	\$ 80,772

The accompanying notes are an
integral part of these financial statements

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017**

	Enterprise Fund Food Service
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 41,687
Payments to employees	(79,720)
Payments to suppliers	<u>(110,520)</u>
Net cash (used in) operating activities	<u>(148,553)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash reimbursements - state sources	1,000
Cash reimbursements - federal sources	<u>150,380</u>
Net cash provided by noncapital financing activities	<u>151,380</u>
 Net increase in cash and cash equivalents	 2,827
Balances - beginning of year	<u>43,569</u>
Balances - end of year	<u>\$ 46,396</u>
 Reconciliation of operating (loss) to net cash (used in) operating activities:	
Operating (loss)	\$ (184,353)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:	
Depreciation	11,958
Value of donated commodities used	18,062
Change in assets and liabilities:	
Inventory	(3,321)
Accounts payable	(35)
Contracts payable	3,350
Employee benefits payable	2,519
Accrued compensated absences	<u>3,267</u>
 Net cash (used in) operating activities	 <u>\$ (148,553)</u>
 NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Value of commodities received	<u>\$ 18,062</u>

The accompanying notes are an
integral part of these financial statements

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017**

	Agency Funds
ASSETS	
Cash and cash equivalents	<u>\$ 86,653</u>
Total assets	<u>86,653</u>
LIABILITIES	
Amount held for others	<u>86,653</u>
Total liabilities	<u>\$ 86,653</u>

The accompanying notes are an
integral part of these financial statements

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The reporting entity of Bennett County School District No. 3-1 (School District), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The School District participates in a cooperative service unit with several other school districts. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the School District.

Basis of Presentation

Government-wide Financial Statements

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

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

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

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

Fund Financial Statements

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

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

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

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Basis of Presentation, continued

Governmental Funds:

General Fund – A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the school district, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

Special Revenue Funds - Special revenue funds are used to account for and report the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

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

Pension Fund – A fund established by SDCL 13-10-6 for the purpose of paying pensions to retired employees of school districts, which have established such systems, paying the School District's share of retirement plan contributions, and for funding early retirement benefits to qualifying employees. This fund is financed by property taxes. This is not a major fund.

Capital Outlay Fund – A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant, or equipment, textbooks, and instructional software. This fund is financed by property taxes. This is not a major fund.

Capital Projects Funds – Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). The Shop Building Capital Projects Fund is the only capital projects fund maintained by the School District. This is not a major fund.

Proprietary Funds:

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

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

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

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

Fiduciary Funds – Fiduciary funds consist of the following subcategories and are never considered to be major funds.

Agency Funds – Agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The School District maintains agency funds to hold assets as an agent in a trustee capacity for various classes, clubs and other such purposes.

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.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

Government-wide Financial Statements:

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

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

For governmental funds types, 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 School District, the length of that cycle is 45 days. The revenues which are accrued at June 30, 2017 are property taxes.

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

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

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

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Inventory

Inventory held for consumption is stated at cost.

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

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

In the governmental fund financial statements, inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by Nonspendable Fund Balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

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 Financial Statements:

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

For governmental activities capital assets, construction-period interest is not capitalized, in accordance with accounting principles generally accepted in the United States of America (US GAAP), while for capital assets used in business-type activities/proprietary fund's operations, construction-period interest is capitalized in accordance with US GAAP.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets, continued

The total June 30, 2017 balance of capital assets for governmental activities includes approximately 45% for which the costs were determined by estimates of the original costs. The total June 30, 2017 balance of capital assets for business-type activities includes approximately 5% for which the values were determined by estimates of the original cost). These estimated original costs were established by deflated current replacement cost.

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	All	---	---
Buildings	\$ 50,000	Straight-line	15-50 yrs.
Site improvements	\$ 10,000	Straight-line	10-50 yrs.
Machinery and equipment	\$ 5,000	Straight-line	3-20 yrs.
Food service equipment	\$ 1,000	Straight-line	3-15 yrs.
Technology equipment	\$ 2,000	Straight-line	3-5 yrs.

Land, an inexhaustible capital asset, 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 financial statements.

Long-Term Liabilities

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. As of June 30, 2017, long-term liabilities consist solely of compensated absences.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Long-Term Liabilities, continued

In the fund financial statements, debt proceeds are reported as an other financing source, while payments of principal and interest are reported as expenditures when paid. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

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 the following categories:

- 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.
- 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 to a particular program.
- Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments or organizations that are restricted for the acquisition of capital assets for use within a particular program.

Proprietary Funds Revenue and Expense Classifications

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

Cash and Cash Equivalents

The School District pools its cash resources for depositing and investing purposes. Accordingly, the enterprise fund has access to its cash resources on demand and, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows. Certificates of deposit, regardless of maturity, are not considered to be cash equivalents.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

Pension

For purposes of measuring the net pension liability (asset), deferred outflows and inflows of resources related to pensions, the 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 the net pension liability (asset) are recognized on the accrual basis of accounting.

Equity Classifications

Government-wide Financial Statements:

Equity is classified as Net Position and is displayed as follows:

- Investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable).
- 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.
- Unrestricted net position – All other net position that does not meet the definitions above.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Equity Classifications, continued

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and is distinguished between Nonspendable, Restricted, Committed, Assigned or Unassigned. 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 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.

Fund Balance Classification Policies and Procedures

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

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

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Balance Classification Policies and Procedures, continued

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 for expenditures where all three types are available.

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

Property Taxes

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

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

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The School District follows the practice of aggregating the cash balances 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:

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK, continued

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

Investments - In general, SDCL 4-5-6 permits school district funds to be invested only in (a) securities of the United States 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). 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.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2017, the School District's deposits were fully insured or collateralized and were not exposed to custodial credit risk.

Custodial Credit Risk – Investments – The risk that, in the event of the counterparty to a transaction, the School District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments in external investment pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

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.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK, continued

As of June 30, 2017, the School District had the following investment.

<u>Investment</u>	<u>Credit Rating</u>	<u>Maturities</u>	<u>Fair Value</u>
External Investment Pools:			
SDFIT	Unrated	<u>\$ 2,624,062</u>	<u>\$ 2,624,062</u>

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

Concentration of Credit Risk – The School District places no limit on the amount that may be invested in any one issuer. As of June 30, 2017, the School District's investments were with SDFIT.

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

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from investments to the fund making the investment.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

3. CAPITAL ASSETS

A summary of changes in governmental activities' capital assets for the year ended June 30, 2017, is as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 87,585	\$ -	\$ -	\$ 87,585
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>87,585</u>	<u>-</u>	<u>-</u>	<u>87,585</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	12,492,231	149,000	-	12,641,231
Equipment	<u>2,651,164</u>	<u>313,873</u>	<u>(5,097)</u>	<u>2,959,940</u>
Total capital assets being depreciated	<u>15,143,395</u>	<u>462,873</u>	<u>(5,097)</u>	<u>15,601,171</u>
Less accumulated depreciation for:				
Buildings and improvements	2,331,372	208,915	-	2,540,287
Equipment	<u>1,550,096</u>	<u>163,528</u>	<u>(5,097)</u>	<u>1,708,527</u>
Total accumulated depreciation	<u>3,881,468</u>	<u>372,443</u>	<u>(5,097)</u>	<u>4,248,814</u>
Total capital assets being depreciated, net	<u>11,261,927</u>	<u>90,430</u>	<u>-</u>	<u>11,352,357</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 11,349,512</u>	<u>\$ 90,430</u>	<u>\$ -</u>	<u>\$ 11,439,942</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:

Instruction	\$ 150,126
Support Services	130,731
Cocurricular Activities	<u>91,586</u>

Total Depreciation Expense - Governmental \$ 372,443

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

3. CAPITAL ASSETS, continued

A summary of changes in business-type activities' capital assets for the year ended June 30, 2017, is as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Capital assets being depreciated:</i>				
Equipment	\$ 218,576	\$ -	\$ -	\$ 218,576
Total capital assets being depreciated	<u>218,576</u>	<u>-</u>	<u>-</u>	<u>218,576</u>
Less accumulated depreciation for:				
Equipment	159,019	11,958	-	170,977
Total accumulated depreciation	<u>159,019</u>	<u>11,958</u>	<u>-</u>	<u>170,977</u>
Total capital assets being depreciated, net	<u>59,557</u>	<u>(11,958)</u>	<u>-</u>	<u>47,599</u>
<i>Business type activities capital assets, net</i>	<u>\$ 59,557</u>	<u>\$ (11,958)</u>	<u>\$ -</u>	<u>\$ 47,599</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:

Food Service Fund \$ 11,958

Total Depreciation Expense - Business-Type Activities \$ 11,958

4. LONG-TERM LIABILITIES

A summary of changes in governmental activities' long-term liabilities for the year ended June 30, 2017 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	<u>\$ 224,935</u>	<u>\$ 131,268</u>	<u>\$ (75,569)</u>	<u>\$ 280,634</u>	<u>\$ 168,380</u>
Total	<u>\$ 224,935</u>	<u>\$ 131,268</u>	<u>\$ (75,569)</u>	<u>\$ 280,634</u>	<u>\$ 168,380</u>

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

4. LONG-TERM LIABILITIES, continued

Compensated absences for governmental activities typically have been liquidated from the General Fund and Special Education Fund as follows:

Compensated absences payable from General Fund	\$ 258,002
Compensated absences payable from Special Education Fund	<u>22,632</u>
	<u>\$ 280,634</u>

A summary of changes in business-type activities' long-term liabilities for the year ended June 30, 2017 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 3,026	\$ 4,488	\$ (1,221)	\$ 6,293	\$ 3,776
Total	<u>\$ 3,026</u>	<u>\$ 4,488</u>	<u>\$ (1,221)</u>	<u>\$ 6,293</u>	<u>\$ 3,776</u>

Compensated absences for business-type activities are liquidated from the Food Service Fund.

5. OPERATING LEASES

The School District leases copiers under an operating lease which is paid from the Capital Outlay Fund. Lease expense for the year ended June 30, 2017 was \$15,387.

The following are the minimum future payments on the operating lease:

<u>Year</u>	<u>Amount</u>
2018	\$ 7,694
	<u>\$ 7,694</u>

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

6. RESTRICTED NET POSITION

Restricted Net Position for the year ended June 30, 2017 was as follows:

<u>Major Purpose</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay Purposes	Law	\$ 23,175
Special Education Purposes	Law	62,995
Capital Projects	Law	384,356
Pension Purposes	Law	1,576
SDRS Pension Purposes	Law	<u>656,125</u>
Total Restricted Net Position		<u>\$ 1,128,227</u>

7. 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's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

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

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

7. PENSION PLAN, continued

Benefits Provided, continued

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 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2017, 2016, and 2015 were \$211,631, \$186,802, and \$132,636, respectively, equal to the required contributions each year.

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

At June 30, 2016, SDRS is 96.89% funded and accordingly has a net pension liability. The proportionate shares of the components of the net pension liability of South Dakota Retirement System, for the School District as of the measurement period ending June 30, 2016 and reported by the School District as of June 30, 2017, are as follows:

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

7. PENSION PLAN, continued

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

Proportionate share of pension liability	\$ 17,758,660
Less proportionate share of net pension restricted for pension benefits	<u>17,205,848</u>
Proportionate share of net pension liability (asset)	<u>\$ 552,812</u>

At June 30, 2017, the School District reported a liability (asset) of \$552,812 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2016, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the School District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2016, the School District's proportion was 0.1636554%, which is an increase of 0.0425742% from its proportion measured as of June 30, 2015.

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

For the year ended June 30, 2017, the School District recognized pension expense of \$347,753. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

7. PENSION PLAN, continued

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Difference between expected and actual experience.	\$ 192,446	\$ -
Changes in assumption.	331,108	-
Net difference between projected and actual earnings on pension plan investments.	1,297,695	682,781
Changes in proportion and difference between School District contributions and proportionate share of contributions.	16,723	157,884
School District contributions subsequent to the measurement date.	<u>211,631</u>	<u>-</u>
	<u>\$ 2,049,603</u>	<u>\$ 840,665</u>

\$211,631 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended June 30:

2018	\$267,338
2019	145,965
2020	345,668
2021	<u>238,336</u>
	<u>\$997,307</u>

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

7. PENSION PLAN, continued

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

7. PENSION PLAN, continued

Actuarial Assumptions, continued

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global Equity	58.0%	4.5%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	<u>2.0%</u>	0.7%
Total	<u>100.0%</u>	

Discount Rate

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

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

The following presents the School District's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2017 and 7.50 percent thereafter, 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 (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 Districts proportionate share of the net pension liability (asset)	\$ 3,093,528	\$ 552,812	\$ (1,519,415)

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

7. PENSION PLAN, continued

Pension Plan Fiduciary Net Position

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

8. INTERFUND TRANSFERS

During the normal course of operations, the School District transfers monies between funds for operational purposes. During the year ended June 30, 2017, transfers between major funds were as follows:

<u>Fund</u>	<u>From</u>	<u>To</u>
General fund	\$ 1,540,000	-
Special Education	-	190,000
Aggregate other non major	-	1,350,000
	<u>\$ 1,540,000</u>	<u>\$ 1,540,000</u>

These interfund transfers are not violations of the statutory restrictions on interfund transfers.

9. JOINT VENTURE

The School District participates in the Three Rivers Special Services Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special education and other services to the member school districts. The members of the co-op and their relative percentage of participation are as follows:

Bennett County School District	24%
Jones County School District	14%
Kadoka Area School District	20%
Lyman School District	21%
White River School District	21%
	<u>100%</u>

The co-op's governing board is composed of one representative from each member school district who is a school board member. The board is responsible for adopting the co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The School District retains no equity in the net position of the co-op, but does have a responsibility to fund deficits of the co-op in proportion to the relative participation described above.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

9. JOINT VENTURE, continued

Separate financial statements for this joint venture are available from the Three Rivers Special Services Cooperative, Philip, South Dakota. As of June 30, 2017, this joint venture had total assets and deferred outflows of resources of \$1,019,264, liabilities and deferred inflows of resources of \$108,915 and net position of \$910,349.

10. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2017, the School District managed its risks as follows:

Employee Health Insurance

The School District purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance

The School District joined the Associated School Boards of South Dakota Property and Liability Fund (ASBSD-PLF), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota school districts. The objective of the ASBSD-PLF is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The School District's responsibility is to promptly report to and cooperate with the ASBSD-PLF to resolve any incident which could result in a claim being made by or against the School District. The School District pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the ASBSD-PLF member, based on their exposure or type of coverage. The school district pays an annual premium to the pool to provide coverage for: 1) property, 2) automobile, 3) general liability, 4) crime, 5) boiler and machinery, 6) umbrella liability, 7) School Board liability and 8) employee benefits liability.

The agreement with ASBSD-PLF provides that the above coverages will be provided to a \$2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$100,000 to the upper limit. The School District carries a \$500 deductible for the property and automobile coverage and \$1,000 deductible for the boiler and machinery coverage.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

10. RISK MANAGEMENT, continued

Liability Insurance, continued

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.

Worker's 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 for participating members of the pool. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The School District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. 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. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to \$1,000,000 per individual per incident.

The 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 over the past three years.

Unemployment Benefits

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

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

10. RISK MANAGEMENT, continued

Unemployment Benefits, continued

During the year ended June 30, 2017, \$-0- in claims for unemployment benefits were paid. At June 30, 2017, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - PAGE 1 OF 2
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance With
	Original	Final	(Budgetary - Modified Accrual Basis)	Final Budget Positive (Negative)
REVENUES				
Revenues from local sources:				
Taxes:				
Ad valorem taxes	\$ 728,812	\$ 728,812	\$ 726,125	\$ (2,687)
Opt out taxes	-	-	-	-
Prior years ad valorem taxes	8,500	8,500	24,903	16,403
Tax Deed Revenue	-	-	5,864	5,864
Gross receipts tax	180,000	180,000	152,700	(27,300)
Penalties and interest	2,500	2,500	5,315	2,815
Tuition and fees	1,200	1,200	-	(1,200)
Earning on investments and deposits	100	100	2	(98)
Cocurricular activities:				
Admissions	21,000	21,000	20,772	(228)
Other revenue from local sources:				
Rentals	5,000	5,000	5,693	693
Refunds	-	-	700	700
Charges for services	13,000	13,000	16,235	3,235
Other	15,000	15,000	16,217	1,217
Revenues from intermediate sources:				
County sources:				
County apportionment	27,000	27,000	23,354	(3,646)
Revenue in lieu of taxes	5,000	5,000	-	(5,000)
Revenue for joint facilities	24,000	24,000	20,420	(3,580)
Revenues from state sources:				
Grants-in-aid:				
Unrestricted	2,353,948	2,353,948	2,425,899	71,951
Restricted	-	-	11,825	11,825
Other	-	-	-	-
Revenues from federal sources:				
Grants-in-aid:				
Restricted - received directly	66,323	66,323	66,771	448
Restricted - received through state	866,095	980,480	835,686	(144,794)
Total revenues	<u>4,317,478</u>	<u>4,431,863</u>	<u>4,358,481</u>	<u>(73,382)</u>
EXPENDITURES				
Instruction:				
Regular programs:				
Elementary	1,242,610	1,270,610	1,253,173	17,437
Middle school	255,845	264,845	212,127	52,718
Secondary	658,895	671,895	700,539	(28,644)
Other	111,660	111,660	54,540	57,120
Special programs:				
Educationally deprived	429,935	538,403	511,083	27,320

See Independent Auditor's Report

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - PAGE 2 OF 2
YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary - Modified Accrual Basis)</u>	<u>Final Budget Positive (Negative)</u>
Support services:				
Pupils:				
Attendance and social work	103,107	103,107	67,131	35,976
Guidance	45,600	45,600	13,325	32,275
Health	53,320	59,237	58,207	1,030
Instructional staff:				
Support	-	-	-	-
Improvement of instruction	163,930	163,930	125,575	38,355
Educational media	40,957	40,957	29,486	11,471
General administration:				
Board of education	124,268	124,268	84,983	39,285
Executive administration	149,647	149,647	147,542	2,105
School administration:				
Office of principal	385,718	385,718	383,122	2,596
Title I Program Administration	75,803	75,803	66,981	8,822
Other	2,000	2,000	887	1,113
Business:				
Fiscal services	223,057	223,057	218,505	4,552
Operations and maintenance of plant	728,375	728,375	660,071	68,304
Pupil transportation	184,815	184,815	175,837	8,978
Central:				
Planning	-	-	-	-
Cocurricular activities:				
Male activities	62,089	62,089	58,874	3,215
Female activities	47,895	47,895	38,298	9,597
Transportation	10,865	10,865	9,619	1,246
Combined activities	46,836	46,836	51,261	(4,425)
Contingencies	50,000	50,000	50,000	-
Amount transferred	-	(50,000)	(50,000)	-
Total expenditures	<u>5,197,227</u>	<u>5,311,612</u>	<u>4,921,166</u>	<u>390,446</u>
Excess (deficiency) of revenues over expenditures	<u>(879,749)</u>	<u>(879,749)</u>	<u>(562,685)</u>	<u>317,064</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	879,249	879,249	562,500	(316,749)
Transfers out	-	-	(62,500)	(62,500)
Sale of Surplus Property	500	500	-	-
Compensation for loss of capital assets	-	-	-	-
Total other financing sources (uses)	<u>879,749</u>	<u>879,749</u>	<u>500,000</u>	<u>(379,749)</u>
Net change in fund balances	-	-	(62,685)	(62,685)
Fund balances - beginning	<u>314,141</u>	<u>314,141</u>	<u>314,141</u>	<u>-</u>
Fund balances - ending	<u>\$ 314,141</u>	<u>\$ 314,141</u>	<u>\$ 251,456</u>	<u>\$ (62,685)</u>

See Independent Auditor's Report

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**BUDGETARY COMPARISON SCHEDULE
SPECIAL EDUCATION FUND
YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary - Modified Accrual Basis)</u>	<u>Final Budget Positive (Negative)</u>
REVENUES				
Revenues from local sources:				
Taxes:				
Ad valorem taxes	\$ 272,512	\$ 272,512	\$ 289,046	\$ 16,534
Prior years ad valorem taxes	2,000	2,000	7,652	5,652
Penalties and interest	1,000	1,000	1,511	511
Other local revenue	1,500	1,500	2,150	650
Revenues from state sources:				
Grants-in-aid:				
Restricted	168,373	168,373	187,098	18,725
Revenues from federal sources:				
Grants-in-aid:				
Unrestricted - received directly	55,000	55,000	23,698	(31,302)
Restricted - received through state	161,732	204,921	209,541	4,620
Total revenues	<u>662,117</u>	<u>705,306</u>	<u>720,696</u>	<u>15,390</u>
EXPENDITURES				
Instruction:				
Special programs:				
Special education	604,042	647,231	526,543	120,688
Support services:				
Pupils:				
Speech pathology	107,766	107,766	107,985	(219)
Instructional				
Special education:				
Administrative costs	69,285	69,285	67,995	1,290
Transportation costs	4,163	4,163	29	2,271
Other Special Education costs	152,500	152,500	148,144	4,356
Total expenditures	<u>937,756</u>	<u>980,945</u>	<u>850,696</u>	<u>128,386</u>
Excess (deficiency) of revenues over expenditures	(275,639)	(275,639)	(130,000)	145,639
OTHER FINANCING SOURCES (USES)				
Transfers in	275,639	275,639	190,000	(85,639)
Total other financing sources (uses)	<u>275,639</u>	<u>275,639</u>	<u>190,000</u>	<u>(85,639)</u>
Net change in fund balances	-	-	60,000	60,000
Fund balances - beginning	2,995	2,995	2,995	-
Fund balances - ending	<u>\$ 2,995</u>	<u>\$ 2,995</u>	<u>\$ 62,995</u>	<u>\$ 60,000</u>

See Independent Auditor's Report

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2017

1. Basis of Presentation

The Budgetary Comparison Schedules have been prepared on the modified accrual basis of accounting. The Budgetary Comparison Schedule presents 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.

2. Budgets and Budgetary Accounting

The School District follows 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 fiduciary funds.
6. After adoption by the school board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the school board to any other budget category, except for capital outlay, that is deemed insufficient during the year. No amount of expenditures may be charged directly to the contingency line item in the budget.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

2. Budgets and Budgetary Accounting, continued

9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the school board.
10. Budgets for the General Fund and each major special revenue fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).
11. The following reconciles the U.S. GAAP Basis fund balance to the budgetary basis fund balance for the General Fund as of June 30, 2017:

U.S. GAAP Basis fund balance	\$ 13,958,755
Less: portion comprised of unspent Impact Aid revenue	<u>(13,707,299)</u>
Budgetary basis fund balance	<u>\$ 251,456</u>

3. USGAAP/Budgetary Accounting Basis Differences:

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

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY (ASSET)
JUNE 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
School District's proportion of the net pension liability (asset)	0.1636554%	0.1210812%	0.1283738%
School District's proportionate share of net pension liability (asset)	\$ 552,812	\$ (513,540)	\$ (924,881)
School District's covered-employee payroll	\$ 3,113,357	\$ 2,210,595	\$ 2,244,900
School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	17.76%	-23.23%	-41.20%
Plan fiduciary net position as a percentage of the total pension liability (asset)	96.89%	104.10%	107.29%

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

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DISTRICT'S PENSION CONTRIBUTIONS
JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 211,100	\$ 186,802	\$ 132,636
Contributions in relation to the contractually required contribution	<u>211,631</u>	<u>186,802</u>	<u>132,636</u>
Contribution deficiency (excess)	<u>\$ (531)</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$3,518,328	\$3,113,357	\$2,210,595
Contributions as a percentage of covered-employee payroll	6.02%	6.00%	6.00%

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

**Schedule of the Proportionate Share of the Net Pension Liability (Asset) and
Schedule of Contributions**

Changes of benefit terms:

No changes were made in SDRS benefits during the year.

Changes of assumptions:

No changes were made in SDRS actuarial assumptions during the year.

SUPPLEMENTARY INFORMATION

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Disbursements/ Expenditures
Child Nutrition Cluster:			
US Department of Agriculture Pass-Through Programs From:			
SD Department of Education:			
Non-Cash Assistance (Commodities):			
National School Lunch Program (Note 3)	10.555	161638D310N109943	\$ 14,537
Cash Assistance:			
School Breakfast Program (Note 3)	10.553	161638D310N109943	28,624
National School Lunch Program (Note 3)	10.555	161638D310N109943	121,756
Total for Child Nutrition Cluster			164,917
US Department of Agriculture Pass-Through Programs From:			
SD Department of Education:			
Fresh Fruit and Vegetable Program	10.582	Unknown	16,140
Total US Department of Agriculture			181,057
Special Education Cluster:			
US Department of Education - Pass-Through Programs From:			
SD Department of Education:			
Special Education - Grants to States (IDEA, Part B)	84.027	H027A150091	207,880
Special Education - Preschool Grants (IDEA Preschool)	84.173	H173A150091	5,387
Total for Special Education Cluster			213,267
US Department of Education - Direct Programs:			
Impact Aid (Title VIII of ESEA)	84.041		2,088,601
Indian Education - Grants to Local Educational Agencies	84.060		66,771
Subtotal for US Department of Education - Direct Programs			2,155,372
US Department of Education - Pass-Through Programs From:			
SD Department of Education:			
Title I Grants to Local Educational Agencies	84.010	S010A150041	697,612
Improving Teacher Quality State Grants	84.367	S367A150039	134,348
Subtotal US Department of Education - Pass-Through Programs			831,960
Total US Department of Education			3,200,599
GRAND TOTAL			\$ 3,381,656

Note 1: The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the School District under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the School District, It is not intended to and does not present the financial position, changes in net position of cash flows of the School District.

Note 2: Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The School District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3: Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received and/or food commodities used rather than federal expenditures.

See Independent Auditor's Report

*Wohlenberg
Ritzman & Co., LLC*
certified public accountants

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

To the School Board
Bennett County School District No. 3-1
Bennett County, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Bennett County School District No. 3-1 (the School District)** as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated February 16, 2018.

Internal Control over Financial Reporting

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

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Yankton Office	207 Douglas Avenue	PO Box 1018	Yankton, SD 57078	605.665.4401
Sioux Falls Office	507 West 10 th Street	PO Box 876	Sioux Falls, SD 57101	605.336.0372

Toll Free: 1-800-456-0889

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Member of: Private Companies Practice Section American Institute of CPA's, South Dakota Society of CPA's

 **Governmental Audit
Quality Center Member**

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Wohlberg Ritzman + Co., LLC

Yankton, South Dakota
February 16, 2018

*Wohlenberg
Ritzman & Co., LLC*
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

To the School Board
Bennett County School District No. 3-1
Bennett County, South Dakota

Report on Compliance for Each Major Federal Program

We have audited **Bennett County School District No. 3-1's (the School District's)** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2017. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its contracts and federal awards applicable to its federal programs.

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Auditor's Responsibility

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

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

Opinion on its Major Federal Program

In our opinion, the School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control over Compliance

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

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
February 16, 2018

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017

FINDING - FINANCIAL STATEMENT AUDIT

There were no prior financial statement findings reported.

FINDING – MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no prior major federal award program findings reported.

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies identified? _____ yes X none reported

Noncompliance material to financial
statements noted? _____

yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies identified? _____ yes X none reported

Type of auditor's report issued on
compliance for major programs

Unmodified

Audit findings disclosed that are required to
be reported in accordance with 2 CFR
Section 200.516(a)

yes X no

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

84.041

Impact Aid

Dollar Threshold used to distinguish
between Type A and Type B Programs:

\$750,000

Auditee qualified as low-risk auditee?

yes X no

BENNETT COUNTY SCHOOL DISTRICT NO. 3-1

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued
JUNE 30, 2017**

SECTION II - FINDINGS - FINANCIAL STATEMENTS AUDIT

There are no findings noted.

**SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD
PROGRAMS AUDIT**

There are no findings noted.