

**LENNOX SCHOOL DISTRICT NO. 41- 4**

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

**JUNE 30, 2017**

**QUAM, BERGLIN & POST, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

**LENNOX SCHOOL DISTRICT NO. 41-4  
SCHOOL DISTRICT OFFICIALS  
JUNE 30, 2017**

School Board

Alan Rops

Mary Peters

Renae Buehner

Merris Miller

Nancy Nelson

Sandy Poppenga

Dawn Wolf

Business Manager

Angela Artt

Superintendent

Chad Conaway

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## INDEPENDENT AUDITOR'S REPORT

School Board  
Lennox School District No. 41-4  
Lincoln County, South Dakota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lennox School District No. 41-4, Lincoln County, South Dakota, as of June 30, 2017 and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the Table of Contents.

### ***Management's Responsibility for the Financial Statements***

The Lennox School District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### ***Auditor's Responsibility***

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Lennox School District No. 41-4 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 Schedules, the Management Discussion and Analysis (MD&A), the Schedule of Funding Progress, the Schedule of the Proportionate Share of the Net Pension Liability (Asset), and the Schedule of the School District Contributions as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2017, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.



Quam, Berglin & Post, P.C.  
Certified Public Accountants

December 19, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Lennox School District 41-4's annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year ended on June 30, 2017. Please read it in conjunction with the School District's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- During the year, the district's revenues generated from taxes and other revenues of the governmental and business-type programs were \$1,217,347 more than the \$10,974,419 governmental and business-type program expenditures.
- The total cost of the district's programs increased by 5%. This occurred primarily due a \$4,800 increase in teacher salaries and a 3% increase to classified staff salaries, along with the related increase to benefits and a 5% increase in the district's health insurance contribution.
- The 2017 Legislature adopted new laws that completely changed the funding formula for the general fund. The new formula is based on achieving a statewide average teacher salary of \$48,500. The formula uses the \$48,500, a target student-to-teacher ratio and student fall enrollment to calculate the district's total instructional need. A calculation is then made to account for teacher benefits and an overhead amount for non-instructional staff. With each of these steps, the district's total need is calculated. The local effort is then applied against the total need to determine the amount of State Aid paid to the district.
- For FY 2017, the school district balanced their general fund budget with \$250,000 of fund balance in order to provide returning staff with salary and benefit increases. The general fund actually ended the year with a \$128,542 use of fund balance and an ending fund balance of \$1,474,710. The District was able to decrease their planned deficit due to increased revenue and a decrease in utilities and transportation costs.
- The school district received \$124,489 from extra-ordinary cost fund for the special education fund.
- With the new general fund state aid formula, pension costs are now calculated as part of the funding formula in the benefits section. Due to this change, school district pension funds are to be eliminated over a five year period. The district chose to close out their pension fund into the general fund at the end of FY 2017.
- The food service fund's net loss was \$15,512 of which \$24,191 was depreciation expense which is a non-cash expense. Sales to students decreased slightly. A la Carte sales increased due to a better understanding of the new Federal Guidelines requiring healthier choices and the introduction of new a la carte items. The cost of food decreased due to a decrease in purchased food that coincides with the reduction in student sales. Our free/reduced percentage increased from 14.11% in FY 2017 to 15.16% in FY 2018.

### OVERVIEW OF THE FINANCIAL STATEMENTS

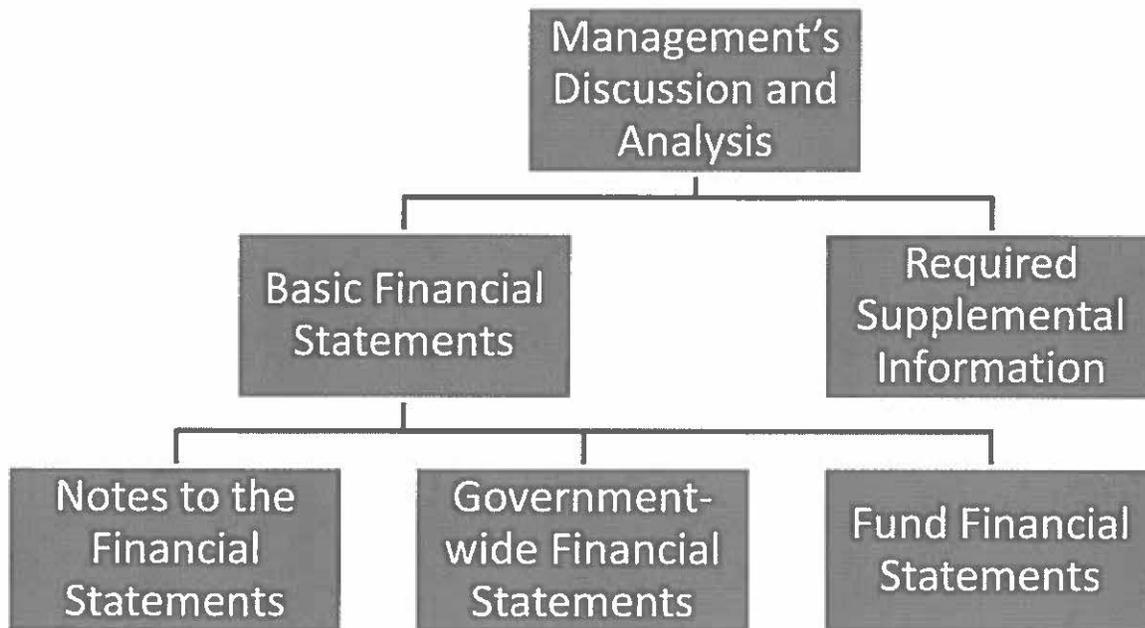
This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the School' District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School government, reporting the School's operations in more detail than the government-wide statements.
  - The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
  - Proprietary fund statements offer short- and long-term financial information about the activities that the school operates like businesses. There are two proprietary funds operated by the school which are the Food Service and the Out of School Time/Preschool.

- Fiduciary fund statements provide information about the financial relationships - like scholarship plans for graduating students - in which the School acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

Figure A-1  
Required Components of Lennox School District's Annual Financial Report



The following summarizes the major features of the School's financial statements, including the portion of the School government covered and the types of information contained. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements:

Major Features of Lennox School's Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School government (except fiduciary funds and the School's component units)	The activities of the School that are not proprietary or fiduciary, such as elementary and high school education programs.	Activities the School operates similar to private businesses, the food service operation.	Instances in which the School is the trustee or agent for someone else's resources.
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Balance Sheet *Statement of Revenues, Expenses and Changes in Net Position *Statement of Cash Flows	*Statement of Fiduciary Net Position *Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term, the School's funds do not currently contain capital assets although they can
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

## Government-wide Statements

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

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

- Increases or decreases in the School's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the School you need to consider additional non-financial factors such as changes in the School's property tax base and changes in the state school aid funding formula from the State of South Dakota.

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

- **Governmental Activities** - This category includes the School's basic instructional services, such as elementary and high school educational programs, support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, debate, music, etc.) and capital equipment

purchases. Property taxes, state grants, federal grants and interest earnings finance most of these activities.

- **Business-type Activities** - The school charges a fee to students to help cover the costs of providing hot lunch and breakfast services to all students. The food service also receives federal and state assistance to subsidize the food service program. The OST/Preschool program receives most of its funds from student fees.

## **Fund Financial Statements**

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

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

The School has three kinds of funds:

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

## **FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE**

### **Net Position**

The School's combined net position increased as follows:

**LENNOX SCHOOL DISTRICT 41-4**  
**Statement of Net Position**

	Governmental		Business-Type		Total	
	Activities		Activities			
	Prior Yr	Current	Prior Yr	Current	Prior Yr	Current
Current and Other Assets	7,649,413	6,506,201	406,164	453,091	8,055,577	6,959,291
Capital Assets	23,189,722	23,086,338	137,159	112,968	23,326,881	23,199,306
Total Assets	<u>30,839,135</u>	<u>29,592,539</u>	<u>543,323</u>	<u>566,059</u>	<u>31,382,458</u>	<u>30,158,598</u>
Deferred Outflows of Resources						
Pension Related Deferred Outflows	2,037,159	2,111,222			2,037,159	2,111,222
Deferred Charge on Refunding	15,000	10,000			15,000	10,000
Total Deferred Outflows of Resources	<u>2,052,159</u>	<u>2,121,222</u>			<u>2,052,159</u>	<u>2,121,222</u>
Total Assets and Deferred Outflows of Resources	<u>32,891,294</u>	<u>31,713,761</u>			<u>33,434,618</u>	<u>32,279,820</u>
Long-Term Debt Outstanding	15,795,745	14,968,427			15,795,745	14,968,427
Other Liabilities	854,356	872,318	40,785	45,226	895,141	917,544
Total Liabilities	<u>16,650,101</u>	<u>15,840,745</u>	<u>40,785</u>	<u>45,226</u>	<u>16,690,886</u>	<u>15,885,971</u>
Deferred Inflows of Resources						
Taxes Levied for Future Period	2,744,628	2,765,915			2,744,628	2,765,915
Pension Related Deferred Inflows	1,592,818	4,301			1,592,818	4,301
Total Deferred Inflows of Resources	<u>4,337,446</u>	<u>2,770,216</u>			<u>4,337,446</u>	<u>2,770,216</u>
Net Position:						
Net Investment in						
Capital Assets	8,495,613	9,838,834	137,159	112,968	8,632,772	9,951,802
Restricted	2,652,240	2,495,810			2,652,240	2,495,810
Unrestricted	755,894	768,156	365,379	407,865	1,121,274	1,176,021
Total Net Position	<u>11,903,747</u>	<u>13,102,800</u>	<u>502,539</u>	<u>520,833</u>	<u>12,406,286</u>	<u>13,623,633</u>
Beginning Net Position	11,030,764	11,903,747	475,988	502,539	11,506,751	12,406,286
Prior Period Adjustment	-	-			0	-
Beginning Adjusted Net Position	<u>11,030,764</u>	<u>11,903,747</u>			<u>11,506,751</u>	<u>12,406,286</u>
Increase (Decrease) in Net Position	<u>872,984</u>	<u>1,199,052</u>	<u>26,551</u>	<u>18,294</u>	<u>899,534</u>	<u>1,217,347</u>
Percentage of Increase (Decrease) in Net Position for 2016 and 2017.	<u>8%</u>	<u>10%</u>	<u>6%</u>	<u>4%</u>	<u>8%</u>	<u>10%</u>

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

The decrease in current assets is due to a decrease in the Net Pension Asset, additionally the decrease in capital assets is primarily due to the depreciation of assets. The decrease in long-term liabilities is due to the payment of principal on the debt. Net position increased by 10% for governmental activities as a result of these changes. Net position for business-type activities increased slightly by 4%.

**Changes in Net Position**

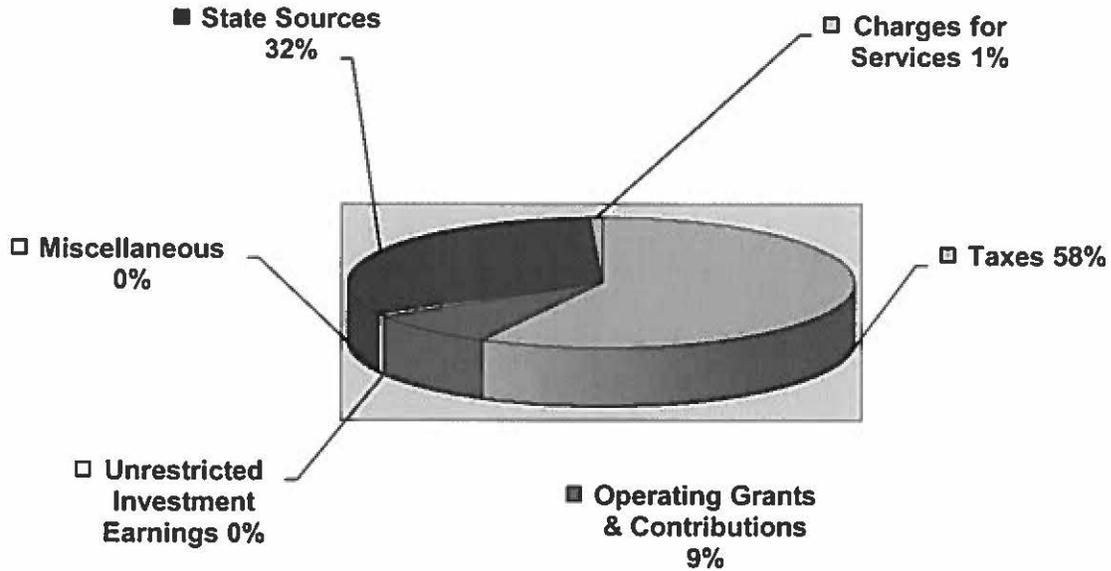
The School's total revenues (excluding special items) totaled \$12,208,889. (See Table 1) Approximately 58% of the School's revenue comes from property and other taxes, with another

32% coming from state aid. (See Chart 1) The School's expenses cover a range of services, encompassing instruction, support services, co-curricular, debt service, OST and food services. (See Chart 2)

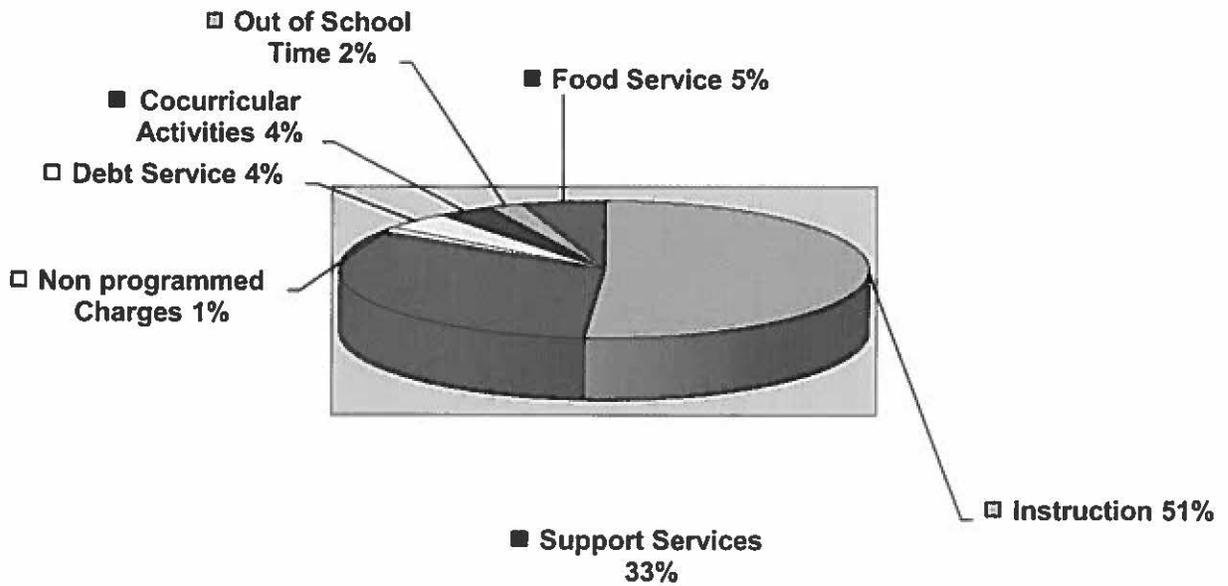
Table 1  
LENNOX SCHOOL DISTRICT 41-4  
Changes in Net Position

	Governmental		Business-Type		Total		% Change 2016-2017
	Activities		Activities				
	2016	2017	2016	2017	2016	2017	
<b>Revenues</b>							
<b>Program Revenues</b>							
Charges for Services	\$ 156,276	\$ 91,984	\$ 650,862	\$ 647,596	\$ 807,138	\$ 739,580	-8%
Operating Grants and Contributions	571,803	752,439	154,443	157,418	726,245	909,857	25%
Capital Grants and Contributions	114,370	221,405			114,370	221,405	94%
<b>General Revenues</b>							
Taxes	6,294,709	6,575,020			6,294,709	6,575,020	4%
Revenue State Sources	3,210,700	3,670,203			3,210,700	3,670,203	14%
Unrestricted Investment Earnings	14,635	12,770	1,727	2,014	16,362	14,784	-10%
Other General Revenues	148,867	78,040			148,867	78,040	-48%
<b>Total Revenues</b>	<b>10,511,360</b>	<b>11,401,861</b>	<b>807,032</b>	<b>807,028</b>	<b>11,318,392</b>	<b>12,208,889</b>	<b>8%</b>
<b>Expenses</b>							
Instruction	\$ 5,044,843	\$ 5,621,892			\$ 5,044,843	\$ 5,621,892	11%
Support Services	3,639,016	3,617,007			3,639,016	3,617,007	-1%
Nonprogrammed Charges	112,126	127,388			112,126	127,388	14%
Debt Service	478,128	444,470			478,128	444,470	-7%
Cocurricular Activities	363,472	376,091			363,472	376,091	3%
Out of School Time			\$ 235,004	\$ 226,639	235,004	226,639	-4%
Food Service			545,644	560,931	545,644	560,931	3%
<b>Total Expenses</b>	<b>9,637,585</b>	<b>10,186,849</b>	<b>780,648</b>	<b>787,570</b>	<b>10,418,234</b>	<b>10,974,419</b>	<b>5%</b>
<b>Excess (Deficiency) Before</b>							
Special Items and Transfers	873,775	1,215,012	26,383	19,458	900,158	1,234,470	37%
Loss on Disposal of Capital Assets		(17,123)	(624)		(624)	(17,123)	
Transfers	(791)	1,163	791	(1,163)			
<b>Increase (Decrease) in Net Position</b>	<b>\$ 872,983</b>	<b>\$ 1,199,052</b>	<b>\$ 26,551</b>	<b>\$ 18,294</b>	<b>\$ 899,534</b>	<b>\$ 1,217,347</b>	<b>35%</b>

**Chart 1**  
**Lennox School District 41-4**  
**Sources of Revenue for Fiscal Year 2017**



**Chart 2**  
**Lennox School District 41-4**  
**Functional Expenses for Fiscal Year 2017**



## GOVERNMENTAL ACTIVITIES

Revenues for the governmental activities increased by approximately 8.5% due primarily to a change in the calculation of the State Aid formula. Expenses increased by 5.7% due largely to an increase to salaries and benefits. Additionally, a high cost out-of-district placement in the Special Education Fund moved into the district.

## BUSINESS-TYPE ACTIVITIES

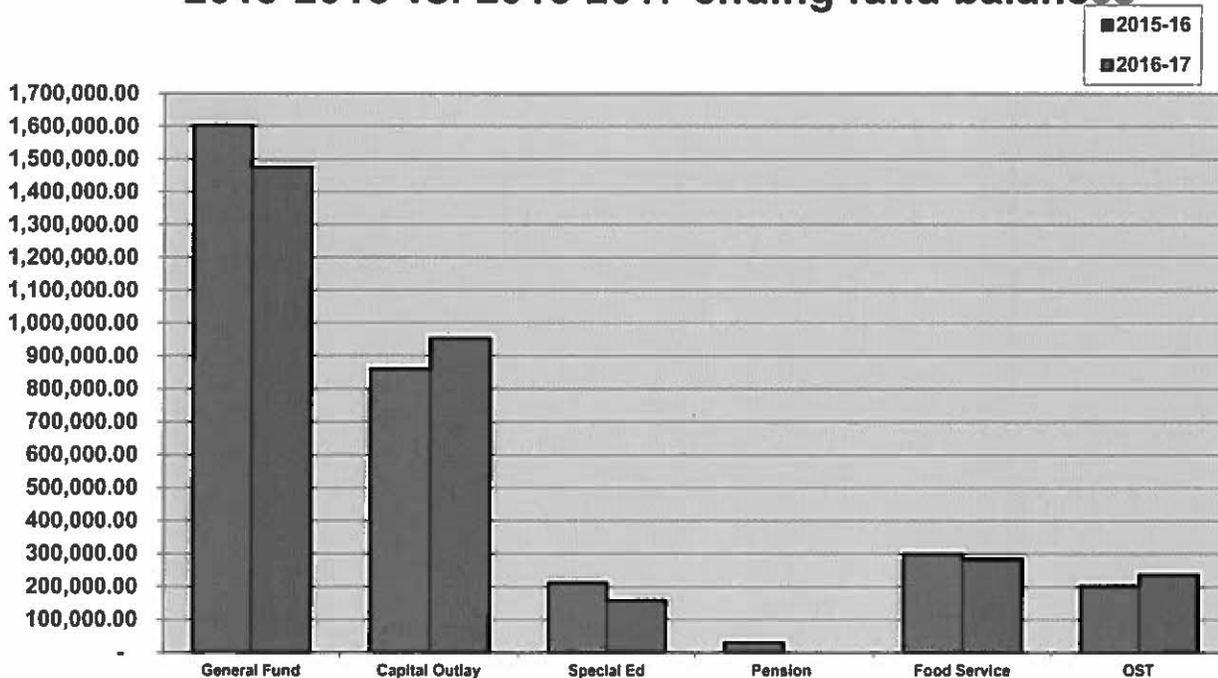
The School's food service fund revenues remained steady and expenses increased by 2.9%. The OST/Preschool program revenue remained steady and their expenses decreased by 3.6%. Factors contributing to these results included:

- The increase to expenses in the food service fund was due to a 3% increase to classified staff salaries, along with the related increase to benefits and a 5% increase in the District's health insurance contribution. The decrease to the OST/Preschool program expenses came from a reduction in supplies purchased this fiscal year.

## FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The Capital Outlay Fund, Food Service Fund and the OST/Preschool Fund did not have any significant changes in fund balance for the year. However, the General Fund decreased by \$128,542, the Special Education Fund decreased by \$53,666 and the Pension Fund was closed out into the General Fund. The changes in the different funds are explained in the two sections above.

### 2015-2016 vs. 2016-2017 ending fund balances



## BUDGETARY HIGHLIGHTS

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

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

The budget was supplemented with additional grants, donations, the pension fund transfer, the extraordinary cost funds and fund balance. Other than these items, there were no other significant budget changes or budget variances for the year.

## CAPITAL ASSET ADMINISTRATION

By the end of 2017, the School had invested \$23,086,338 in a broad range of capital assets, including, land, buildings, improvements, and various machinery and equipment. (See Table 2) This amount represents a net decrease (including additions and deductions) of \$103,384 or approximately .4%, under last year resulting mainly from the recording of depreciation and the purchase of assets.

**Table 2**  
**LENNOX SCHOOL DISTRICT 41-4 - Capital Assets**  
**(net of depreciation)**

	Governmental Activities		Business-type Activities		Dollar Change
	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	
Land	\$ 445,534	\$ 445,534	\$	\$	
CWIP	66,149	-			(66,149)
Buildings	20,927,208	20,568,016			(359,191)
Improvements (PITO)	874,332	1,221,295			346,963
Machinery and Equipment	876,499	851,493	137,159	112,968	(49,197)
<b>Total Capital Assets (Net)</b>	<b><u>\$ 23,189,722</u></b>	<b><u>\$ 23,086,338</u></b>	<b><u>\$ 137,159</u></b>	<b><u>\$ 112,968</u></b>	<b><u>\$ (127,575)</u></b>

This year's major capital asset purchases consisted of the LWC Intermediate School parking lot project, LWC Intermediate partial roof replacement, Worthing Elementary secure entrance, and a bus.

## LONG-TERM DEBT

At year-end the School had \$14,968,427 in Bonds Payable, Capital Outlay Certificates and other long-term obligations. This is a decrease of 5.24% as shown on Table A-4 below which is due to principal payments on the debt.

**Table A-4**  
**LENNOX SCHOOL DISTRICT 41-4 - Outstanding Debt and Obligations**

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2016	2017	2016	2017	2016-2017	2016-2017
Bonds Payable	\$ 7,285,000	\$ 6,390,000			\$ (895,000)	-12.29%
Capital Outlay Certificates	7,825,000	7,130,000			(695,000)	-8.88%
Early Retirement	241,292	252,349			11,057	4.58%
Computer Lease	208,376	106,695			(101,681)	-48.80%
Notes Payable	59,809	29,904			(29,905)	-50.00%
Admin Accrued Leave	13,089	9,480			(3,609)	-27.57%
Net Pension Liability		863,665			863,665	100.00%
OPEB Liability	163,179	186,334			23,155	14.19%
<b>Total Outstanding Debt and Obligations</b>	<b>\$ 15,795,745</b>	<b>\$ 14,968,427</b>			<b>\$ (827,318)</b>	<b>-5.24%</b>

There are 2 administrators that chose to early retire at the end of FY 2015. Their accrued leave payment has been accrued and will be paid by the school district over the next three years. Additionally, there is one director who is eligible for early retirement, therefore his accrued leave needs to be added to the outstanding debt and obligations because it is an obligation that needs to be accrued and paid by the district.

The School also maintains an early retirement plan, which allows those meeting certain qualifications, to retire early and receive 80% of their last year's salary in 6 equal payments spread over the next three years. This plan allows the school to reduce the overall program cost by hiring lower paid teachers to replace the higher paid teachers.

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

For the 2017-18 school year, the district froze administrative and certified staff salaries and gave a 3% increase to classified staff. Additionally, the district increased the monthly single health contribution by \$32/month and the family contribution rate by \$15/month. The district received a .3% increase to the state aid formula which increased the target average teacher salary to \$48,945.50 and increased the overhead rate to 31.04%. The district's enrollment increased by 23.5 students. Through these changes to the formula and the increase in students, the district adopted a balanced general fund budget for the 2017-18 school year with the use of \$129,764 of fund balance and a \$100,000 transfer from the capital outlay fund to fund the employees' additional salary and benefit increases.

Preliminary valuation figures show that the district experienced an increase in total property valuation of \$41,680,832 or 6.72% from the prior year. The maximum dollar amount that can be collected in the capital outlay fund can only increase annually by 3% or the CPI, whichever is less, plus the district's average growth percentage. The current year CPI is at 1% and our current average growth percentage is 4.1%. These increases will generate an \$89,306 increase in property tax revenue for the capital outlay fund. The increase in valuation will increase the revenue generated from property taxes in the special education fund by approximately \$60,895.

## **CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional information, contact the Lennox School District's Business Office, 305 W. 5<sup>th</sup> Ave, P.O. Box 38, Lennox, SD 57039.

**LENNOX SCHOOL DISTRICT NO. 41-4**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 2,141,611.64	\$ 439,480.05	\$ 2,581,091.69
Investments	764,191.83		764,191.83
Taxes Receivable	2,833,929.85		2,833,929.85
Accounts Receivable	1,653.39		1,653.39
Internal Balances	7,350.00	(7,350.00)	
Due From Other Governments	615,641.82	1,494.62	617,136.44
Interest Receivable	2,481.01		2,481.01
Inventories		10,530.59	10,530.59
Other Assets	75,400.00	8,360.00	83,760.00
Prepaid Expenses	63,941.05	575.27	64,516.32
Capital Assets:			
Land and Construction Work in Progress	445,534.14		445,534.14
Other Capital Assets, Net of Depreciation	22,640,804.05	112,968.28	22,753,772.33
<b>TOTAL ASSETS</b>	<u>29,592,538.78</u>	<u>566,058.81</u>	<u>30,158,597.59</u>
<b>Deferred Outflows of Resources</b>			
Pension Related Deferred Outflows	2,111,221.99		2,111,221.99
Deferred Charge on Refunding	10,000.00		10,000.00
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>2,121,221.99</u>		<u>2,121,221.99</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>31,713,760.77</u>	<u>566,058.81</u>	<u>32,279,819.58</u>
<b>LIABILITIES :</b>			
Accounts Payable	77,034.57	5,614.60	82,649.17
Contracts Payable	612,470.97	22,031.98	634,502.95
Sales Tax Payable	50.35		50.35
Due to Other Government	21,726.00		21,726.00
Benefits Payable	161,036.12	6,227.42	167,263.54
Unearned Revenue		11,351.76	11,351.76
Noncurrent Liabilities:			
Due Within One Year	1,917,615.57		1,917,615.57
Due in More than One Year	13,050,811.30		13,050,811.30
<b>TOTAL LIABILITIES</b>	<u>15,840,744.88</u>	<u>45,225.76</u>	<u>15,885,970.64</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Taxes levied for Future Period	2,765,915.20		2,765,915.20
Pension Related Deferred Inflows	4,301.05		4,301.05
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>2,770,216.25</u>		<u>2,770,216.25</u>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	9,838,833.66	112,968.28	9,951,801.94
Net Position Restricted for:			
Capital Outlay	864,001.96		864,001.96
Special Education	165,256.46		165,256.46
Debt Service	223,295.37		223,295.37
SDRS Pension Purposes	1,243,255.98		1,243,255.98
Unrestricted Net Position	768,156.21	407,864.77	1,176,020.98
<b>TOTAL NET POSITION</b>	<u>\$ 13,102,799.64</u>	<u>\$ 520,833.05</u>	<u>\$ 13,623,632.69</u>

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

**LENNOX SCHOOL DISTRICT NO. 41-4  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary Government:</b>							
<b>Governmental Activities:</b>							
Instruction	\$ 5,621,892.21	\$	\$ 752,439.00	\$	\$ (4,869,453.21)	\$	\$ (4,869,453.21)
Support Services	3,617,007.17	33,706.30		118,466.16	(3,464,834.71)		(3,464,834.71)
Nonprogrammed Charges	127,388.11				(127,388.11)		(127,388.11)
*Interest on Long-term Debt	444,469.97			102,939.05	(341,530.92)		(341,530.92)
Cocurricular Activities	376,091.49	58,277.53			(317,813.96)		(317,813.96)
<b>Total Governmental Activities</b>	<b>10,186,848.95</b>	<b>91,983.83</b>	<b>752,439.00</b>	<b>221,405.21</b>	<b>(9,121,020.91)</b>		<b>(9,121,020.91)</b>
<b>Business-type Activities:</b>							
Food Service	560,930.63	390,702.81	153,865.67			(16,362.15)	(16,362.15)
After School Program	219,835.85	248,892.94	3,552.48			32,609.57	32,609.57
Driver's Education	6,803.48	8,000.00				1,196.52	1,196.52
<b>Total Business-type Activities</b>	<b>787,569.96</b>	<b>647,595.75</b>	<b>157,418.15</b>			<b>17,443.94</b>	<b>17,443.94</b>
<b>Total Primary Government</b>	<b>\$ 10,974,418.91</b>	<b>\$ 739,579.58</b>	<b>\$ 909,857.15</b>	<b>\$ 221,405.21</b>	<b>(9,121,020.91)</b>	<b>17,443.94</b>	<b>(9,103,576.97)</b>
*The District does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.		<b>General Revenues:</b>					
		<b>Taxes:</b>					
		Property Taxes 6,144,276.21 6,144,276.21					
		Utility Taxes 430,743.64 430,743.64					
		<b>Revenue from State Sources:</b>					
		State aid 3,670,202.93 3,670,202.93					
		Unrestricted Investment Earnings 12,769.70 2,013.87 14,783.57					
		Other General Revenues 78,040.26 78,040.26					
		Loss on Disposal of Capital Assets (17,122.84) (17,122.84)					
		<b>Transfers</b> 1,163.38 (1,163.38) 0.00					
		<b>Total General Revenues, Losses, and Transfers</b> 10,320,073.28 850.49 10,320,923.77					
		<b>Change in Net Position</b> 1,199,052.37 18,294.43 1,217,346.80					
		<b>Net Position - Beginning</b> 11,903,747.27 502,538.62 12,406,285.89					
		<b>NET POSITION - ENDING</b> \$ 13,102,799.64 \$ 520,833.05 \$ 13,623,632.69					

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

LENNOX SCHOOL DISTRICT NO. 41-4  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017

	General Fund	Capital Outlay Fund	Special Education Fund	High School Bond Redemption Fund	Total Governmental Funds
<b>ASSETS:</b>					
Cash and Cash Equivalents	\$ 740,892.77	\$ 958,224.99	\$ 229,392.67	\$ 213,101.21	\$ 2,141,611.64
Investments	764,191.83				764,191.83
Taxes Receivable - Current	1,036,421.03	829,595.98	426,417.19	473,481.00	2,765,915.20
Taxes Receivable - Delinquent	34,009.37	16,599.54	7,211.58	10,194.16	68,014.65
Accounts Receivable	1,653.39				1,653.39
Due from Other Funds	7,350.00				7,350.00
Due from Other Governments	491,868.25	26,893.00	96,880.57		615,641.82
Interest Receivable on Investments	2,481.01				2,481.01
Deposits	64,850.00		10,550.00		75,400.00
Prepaid Expenses	55,884.70		8,056.35		63,941.05
<b>TOTAL ASSETS</b>	<u>3,199,602.35</u>	<u>1,831,313.51</u>	<u>778,508.36</u>	<u>696,776.37</u>	<u>6,506,200.59</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:</b>					
<b>Liabilities:</b>					
Accounts Payable	26,120.24	31,020.87	19,893.46		77,034.57
Contracts Payable	495,359.68		117,111.29		612,470.97
Sales Tax Payable	50.35				50.35
Due to Other Government			21,726.00		21,726.00
Payroll Deductions and Withholdings and Employer Matching Payable	132,932.16		28,103.96		161,036.12
<b>Total Liabilities</b>	<u>654,462.43</u>	<u>31,020.87</u>	<u>186,834.71</u>		<u>872,318.01</u>
<b>Deferred Inflows of Resources:</b>					
Taxes Levied for a Future Period	1,036,421.03	829,595.98	426,417.19	473,481.00	2,765,915.20
Unavailable Revenue-Property Taxes	34,009.37	16,599.54	7,211.58	10,194.16	68,014.65
<b>Total Deferred Inflows of Resources</b>	<u>1,070,430.40</u>	<u>846,195.52</u>	<u>433,628.77</u>	<u>483,675.16</u>	<u>2,833,929.85</u>
<b>Fund Balances:</b>					
Nonspendable	120,734.70		18,606.35		139,341.05
Restricted		954,097.12	139,438.53	213,101.21	1,306,636.86
Assigned	134,943.10				134,943.10
Unassigned	1,219,031.72				1,219,031.72
<b>Total Fund Balances</b>	<u>1,474,709.52</u>	<u>954,097.12</u>	<u>158,044.88</u>	<u>213,101.21</u>	<u>2,799,952.73</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS FROM RESOURCES AND FUND BALANCES</b>	<u>\$ 3,199,602.35</u>	<u>\$ 1,831,313.51</u>	<u>\$ 778,508.36</u>	<u>\$ 696,776.37</u>	<u>\$ 6,506,200.59</u>

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

**LENNOX SCHOOL DISTRICT NO. 41-4  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2017**

Total Fund Balances - Governmental Funds \$ 2,799,952.73

Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Cost of Capital Assets is	\$ 30,409,618.00	
Accumulated Depreciation is	<u>(7,323,279.81)</u>	23,086,338.19

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

General Obligation Bonds	(6,390,000.00)	
Capital Outlay Certificates	(7,130,000.00)	
Early Retirement	(252,348.65)	
Accrued Leave	(9,480.03)	
Other Long Term Notes	(29,904.53)	
Financing Aquisition Leases	(106,694.70)	
Other Post-Employment Benefits	(186,334.00)	
Net Pension Liability	<u>(863,664.96)</u>	(14,968,426.87)

Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.	2,111,221.99
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Pension related deferred inflows are components of pension liability and therefore are not reported in the funds.	(4,301.05)
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Assets, such as taxes receivable (delinquent) that are not available to pay for current period expenditures, are deferred in the funds.	68,014.65
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Deferred charges on refunded debt, which are not accounted for in the governmental funds, are accounted for in the Statement of Net Position. Deferred amount is:	<u>10,000.00</u>
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Net Position - Governmental Funds	<u>\$13,102,799.64</u>
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The notes to the financial statements are an integral part of this statement.

**LENNOX SCHOOL DISTRICT NO. 41-4**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Pension Fund</u>	<u>High School Bond Redemption Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>						
<b>Revenue from Local Sources:</b>						
<b>Taxes:</b>						
Ad Valorem Taxes	\$ 2,191,474.29	\$ 1,881,041.67	\$ 880,166.29	\$ 79,120.44	\$ 1,035,271.52	\$ 6,067,074.21
Prior Years' Ad Valorem Taxes	22,556.28	17,899.59	7,244.06	1,547.17	10,315.48	59,562.58
Utility Taxes	430,743.64					430,743.64
Penalties and Interest on Taxes	7,661.33	4,181.41	1,730.65	358.41	2,384.01	16,315.81
Earnings on Investments and Deposits	7,255.50	1,857.89	717.89	381.19	2,557.23	12,769.70
<b>Cocurricular Activities:</b>						
Admissions	42,857.00					42,857.00
Rentals	280.00					280.00
Other Pupil Activity Income	15,140.53					15,140.53
<b>Other Revenue from Local Sources:</b>						
Rentals	3,487.00					3,487.00
Contributions and Donations	1,875.43	68,490.73				70,366.16
Services Provided Other LEA's	9,473.86					9,473.86
Charges for Services			24,232.44			24,232.44
Other	25,165.53					25,165.53
<b>Revenue from Intermediate Sources:</b>						
<b>County Sources:</b>						
County Apportionment	43,091.45					43,091.45
<b>Revenue from State Sources:</b>						
<b>Grants-in-Aid:</b>						
Unrestricted Grants-in-Aid	3,670,202.93					3,670,202.93
Restricted Grants-in-Aid	4,050.00		391,507.00			395,557.00
<b>Revenue from Federal Sources:</b>						
<b>Grants-in-Aid:</b>						
Restricted Grants-in-Aid Received from Federal Government Through the State	134,982.00		221,900.00			356,882.00
Other Federal Revenue		102,939.05				102,939.05
<b>Total Revenue</b>	<u>6,610,296.77</u>	<u>2,076,410.34</u>	<u>1,527,498.33</u>	<u>81,407.21</u>	<u>1,050,528.24</u>	<u>11,346,140.89</u>

<b>Expenditures:</b>				
<b>Instruction:</b>				
<b>Regular Programs:</b>				
Elementary	1,946,335.26	126,101.68		2,072,436.94
Middle/Junior High	543,633.96	18,648.21		562,282.17
High School	1,026,242.06	111,392.13		1,137,634.19
<b>Special Programs:</b>				
Programs for Special Education			1,052,581.51	1,052,581.51
Educationally Deprived	96,028.74			96,028.74
Other Special Programs			77,341.24	77,341.24
<b>Support Services:</b>				
<b>Pupils:</b>				
Guidance	190,520.83			190,520.83
Health	54,745.09	474.90		55,219.99
Psychological			71,903.48	71,903.48
Speech Pathology Services			147,240.43	147,240.43
Student Therapy Services			82,702.05	82,702.05
<b>Support Services - Instructional Staff:</b>				
Improvement of Instruction	61,801.54			61,801.54
Educational Media	267,216.61	16,158.59		283,375.20
<b>Support Services - General Administration:</b>				
Board of Education	55,938.12			55,938.12
Executive Administration	138,229.58	262.97		138,492.55
<b>Support Services - School Administration:</b>				
Office of the Principal	543,251.78			543,251.78
Other	630.14			630.14
<b>Support Services - Business:</b>				
Fiscal Services	184,936.98	1,691.28		186,628.26
Operation and Maintenance of Plant	977,330.18	83,648.77		1,060,978.95
Pupil Transportation	343,115.37	44.98		343,160.35
<b>Support Services - Central Information:</b>				
Information	720.00			720.00
Staff	4,270.85			4,270.85
<b>Support Services - Special Education:</b>				
Administrative Costs			118,079.97	118,079.97
Transportation Costs			30,598.03	30,598.03
<b>Nonprogrammed Charges</b>				
Unemployment	2,550.00			2,550.00
Early Retirement	113,781.78			113,781.78
Debt Services		1,127,502.83	1,033,552.50	2,161,055.33

**LENNOX SCHOOL DISTRICT NO. 41-4**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Pension Fund</u>	<u>High School Bond Redemption Fund</u>	<u>Total Governmental Funds</u>
Cocurricular Activities:						
Male Activities	65,866.12	5,242.60				71,108.72
Female Activities	52,522.49	4,814.86				57,337.35
Transportation	20,181.51					20,181.51
Combined Activities	172,989.70	12,359.85				185,349.55
Capital Outlay		472,707.59				472,707.59
Total Expenditures	<u>6,862,838.69</u>	<u>1,981,051.24</u>	<u>1,580,446.71</u>		<u>1,033,552.50</u>	<u>11,457,889.14</u>
Excess of Revenue Over (Under) Expenditures	<u>(252,541.92)</u>	<u>95,359.10</u>	<u>(52,948.38)</u>	<u>81,407.21</u>	<u>16,975.74</u>	<u>(111,748.25)</u>
20 Other Financing Sources (Uses):						
Transfers In	117,703.60					117,703.60
Transfers Out		(1,857.89)	(717.89)	(111,407.21)	(2,557.23)	(116,540.22)
Sale of Surplus Property	2,566.65					2,566.65
Compensation for Loss of Capital Assets	3,729.63					3,729.63
Total Other Financing Sources (Uses)	<u>123,999.88</u>	<u>(1,857.89)</u>	<u>(717.89)</u>	<u>(111,407.21)</u>	<u>(2,557.23)</u>	<u>7,459.66</u>
Net Change in Fund Balances	(128,542.04)	93,501.21	(53,666.27)	(30,000.00)	14,418.51	(104,288.59)
Fund Balance - Beginning	<u>1,603,251.56</u>	<u>860,595.91</u>	<u>211,711.15</u>	<u>30,000.00</u>	<u>198,682.70</u>	<u>2,904,241.32</u>
FUND BALANCE - ENDING	<u>\$ 1,474,709.52</u>	<u>\$ 954,097.12</u>	<u>\$ 158,044.88</u>	<u>\$</u>	<u>\$ 213,101.21</u>	<u>\$ 2,799,952.73</u>

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

**LENNOX SCHOOL DISTRICT NO. 41-4  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017**

Net Change in Fund Balances - Total Governmental Funds \$ (104,288.59)

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

In the statement of activities, gains and losses on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized. (17,122.84)

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. The amount by which capital depreciation expense exceeds capital outlays expense in the period is :

Capital Outlay	\$ 472,707.59	
Depreciation Expense	<u>(607,068.31)</u>	(134,360.72)

Payment of principal on long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position.

General Obligation Bonds	895,000.00	
Capital Outlay Certificates	695,000.00	
Financing (Acquisition) Leases	101,680.82	
Other Long Term Notes	<u>29,904.54</u>	1,721,585.36

The receipt of donated capital assets is not reported on the fund statements, but is reported as a program revenue on the government wide statements. 48,100.00

Because some property taxes will not be collected for several months after the district's fiscal year ends, they are not considered available revenues and are deferred in the governmental funds. Deferred tax revenues changed by this amount this year. 1,323.61

When bonds are issued there is usually a premium or discount involved. This premium or discount is amortized over the life of the bonds issued. (5,000.00)

Discount on Debt Issue

In the statement of activities, certain operating expenses (compensated absences and early retirement benefits) are measured by the amounts earned and paid during the year. In the governmental funds however, expenditures for these items are different than the amount of financial resources used. This year the changes in these accounts are:

Administrative Leave Payable	3,608.79	
Other Post Employment Benefits	(23,155.00)	
Early Retirement Benefits	<u>(11,056.33)</u>	(30,602.54)

Changes in the pension related deferred outflows/inflows are direct components of pension (asset) and are not reflected in the governmental funds. (280,581.91)

Change in Net Position of Governmental Activities \$ 1,199,052.37

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

**LENNOX SCHOOL DISTRICT NO. 41-4**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2017**

	<b>Enterprise Funds</b>		<b>Total</b>
	<b>Food Service Fund</b>	<b>OST/Preschool Fund</b>	
<b>ASSETS:</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 175,942.88	\$ 263,537.17	\$ 439,480.05
Due from Other Governments		1,494.62	1,494.62
Prepaid Expenses		575.27	575.27
Inventory of Supplies	1,069.62		1,069.62
Inventory of Stores Purchased for Resale	9,460.97		9,460.97
Deposits	7,350.00	1,010.00	8,360.00
<b>Total Current Assets</b>	<b>193,823.47</b>	<b>266,617.06</b>	<b>460,440.53</b>
Capital Assets:			
Machinery and Equipment	367,471.57		367,471.57
Less: Accumulated Depreciation	(254,503.29)		(254,503.29)
<b>Total Noncurrent Assets</b>	<b>112,968.28</b>		<b>112,968.28</b>
<b>TOTAL ASSETS</b>	<b>306,791.75</b>	<b>266,617.06</b>	<b>573,408.81</b>
<b>LIABILITIES:</b>			
Current Liabilities:			
Accounts Payable	1,054.54	4,560.06	5,614.60
Contracts Payable	216.30	21,815.68	22,031.98
Due to Other Funds	7,350.00		7,350.00
Payroll Deductions and Withholdings and Employer Matching Payable	4,203.15	2,024.27	6,227.42
Unearned Revenue	9,835.26	1,516.50	11,351.76
<b>Total Current Liabilities</b>	<b>22,659.25</b>	<b>29,916.51</b>	<b>52,575.76</b>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	112,968.28		112,968.28
Unrestricted Net Position	171,164.22	236,700.55	407,864.77
<b>Total Net Position</b>	<b>\$ 284,132.50</b>	<b>\$ 236,700.55</b>	<b>\$ 520,833.05</b>

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

**LENNOX SCHOOL DISTRICT NO. 41-4  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Enterprise Funds</u>		
	<u>Food Service Fund</u>	<u>OST/Preschool Fund</u>	<u>Total</u>
<b>Operating Revenue:</b>			
Preschool Tuition	\$	\$ 74,244.00	\$ 74,244.00
Sales To Pupils	239,401.25	3,634.70	243,035.95
Sales To Adults	4,511.55		4,511.55
A la Carte	132,675.05		132,675.05
Childcare		166,838.24	166,838.24
Other	14,114.96	12,176.00	26,290.96
<b>Total Operating Revenue</b>	<u>390,702.81</u>	<u>256,892.94</u>	<u>647,595.75</u>
<b>Operating Expenses:</b>			
Food Service:			
Salaries	182,325.34	180,683.23	363,008.57
Employee Benefits	84,425.43	26,946.52	111,371.95
Purchased Services	11,091.79	2,063.86	13,155.65
Supplies	10,279.92	5,378.03	15,657.95
Cost of Sales-Purchased Food	204,617.68	11,567.69	216,185.37
Cost of Sales-Donated Food	39,819.26		39,819.26
Miscellaneous	4,180.00		4,180.00
Depreciation-Local Funds	24,191.21		24,191.21
<b>Total Operating Expenses</b>	<u>560,930.63</u>	<u>226,639.33</u>	<u>787,569.96</u>
<b>Operating Income (Loss)</b>	<u>(170,227.82)</u>	<u>30,253.61</u>	<u>(139,974.21)</u>
<b>Nonoperating Revenue (Expense):</b>			
Local Sources:			
Investment Earnings	850.49	1,163.38	2,013.87
State Sources:			
Cash Reimbursements	2,197.69		2,197.69
Federal Sources:			
Cash Reimbursements	111,848.72	3,552.48	115,401.20
Donated Food	39,819.26		39,819.26
<b>Total Nonoperating Revenue (Expense)</b>	<u>154,716.16</u>	<u>4,715.86</u>	<u>159,432.02</u>
<b>Income (Loss) Before Transfers and Contributions</b>	<u>(15,511.66)</u>	<u>34,969.47</u>	<u>19,457.81</u>
Transfers (Out)		(1,163.38)	(1,163.38)
<b>Change in Net Position</b>	<u>(15,511.66)</u>	<u>33,806.09</u>	<u>18,294.43</u>
<b>Net Position - Beginning</b>	<u>299,644.16</u>	<u>202,894.46</u>	<u>502,538.62</u>
<b>NET POSITION - ENDING</b>	<u>\$ 284,132.50</u>	<u>\$ 236,700.55</u>	<u>\$ 520,833.05</u>

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

**LENNOX SCHOOL DISTRICT NO. 41-4  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017**

	<b>Enterprise Funds</b>		
	<b>Food Service Fund</b>	<b>OST/Preschool Fund</b>	<b>Total</b>
<b>Cash Flows from Operating Activities:</b>			
Receipts from Customers	\$ 383,067.82	\$ 256,377.73	\$ 639,445.55
Payments to Suppliers	(226,115.35)	(17,774.95)	(243,890.30)
Payments to Employees	(267,408.91)	(205,128.82)	(472,537.73)
Other Operating Cash Payments	4,084.67		4,084.67
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(106,371.77)</b>	<b>33,473.96</b>	<b>(72,897.81)</b>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Operating Subsidies	114,046.41	3,552.48	117,598.89
Transfers		(1,163.38)	(1,163.38)
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>114,046.41</b>	<b>2,389.10</b>	<b>116,435.51</b>
<b>Cash Flows from Investing Activities:</b>			
Interest Earnings	850.49	1,163.38	2,013.87
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 8,525.13</b>	<b>\$ 37,026.44</b>	<b>\$ 45,551.57</b>
Cash and Cash Equivalents at Beginning of Year	\$ 167,417.75	\$ 226,510.73	\$ 393,928.48
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>175,942.88</b>	<b>263,537.17</b>	<b>439,480.05</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 8,525.13</b>	<b>\$ 37,026.44</b>	<b>\$ 45,551.57</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating Income (Loss)	\$ (170,227.82)	\$ 30,253.61	\$ (139,974.21)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	24,191.21		24,191.21
Value of Commodities Used	39,819.26		39,819.26
Change in Assets and Liabilities:			
Accounts Receivable		600.00	600.00
Due from Government		(664.46)	(664.46)
Due from Other Fund	914.67		914.67
Prepaid Expenses		(575.27)	(575.27)
Inventories	(640.10)		(640.10)
Deposits	(7,350.00)	(1,010.00)	(8,360.00)
Accounts Payable	514.14	1,809.90	2,324.04
Due to Other Fund	7,350.00		7,350.00
Contracts and Benefits Payable	(658.14)	2,500.93	1,842.79
Deposits Payable	(284.99)	559.25	274.26
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ (106,371.77)</b>	<b>\$ 33,473.96</b>	<b>\$ (72,897.81)</b>
<b>Noncash Investing, Capital and Financing Activities:</b>			
Value of Commodities Received	\$ 39,819.26		

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

**LENNOX SCHOOL DISTRICT NO. 41-4  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2017**

	<b>Private-Purpose Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS:</b>		
Cash and Cash Equivalents	\$ 32,403.09	\$ 109,948.72
Accounts Receivable		308.04
<b>TOTAL ASSETS</b>	<b>32,403.09</b>	<b>110,256.76</b>
<b>LIABILITIES:</b>		
Accounts Payable		1,169.71
Amounts Held for Others		109,087.05
<b>Total Liabilities</b>		<b>\$ 110,256.76</b>
<b>NET POSITION</b>		
Held in Trust for Scholarships	<b>\$ 32,403.09</b>	

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

**LENNOX SCHOOL DISTRICT NO. 41-4  
STATEMENT OF CHANGES IN NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017**

	<b>Private-Purpose Trust Funds</b>
<b>ADDITIONS:</b>	
Contributions and Donations	\$ 725.00
Interest on Investments	<u>464.27</u>
<b>Total Additions</b>	<u>1,189.27</u>
<b>DEDUCTIONS:</b>	
Trust Deductions for Scholarships	<u>1,250.00</u>
<b>Total Deductions</b>	<u>1,250.00</u>
Change in Net Position	(60.73)
Net Position - Beginning	<u>32,463.82</u>
<b>NET POSITION - ENDING</b>	<u>\$ 32,403.09</u>

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

LENNOX SCHOOL DISTRICT NO. 41-4  
NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

a. **Financial Reporting Entity:**

The reporting entity of Lennox School District No. 41-4, consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

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

The School District 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 their relationship with the School District.

b. **Basis of Presentation:**

*Government-wide Financial Statements:*

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

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or

services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:*

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

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

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

**Governmental Funds:**

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

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

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

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

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

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

Bond Redemption Fund - Fund established by SDCL 13-16-13 to account for the proceeds of a special property tax restricted to use for the payment of principal and interest on general obligation bonded debt. The 2009 General Obligation Bonds are paid from the High School Bond Redemption Fund. This is a major fund.

#### **Proprietary Funds:**

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

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

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

OST/Preschool Fund--A fund used to record financial transactions related to OST/Preschool programs conducted for the benefit of the children. This fund is financed by user charges and grants. This is a major fund.

#### **Fiduciary Funds:**

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

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

*Agency Fund Types - 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 District maintains agency funds for the following purposes: Individual Class Funds, Student Council Funds, and various Student Club Activity Funds.*

#### c. Measurement Focus and Basis of Accounting:

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

## **Measurement Focus:**

### *Government-wide Financial Statements:*

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

### *Fund Financial Statements:*

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

## **Basis of Accounting:**

### *Government-wide Financial Statements:*

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

### *Fund Financial Statements:*

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Lennox School District No. 41-4, the length of that cycle is 60 days. Revenues accrued at June 30, 2017 are amounts due from grants, accrued interest, and other receivables.

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

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

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

d. Interfund Eliminations and Reclassifications:

*Government-wide Financial Statements:*

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

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged, in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate.

e. Deposits and Investments:

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

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

f. Capital Assets:

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

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

*Government-Wide Statements*

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

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

The total June 30, 2017 balance of capital assets for governmental activities includes approximately 1.63 percent for which costs were determined by estimates of the original cost. These estimated original costs were established by appraisals. The total June 30, 2017 balance of capital assets for business-type activities are valued at original costs.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	All	N/A	N/A
Improvements	\$ 15,000.00	Straight Line	10-25 Years
Buildings	50,000.00	Straight Line	50 Years
Machinery and Equipment	5,000.00	Straight Line	5-20 Years
Food Service Machinery and Equipment	1,000.00	Straight Line	5-12 Years

Land is an inexhaustible capital asset and is not depreciated.

*Fund Financial Statements*

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

g. Long-Term Liabilities:

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of accrued leave payable, SDRS Pension liability, capital outlay certificates payable, early retirement payable, capital leases and bonds payable.

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

h. Program Revenues:

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

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

i. Proprietary Funds Revenue and Expense Classifications:

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

j. Cash and Cash Equivalents:

The School District pools its cash resources for depositing and investing purposes. Accordingly, the enterprise funds have access to their cash resources on demand. Accordingly, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

k. Equity Classifications

*Government-wide Statements:*

Equity is classified as Net Position and is displayed in three components:

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

*Fund Financial Statements:*

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

I. Application of Net Position:

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

m. Deferred Inflows and Deferred Outflows of Resources:

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

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

n. Fund Balance Classification Policies and Procedures:

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

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Fund Balance may be assigned by the School Board, Superintendent, or Business Manager.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Nonspendable Fund Balance is comprised of the following:

- Amount reported in non-spendable form such as inventory and prepaid expenses.

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

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

A schedule of fund balances is provided as follows:

LENNOX SCHOOL DISTRICT NO. 41-4  
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2017

	General Fund	Capital Outlay Fund	Special Education Fund	Bond Redemption Fund	Total Governmental Funds
<b>Fund Balance:</b>					
<b>Nonspendable:</b>					
Prepaid Items	\$ 120,734.70		\$ 18,606.35		\$ 139,341.05
<b>Restricted for:</b>					
Capital Outlay		954,097.12			954,097.12
Special Education			139,438.53		139,438.53
Debt Service				213,101.21	213,101.21
<b>Assigned for:</b>					
Unemployment	5,178.10				5,178.10
Next Year's Budget	129,765.00				129,765.00
<b>Unassigned:</b>	<u>1,219,031.72</u>				<u>1,219,031.72</u>
<b>Total Fund Balances</b>	<u>\$ 1,474,709.52</u>	<u>\$ 954,097.12</u>	<u>\$ 158,044.88</u>	<u>\$ 213,101.21</u>	<u>\$ 2,799,952.73</u>

**o. Pensions**

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

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

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

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

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

company designated by the political subdivision as its fiscal agent. As of June 30, 2017, the school districts investments consist of certificates of deposit.

As of June 30, 2017, the School District did not have any investments. The investments reported in the financial statements consist of only certificates of deposit.

**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.

**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.

**Concentration of Credit Risk** – The School District places no limit on the amount that may be invested in any one issuer. The school district does not have any investments with an external investment pool as of June 30, 2017.

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

### NOTE 3 - RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year. No allowance for estimated uncollectible accounts has been established, as the District believes all receivables are ultimately collectable.

### NOTE 4 – INVENTORY

Inventory held for consumption is stated at cost.

Inventory for resale is valued 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 in the enterprise fund financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the government fund financial statements, inventories in the General Fund and Special Revenue Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a nonspendable fund balance classification which indicates that they do not

constitute "available spendable resources" even though they are a component of net current assets.

**NOTE 5 - PROPERTY TAXES**

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

School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is not intended to be used to finance the current year's appropriations and therefore are not susceptible to accrual has been reported as deferred 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 "availability period".

**NOTE 6 - CHANGES IN CAPITAL ASSETS**

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

Primary Government	Balance June 30, 2016	Increases	Decrease	Balance June 30, 2017
<b>Governmental Activities:</b>				
<b>Capital Assets, not depreciated:</b>				
Land	\$ 445,534.14	\$	\$	\$ 445,534.14
Construction Work in Process	66,149.14	275,974.50	(342,123.64)	
<b>Total Capital Assets not depreciated</b>	<b>511,683.28</b>	<b>275,974.50</b>	<b>(342,123.64)</b>	<b>445,534.14</b>
<b>Capital Assets,</b>				
Buildings	25,594,451.64			25,594,451.64
Improvements	1,312,321.00	414,658.99		1,726,979.99
Library Books	382,587.93		(5,337.55)	377,250.38
Machinery and Equipment	2,153,849.11	172,297.74	(60,745.00)	2,265,401.85
<b>Total Being Depreciated</b>	<b>29,443,209.68</b>	<b>586,956.73</b>	<b>(66,082.55)</b>	<b>29,964,083.86</b>
<b>Less Accumulated Depreciation:</b>				
Buildings	4,667,243.85	359,191.38		5,026,435.23
Improvements	437,989.03	67,696.38		505,685.41
Library Books	258,477.54	18,862.52		277,340.06
Machinery and Equipment	1,401,460.79	161,318.03	(48,959.71)	1,513,819.11
<b>Total Accumulated Depreciation</b>	<b>6,765,171.21</b>	<b>607,068.31</b>	<b>(48,959.71)</b>	<b>7,323,279.81</b>
<b>Total Capital Assets, Being Depreciated,</b>				
<b>Net</b>	<b>22,678,038.47</b>	<b>(20,111.58)</b>	<b>(17,122.84)</b>	<b>22,640,804.05</b>
<b>Total Governmental Activities Capital</b>				
<b>Assets, Net</b>	<b>\$ 23,189,721.75</b>	<b>\$ 255,862.92</b>	<b>\$ (359,246.48)</b>	<b>\$ 23,086,338.19</b>

\*\*Depreciation Expense was charged to functions as follows:

<b>Governmental Activities:</b>	
Instruction	\$ 323,459.30
Support Services	241,494.65
Co-curricular Activities	42,114.36
<b>Total Depreciation Expense-Governmental Activities</b>	<b>\$ 607,068.31</b>

	Balance 06/30/16	Increases	Decreases	Balance 06/30/17
Business-type Activity				
Business-type Activity Capital Assets, Net				
Capital Assets, Being Depreciated:				
Machinery and Equipment	\$ 367,471.57	\$	\$	\$367,471.57
Less Accumulated Depreciation:				
Machinery and Equipment	<u>230,312.08</u>	<u>24,191.21</u>		<u>254,503.29</u>
Total Business-type Activity Capital Assets, Net	<u>\$ 137,159.49</u>	<u>\$ (24,191.21)</u>	<u>\$</u>	<u>\$ 112,968.28</u>

\*\*Depreciation expense was charged to functions as follows:

Food Service	<u>\$ 24,191.21</u>
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### NOTE 7 - LONG-TERM LIABILITIES

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

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Due within One Year
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
Capital Outlay Certificates	\$ 7,825,000.00	\$	\$ (695,000.00)	\$ 7,130,000.00	\$ 710,000.00
General Obligation Bonds	7,285,000.00		(895,000.00)	6,390,000.00	930,000.00
Notes Payable and Assessments	59,809.07		(29,904.54)	29,904.53	29,904.53
Financing (Capital Acquisition) Leases	208,375.52		(101,680.82)	106,694.70	106,694.70
Early Retirement Payable	241,292.32	120,203.83	(109,147.50)	252,348.65	136,382.06
Compensated Absences	13,088.82	1,025.49	(4,634.28)	9,480.03	4,634.28
Other Post-Employment Benefits	163,179.00	54,347.00	(31,192.00)	186,334.00	
Net Pension Liability		<u>863,664.96</u>		<u>863,664.96</u>	
<b>Total Governmental Activities</b>	<u>\$ 15,795,744.73</u>	<u>\$ 1,039,241.28</u>	<u>\$ (1,866,559.14)</u>	<u>\$ 14,968,426.87</u>	<u>\$ 1,917,615.57</u>

Compensated absences, early retirement benefits and other post-employment benefits typically have been liquidated from the General Fund.

Liabilities payable at June 30, 2017 are comprised of the following:

Governmental Activities:

#### General Obligation Bonds:

Series 2012 General Obligation Refunding Bonds, Final maturity July 2023, Interest rates of .6 to 2.50%, dependent on the length to maturity of the bond. Payments from the High School Bond Redemption Fund.

\$ 6,390,000.00

Capital Outlay Certificates:

Series 2015 Capital Outlay Refunding Certificates. Final maturity in June 2019. Interest rates at .065 to 1.50%, dependent on the length to maturity. Payments from the Capital Outlay Fund. 725,000.00

Series 2010 Capital Outlay Certificates. Final maturity in July 2030. Interest rates at .85 to 6.125%, dependent on the length to maturity. Payments from the Capital Outlay Fund. 3,075,000.00

Series 2014 Capital Outlay Certificates. Final maturity in January 2034. Interest rates at 1.10 to 3.85%, dependent on the length to maturity. Payments from the Capital Outlay Fund. 3,195,000.00

Series 2014 Capital Outlay Refunding Certificates. Final maturity in January 2018. Interest rates at 1.100 to 3.85%, dependent on the length to maturity. Payments from the Capital Outlay Fund. 135,000.00

Early Retirement Benefits:

Retirement benefits payable to participating employees; Semi-annual payments are made from the General Fund. 252,348.65

Compensated Absences:

Vested severance benefits liability to be paid from the General Fund. 9,480.03

Other Post-Employment Benefits

Obligations to individuals who are retired or will retire from the School District and will receive post-employment benefits. Payments are made from the General Fund. 186,334.00

City Assessments

City of Worthing assessment due in annual installments of \$29,904.54 including no interest costs; Final maturity on December 31, 2017; Payments from the Capital Outlay Fund 29,904.53

Capital (Financing) Leases

Dell Financial Services Computer Lease due in annual installments \$111,955.79 including 5% interest costs. Final maturity on August 1, 2018; Payments from the Capital Outlay Fund 106,694.70

SDRS Pension Liability:

Pension Liability (See Note 11) 863,664.96

The purchase price at the commencement of the financing (capital acquisition) lease was:

	<u>Dell Computer Equipment</u>
Principal	\$ 320,331.30
Interest	<u>15,536.07</u>
Total	<u>\$ 335,867.37</u>

The annual debt service requirements to maturity for all debt outstanding, other than compensated absences and other post-employment benefits, as of June 30, 2017 are as follows:

Year Ending June 30,	Capital Outlay Certificates		General Obligation Bonds Payable		Financing (Capital Acquisition) Leases		Early Retirement Benefits	City of Worthing	Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Principal	Principal	Interest
2018	\$ 710,000	\$ 276,456	\$ 930,000	\$ 128,555	\$ 106,695	\$ 5,261	\$ 136,382	\$ 29,904	\$ 1,912,981	\$ 410,272
2019	690,000	263,315	980,000	116,000			75,899		1,745,899	379,315
2020	550,000	379,348	1,025,000	100,320			40,068		1,615,068	479,668
2021	560,000	356,905	1,085,000	80,845					1,645,000	437,750
2022	380,000	200,778	1,155,000	57,518					1,535,000	258,296
2023-27	2,110,000	738,539	1,215,000	30,375					3,325,000	768,914
2028-32	1,635,000	255,098							1,635,000	255,098
2033-37	495,000	28,682							495,000	28,682
	<u>\$ 7,130,000</u>	<u>\$ 2,499,121</u>	<u>\$ 6,390,000</u>	<u>\$ 513,613</u>	<u>\$ 106,695</u>	<u>\$ 5,261</u>	<u>\$ 252,349</u>	<u>\$ 29,904</u>	<u>\$ 13,908,948</u>	<u>\$ 3,017,995</u>

#### NOTE 8 - POSTEMPLOYMENT HEALTHCARE PLAN

*Plan Description:* Lennox School District has a single-employer defined benefit medical plan administered by the Sanford Health Plan. The plan provides medical and prescription drug insurance benefits to eligible retirees and their spouses. After eligibility for retiree benefits is established, retirees must pay premiums until they are eligible for Medicare. SDCL 6-1-16 specifically allows any school district to provide health insurance for retiring employees and their immediate families. The liability exists because of an implicit subsidy of costs of the benefits to retirees of the district. The Sanford Health Plan issues a publicly available actuarial report that includes required supplementary information. That report may be obtained by writing to the Lennox School District, P.O. Box 38, Lennox, SD 57039 or by calling 1 (605) 647-2202.

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

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

Annual required contribution	\$ 57,535
Interest on net OPEB obligation	4,895
Adjustment to annual required contribution	(8,083)
Annual OPEB cost (expense)	<u>54,347</u>
Contributions made	<u>(31,192)</u>
Increase in net OPEB obligation	23,155
Net OPEB obligation - beginning of year	163,179
Net OPEB obligation - end of year	<u>\$ 186,334</u>

The school district's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the preceding two years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
06/30/15	52,833	75.7%	147,105
06/30/16	53,606	70.0%	163,179
06/30/17	54,347	57.4%	186,334

*Funded Status and Funding Progress:* As of June 30, 2015, the most recent actuarial valuation date, the plan was 0 percent funded. The actuarial accrued liability for benefits was \$430,055 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$430,055.

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

*Actuarial Methods and Assumptions:* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2015, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 3.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 5.8 percent initially, reduced by decrements to an ultimate rate of 5.5 percent after ten years. Both rates included a 2.0 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2015, was fourteen years.

**NOTE 9 - RESTRICTED NET POSITION**

The following table shows the net position restricted as shown on the Statement of Net Position:

<u>Major Purposes:</u>	<u>Restricted By:</u>	<u>Amount:</u>
Capital Outlay Purposes	Law	\$ 864,001.96
Special Education Purposes	Law	165,256.46
Debt Service Purposes	Debt Covenants	223,295.37
SDRS Pension Purposes	Law	1,243,255.98
Total Restricted Net Position:		<u>\$ 2,495,809.77</u>

**NOTE 10 - INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2017 were as follows:

<u>Transfer From:</u>	<u>Transfers to:</u>
	<u>General Fund</u>
Capital Outlay Fund	\$ 1,857.89
Special Education Fund	717.89
Pension Fund	111,407.21
High School Bond Redemption Fund	2,557.23
OST/Preschool Fund	1,163.38
	<u>\$ 117,703.60</u>

The School District typically uses transfers to transfer earnings on deposits and investments to the General Fund from the other funds.

The School District transferred the remaining fund balance in Pension Fund to General Fund per pending legislation.

**NOTE 11 - PENSION PLAN**

**Plan Information:**

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

**Benefits Provided:**

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B

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

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

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

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

**Contributions:**

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2017, 2016, and 2015 were \$326,194.41, \$291,706.47, and \$278,810.30, 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 June 30, 2017 are as follows:

Proportionate share of pension liability	\$ 27,744,579.55
Less proportionate share of net pension restricted for pension benefits	26,880,914.59
Proportionate share of net pension liability	\$ 863,664.96

At June 30, 2016, the School District reported a liability of \$863,664.96 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was based on a projection of the School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2016, the School District's proportion was .25568090%, which is an increase of .0011598% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the School District recognized pension expense of \$280,581.91. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 300,660.92	\$
Changes in assumption	517,294.38	
Net difference between projected and actual earnings on pension plan investments	960,687.35	
Changes in proportion and difference between District contributions and proportionate share of contributions	6,384.93	4,301.05
District contributions subsequent to the measurement date	326,194.41	
<b>TOTAL</b>	<b>\$ 2,111,221.99</b>	<b>\$ 4,301.05</b>

\$2,111,221.99 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	\$ 479,935.27
2019	290,312.65
2020	608,307.62
2021	400,087.11
<b>TOTAL</b>	<b>\$ 1,778,642.65</b>

**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 2016 and 7.50 percent thereafter, net of pension plan investment expense

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

The actuarial assumptions used in the June 30, 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, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.5%
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 employee contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

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

The following presents the School District's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2017 and 7.50 percent thereafter, as well as what the School's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net pension liability (asset)	\$ 4,833,057.63	\$ 863,664.96	\$ (2,373,801.05)

**Pension Plan Fiduciary Net Position:**

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

**NOTE 12 - JOINT VENTURES**

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

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

Lennox	19.3%
Brandon Valley	56.1%
West Central	24.6%

The co-op's governing board is composed of one representative from each member school district, who is also 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.

At June 30, 2017, this joint venture had total assets of \$2,151,747.73, total liabilities of \$22,006.01, and net position of \$2,129,741.72 in the General and Special Education Funds.

#### NOTE 13 - RISK MANAGEMENT

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

##### Employee Health Insurance:

The School District joined the Northern Plains Insurance Pool. This is a risk pool currently operating as a common risk management and insurance program for local government entities. The school District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases coverage from either Sanford Health Plan or DAKOTACARE Administrative Services with the premiums it receives from the members.

The coverage includes the option of three different plans with a deductible from \$750.00 to \$2,500.00.

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

##### Liability Insurance

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

##### Worker's Compensation

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

##### Unemployment Benefits

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

The school district has assigned equity in the General Fund in the amount of \$5,178.10 for the payment of future unemployment benefits.

During the year ended June 30, 2017, one claim for unemployment benefits in the amount of \$2,550.00 was paid. At June 30, 2017, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

#### NOTE 14 - EARLY RETIREMENT PLAN

The district maintains an early retirement plan for certified teachers and administrators. The plan is available to employees who choose early retirement between the ages of 54 and 61 for teachers or 55 and 64 for administrators and have at least fifteen years of continuous service with the district. Under the plan, the district will pay 80% of the current salary contract. Such amounts are payable in six equal installments, spread over the next three years following retirement. The district uses the expected future benefit payment amounts as the method for disclosure. During fiscal year 2017, 11 employees participated in the early retirement plan. The amount paid for such benefits during the year was \$109,147.50.

#### NOTE 15 - SIGNIFICANT CONTINGENCIES - LITIGATION

At June 30, 2017, the School District was not involved in any litigation.

**REQUIRED SUPPLEMENTARY INFORMATION  
LENNOX SCHOOL DISTRICT NO. 41-4  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative)
<b>Revenues:</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 2,171,695.00	\$ 2,171,695.00	\$ 2,191,474.29	\$ 19,779.29
Prior Years' Ad Valorem Taxes	20,000.00	20,000.00	22,556.28	2,556.28
Utility Taxes	448,000.00	448,000.00	430,743.64	(17,256.36)
Penalties and Interest on Taxes	10,000.00	10,000.00	7,661.33	(2,338.67)
Earnings on Investments and Deposits	12,000.00	12,000.00	7,255.50	(4,744.50)
Cocurricular Activities:				
Admissions	41,700.00	41,700.00	42,857.00	1,157.00
Rentals	500.00	500.00	280.00	(220.00)
Other Pupil Activity Income	5,100.00	5,100.00	15,140.53	10,040.53
Other Revenue from Local Sources:				
Rentals	1,000.00	1,000.00	3,487.00	2,487.00
Contributions and Donations		1,125.43	1,875.43	750.00
Charges for Services	11,000.00	11,000.00	9,473.86	(1,526.14)
Other Local Revenue	16,000.00	21,339.58	25,165.53	3,825.95
Revenue from Intermediate Sources:				
County Sources:				
County Apportionment	35,000.00	35,000.00	43,091.45	8,091.45
Revenue from State Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	3,632,966.00	3,632,966.00	3,670,202.93	37,236.93
Restricted Grants-in-Aid		4,050.00	4,050.00	
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government Through the State	135,485.00	135,485.00	134,982.00	(503.00)
<b>Total Revenue</b>	<u>6,540,446.00</u>	<u>6,550,961.01</u>	<u>6,610,296.77</u>	<u>59,335.76</u>
<b>Expenditures:</b>				
Instruction:				
Regular Programs:				
Elementary	1,892,553.00	1,993,798.58	1,946,335.26	47,463.32
Middle/Junior High	468,805.00	496,146.00	543,633.96	(47,487.96)
High School	994,785.00	1,026,786.02	1,026,242.06	543.96
Special Programs:				
Educationally Deprived	96,532.00	96,532.00	96,028.74	503.26
Support Services:				
Pupils:				
Guidance	189,610.00	190,521.00	190,520.83	0.17
Health	52,950.00	54,746.00	54,745.09	0.91

**REQUIRED SUPPLEMENTARY INFORMATION**  
**LENNOX SCHOOL DISTRICT NO. 41-4**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Support Services - Instructional Staff:				
Improvement of Instruction	59,842.00	65,017.43	61,801.54	3,215.89
Educational Media	278,335.00	278,335.00	267,216.61	11,118.39
Support Services - General Administration:				
Board of Education	56,628.00	58,501.00	55,938.12	2,562.88
Executive Administration	140,840.00	140,840.00	138,229.58	2,610.42
Support Services - School Administration:				
Office of the Principal	541,700.00	543,252.00	543,251.78	0.22
Other	1,000.00	1,000.00	630.14	369.86
Support Services - Business:				
Fiscal Services	189,431.00	189,431.00	184,936.98	4,494.02
Operation and Maintenance of Plant	1,001,455.00	1,001,455.00	977,330.18	24,124.82
Pupil Transportation	393,090.00	393,090.00	343,115.37	49,974.63
Support Services - Central:				
Information	720.00	720.00	720.00	
Staff	5,975.00	5,975.00	4,270.85	1,704.15
Nonprogrammed Charges:				
Payments to State - Unemployment	2,500.00	2,550.00	2,550.00	
Early Retirement Payments	113,782.00	113,782.00	113,781.78	0.22
Cocurricular Activities:				
Male Activities	68,880.00	68,880.00	65,866.12	3,013.88
Female Activities	46,153.00	52,523.00	52,522.49	0.51
Transportation	21,357.00	21,357.00	20,181.51	1,175.49
Combined Activities	173,523.00	173,523.00	172,989.70	533.30
<b>Total Expenditures</b>	<u>6,790,446.00</u>	<u>6,968,761.03</u>	<u>6,862,838.69</u>	<u>105,922.34</u>
Excess of Revenue Over (Under) Expenditures	<u>(250,000.00)</u>	<u>(417,800.02)</u>	<u>(252,541.92)</u>	<u>165,258.10</u>
Other Financing Sources:				
Transfer In		111,026.02	117,703.60	6,677.58
Sale of Surplus Property			2,566.65	2,566.65
Compensation for Loss on General Capital Assets			3,729.63	3,729.63
<b>Total Other Financing Sources (Uses)</b>		<u>111,026.02</u>	<u>123,999.88</u>	<u>12,973.86</u>
<b>Net Change in Fund Balances</b>	<u>(250,000.00)</u>	<u>(306,774.00)</u>	<u>(128,542.04)</u>	<u>178,231.96</u>
Fund Balance - Beginning	1,603,251.56	1,603,251.56	1,603,251.56	
<b>FUND BALANCE - ENDING</b>	<u>\$ 1,353,251.56</u>	<u>\$ 1,296,477.56</u>	<u>\$ 1,474,709.52</u>	<u>\$ 178,231.96</u>

**REQUIRED SUPPLEMENTARY INFORMATION  
LENNOX SCHOOL DISTRICT NO. 41-4  
BUDGETARY COMPARISON SCHEDULE-BUDGETARY BASIS  
CAPITAL OUTLAY FUND  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
<b>Revenues:</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 2,002,023.00	\$ 2,002,023.00	\$ 1,881,041.67	\$ (120,981.33)
Prior Years' Ad Valorem Taxes	3,000.00	3,000.00	17,899.59	14,899.59
Penalties and Interest on Taxes	2,000.00	2,000.00	4,181.41	2,181.41
Investment Earnings			1,857.89	1,857.89
Other Revenue from Local Sources:				
Contributions and Donations	35,000.00	35,000.00	68,490.73	33,490.73
Other Federal Revenue	55,000.00	102,383.89	102,939.05	555.16
<b>Total Revenue</b>	<u>2,097,023.00</u>	<u>2,144,406.89</u>	<u>2,076,410.34</u>	<u>(67,996.55)</u>
<b>Expenditures:</b>				
Instruction:				
Regular Programs:				
Elementary	101,702.00	126,103.00	126,101.68	1.32
Middle School	22,369.00	22,369.00	18,648.21	3,720.79
High School	70,533.00	111,392.98	111,392.13	0.85
Support Services:				
Pupils:				
Health	500.00	500.00	474.90	25.10
Support Services - Instructional Staff:				
Educational Media	45,933.00	45,933.00	16,158.59	29,774.41
Support Services - General Administration:				
Executive Administration	1,000.00	1,000.00	262.97	737.03
Support Services - Business:				
Fiscal Services	2,200.00	2,200.00	1,691.28	508.72
Operation and Maintenance of Plant	617,181.00	637,844.91	475,093.36	162,751.55
Pupil Transportation	82,300.00	82,300.00	81,307.98	992.02
Debt Service	1,128,205.00	1,128,205.00	1,127,502.83	702.17
Cocurricular Activities:				
Male Activities	8,500.00	8,500.00	5,242.60	3,257.40
Female Activities	2,000.00	4,815.00	4,814.86	0.14
Combined Activities	14,600.00	14,600.00	12,359.85	2,240.15
<b>Total Expenditures</b>	<u>2,097,023.00</u>	<u>2,185,762.89</u>	<u>1,981,051.24</u>	<u>204,711.65</u>
<b>Excess Over (Under) Expenditure</b>		<u>(41,356.00)</u>	<u>95,359.10</u>	<u>136,715.10</u>
<b>Other Financing Sources (Uses):</b>				
Transfers Out				
Sale of Surplus Property	74,475.00	74,475.00	(1,857.89)	(1,857.89)
Compensation for Loss of Capital Asset				(74,475.00)
<b>Total Other Financing Sources (Uses)</b>	<u>74,475.00</u>	<u>74,475.00</u>	<u>(1,857.89)</u>	<u>(76,332.89)</u>
<b>Net Change in Fund Balance</b>	74,475.00	33,119.00	93,501.21	60,382.21
<b>Fund Balance - Beginning</b>	<u>860,595.91</u>	<u>860,595.91</u>	<u>860,595.91</u>	
<b>FUND BALANCE - ENDING</b>	<u>\$ 935,070.91</u>	<u>\$ 893,714.91</u>	<u>\$ 954,097.12</u>	<u>\$ 60,382.21</u>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**LENNOX SCHOOL DISTRICT NO. 41-4**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**SPECIAL EDUCATION FUND**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
<b>Revenues:</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 869,575.00	\$ 869,575.00	\$ 880,166.29	\$ 10,591.29
Prior Years' Ad Valorem Taxes	4,000.00	4,000.00	7,244.06	3,244.06
Penalties and Interest on Taxes	1,500.00	1,500.00	1,730.65	230.65
Investment Earnings			717.89	717.89
Other Revenue from Local Sources:				
Charges for Services	18,800.00	18,800.00	24,232.44	5,432.44
Revenue from State Sources:				
Restricted Grant in Aid	278,288.00	355,630.00	391,507.00	35,877.00
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government through State	<u>219,648.00</u>	<u>219,648.00</u>	<u>221,900.00</u>	<u>2,252.00</u>
<b>Total Revenue</b>	<u><b>1,391,811.00</b></u>	<u><b>1,469,153.00</b></u>	<u><b>1,527,498.33</b></u>	<u><b>58,345.33</b></u>
<b>Expenditures:</b>				
Special Programs:				
Programs for Special Education	1,119,718.00	1,127,025.00	1,052,581.51	74,443.49
Support Services:				
Pupils:				
Psychological	75,690.00	75,690.00	71,903.48	3,786.52
Speech Pathology	157,710.00	157,710.00	147,240.43	10,469.57
Student Therapy Services	77,330.00	82,703.00	82,702.05	0.95
Support Services - Special Education:				
Administrative Costs	124,360.00	124,360.00	118,079.97	6,280.03
Transportation Costs	25,654.00	30,598.00	30,598.03	(0.03)
Other Special Education Costs		<u>77,342.00</u>	<u>77,341.24</u>	<u>0.76</u>
<b>Total Expenditures</b>	<u><b>1,580,462.00</b></u>	<u><b>1,675,428.00</b></u>	<u><b>1,580,446.71</b></u>	<u><b>94,980.53</b></u>
Excess of Revenue Over (Under) Expenditures	(188,651.00)	(206,275.00)	(52,948.38)	153,326.62
Other Financing Sources (Uses):				
Transfers Out			<u>(717.89)</u>	<u>(717.89)</u>
<b>Net Change in Fund Balance</b>	<u><b>(188,651.00)</b></u>	<u><b>(206,275.00)</b></u>	<u><b>(53,666.27)</b></u>	<u><b>152,608.73</b></u>
Fund Balance - Beginning	<u>211,711.15</u>	<u>211,711.15</u>	<u>211,711.15</u>	
<b>FUND BALANCE - ENDING</b>	<u><b>\$ 23,060.15</b></u>	<u><b>\$ 5,436.15</b></u>	<u><b>\$ 158,044.88</b></u>	<u><b>\$ 152,608.73</b></u>

**REQUIRED SUPPLEMENTARY INFORMATION  
 LENNOX SCHOOL DISTRICT NO. 41-4  
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
 PENSION FUND  
 FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
<b>Revenues:</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$83,505.00	\$ 83,505.00	\$ 79,120.44	\$ (4,384.56)
Prior Year Taxes			1,547.17	1,547.17
Penalties and Interest on Taxes			358.41	358.41
Earnings on Investments and Deposits			381.19	381.19
<b>Total Revenue</b>	<u>83,505.00</u>	<u>83,505.00</u>	<u>81,407.21</u>	<u>(2,097.79)</u>
<b>Expenditures:</b>				
Instruction:				
Regular Programs:				
Elementary	65,000.00	65,000.00		65,000.00
Middle/Junior High	20,000.00	20,000.00		20,000.00
High School	28,505.00	28,505.00		28,505.00
<b>Total Expenditures</b>	<u>113,505.00</u>	<u>113,505.00</u>		<u>113,505.00</u>
Excess of Revenue Over (Under)				
Expenditures	0.00	(30,000.00)	81,407.21	111,407.21
Other Financing Sources (Uses):				
Transfers Out			(111,407.21)	(111,407.21)
<b>Net Change in Fund Balances</b>	0.00	(30,000.00)	(30,000.00)	0.00
Fund Balance - Beginning	<u>30,000.00</u>	<u>30,000.00</u>	<u>30,000.00</u>	
<b>FUND BALANCE - ENDING</b>	<u>\$30,000.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**LENNOX SCHOOL DISTRICT NO. 41-4**  
**SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS**  
**JUNE 30, 2017**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AL) - Unit Credit (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
06/30/09	\$ 0.00	\$ 312,381	\$ 312,381	0.0%	\$ 3,358,357	9.3%
06/30/12	0.00	494,325	494,325	0.0%	2,893,154	17.1%
06/30/15	0.00	430,055	430,055	0.0%	2,295,259	18.7%

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>
District's proportion of the net pension liability (asset)	0.2573053%	0.2545211%	0.2556809%
District's proportionate share of net pension liability (asset)	\$ (1,853,779)	\$ (1,079,497)	\$ 863,665
District's covered-employee payroll	\$ 4,499,832	\$ 4,646,787	\$ 4,861,766
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-41.20%	-23.23%	17.76%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107.30%	104.10%	96.89%

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

**Schedule of Required Supplementary Information**  
**LENNOX SCHOOL DISTRICT**  
**SCHEDULE OF THE SCHOOL DISTRICT CONTRIBUTIONS**  
**South Dakota Retirement System**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contribution	<u>\$ 269,974</u>	<u>\$ 278,810</u>	<u>\$ 291,706</u>	<u>\$ 326,194</u>
Contributions in relation to the contractually required contribution	<u>\$ 269,974</u>	<u>\$ 278,810</u>	<u>\$ 291,706</u>	<u>\$ 326,194</u>
Contribution deficiency (excess)	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>
District's covered-employee payroll	\$4,499,832	\$4,646,832	\$4,861,766	\$5,436,565
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.00%

LENNOX SCHOOL DISTRICT NO. 41-4  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
Schedules of Budgetary Comparisons for the General Fund  
and for each major Special Revenue Fund with a legally required budget

**NOTE 1 – BUDGET AND BUDGETARY ACCOUNTING**

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

1. Prior to the first regular board meeting in May of each year the board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the board must approve the budget for the ensuing fiscal year for each fund, except fiduciary funds.
6. After adoption by the board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total School District budget and may be transferred by resolution of the board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
8. If it is determined, during the year, that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and each major special revenue fund.
11. Budgets for the General Fund and each major special revenue fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

**NOTE 2 – GAAP/BUDGETARY ACCOUNTING BASIS DIFFERENCES**

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

# QUAM, BERGLIN & POST, P.C.

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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

School Board  
Lennox School District No. 41-4  
Lincoln County, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lennox School District No. 41-4, Lincoln County, South Dakota, as of June 30, 2017 and for the year then ended, and the related notes to the financial statements, which collectively comprise Lennox School District's basic financial statements and have issued our report thereon dated December 19, 2017.

### Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Current Audit Findings that we consider to be significant deficiencies. We consider the deficiency described in the accompanying Schedule of Current Audit Findings as item 2017-001 to be a significant deficiency.

## Compliance and Other Matters

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

## School District's Response to Findings

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

## Purpose of this Report

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



Quam, Berglin & Post, P.C.  
Certified Public Accountants  
Elk Point, SD

December 19, 2017

**LENNOX SCHOOL DISTRICT NO. 41-4  
SCHEDULE OF CURRENT AUDIT FINDINGS  
JUNE 30, 2017**

**PRIOR AUDIT FINDING:**

**Audit Finding Number 2016-001:**

A significant deficiency was reported for a lack of segregation of duties for revenues, expenditures, and payroll. This comment results from the size of the district, which precludes staffing at a level sufficient to provide an ideal environment for internal control. This finding has not been corrected and is restated as a significant deficiency under current audit finding number 2017-001.

**CURRENT AUDIT FINDING:**

***Internal Control-Related Findings-Significant Deficiency:***

**Audit Finding Number 2017-001:**

There is a significant deficiency resulting from lack of segregation of duties for revenues, expenditures, and payroll.

**Criteria:**

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

**Condition, Cause and Effect:**

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

**Recommendation:**

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

**Corrective Action Plan:**

Angela Arlt, Business Manager for Lennox School District No. 41-4, is the contact person responsible for the corrective action plan for this comment. The Board of Directors is aware of this problem, which is a result of the size of the entity and precludes staffing at a level sufficient to provide an ideal environment for internal controls. The Board of Directors has prepared a response to this finding, shown on page 60.



# Lennox School District 41-4

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Serving the communities of Chancellor, Lennox and Worthing, South Dakota

**Chad Conaway**  
Superintendent

**Angela Arlt**  
Business Manager

**Chad Allison**  
Principal  
Lennox Junior High  
Lennox High School

**Darin Eich**  
Principal  
Lennox Elementary  
LWC Intermediate

**Becky Kuyper**  
Asst. Principal  
Lennox Elementary  
LWC Intermediate

**Dr. Kym Johnston**  
Principal  
Worthing Elementary  
Curriculum Director

**Laura Welch**  
Director of Student  
Services

**Dan DeVries**  
Dean of Students  
Activities Director

## CORRECTIVE PLAN OF ACTION FOR THE YEAR ENDED JUNE 30, 2017

Lennox School District No. 41-4 has considered the lack of segregation of duties for the revenues, expenditures and payroll functions. At this time it is not cost effective for Lennox School District to hire the additional staff needed to achieve segregation of duties. The following alternate procedures have been implemented by Lennox School District to decrease the likelihood that financial data is adversely affected:

- Members of the school board will review bank reconciliations, a new vendor's list, and the credit card statements on a quarterly basis.

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

  
Business Manager

  
Superintendent

Every School...Every Student...Every Day

The Lennox School District 41-4 does not discriminate in its employment policies and practices, or in its educational programs on the basis of race, color, national origin, gender, disability, age, religion, creed, or marital status.