

LENNOX SCHOOL DISTRICT NO. 41- 4

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

JUNE 30, 2016

LENNOX SCHOOL DISTRICT NO. 41-4
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2015

School Board

Alan Rops

Mary Peters

Renae Buehner

Merris Miller

Nancy Nelson

Sandy Poppenga

Dawn Wolf

Business Manager

Angela Arlt

Superintendent

Kirk Easton

LENNOX SCHOOL DISTRICT NO. 41-4
TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
BASIC FINANCIAL STATEMENTS:	
Management's Discussion and Analysis	3
Government-Wide Financial Statements:	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities	21
Statement of Net Position – Proprietary Funds	22
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	23
Statement of Cash Flows – Proprietary Funds	24
Statement of Net Position – Fiduciary Funds	25
Statement of Changes in Net Position - Fiduciary Funds	26
Notes to the Financial Statements	27
Required Supplementary Information:	
Budgetary Comparison Schedules- Budgetary Basis:	
General Fund	48
Capital Outlay Fund	50
Special Education Fund	51
Pension Fund	52
Schedule of Funding Progress for Other Post-Employment Benefits	53
Schedule of the Proportionate Share of the Net Pension Liability (Asset)	54
Schedule of the School District Contributions	55
Notes to the Required Supplementary Information	56
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 <i>Government Auditing Standards</i>	57
Schedule of Current Audit Findings	59
Corrective Action Plan	60

QUAM, BERGLIN & POST, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
110 WEST MAIN – P.O. BOX 426
ELK POINT, SOUTH DAKOTA 57025

(605) 356-3374

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, 2016 and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The 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, 2016, and the respective changes in financial position and, where applicable cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 2, 2016, 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 2, 2016

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, 2016. 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 \$899,534 more than the \$10,418,234 governmental and business-type program expenditures.
- The total cost of the District's programs increased by 14%. This occurred primarily due a \$1,200 increase in teacher salaries and a 2.25% increase to classified staff salaries, along with the related increase to benefits and a 5.75% increase in the District's health insurance contribution. Additionally, the district hired another 4 teachers for the 2015-2016 school year.
- The school district did not apply for extra-ordinary cost funds for the special education fund.
- For FY 2016, the school district balanced their general fund budget with \$311,100 of fund balance in order to provide returning staff with salary and benefit increases and to hire additional staff. The general fund actually ended the year with a \$105,384 use of fund balance and an ending fund balance of \$1,603,252. The District was able to decrease their planned deficit due to increased revenue and a decrease in utilities and Workman's Compensation Costs.
- The food service fund's net loss was \$1,626 of which \$24,264 was depreciation expense which is a non-cash expense. Sales to students remained fairly steady. 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 increased due to an increase in purchased food for a la carte items. Our free/reduced percentage decreased from 16% in FY 2016 to 14% FY 2017.

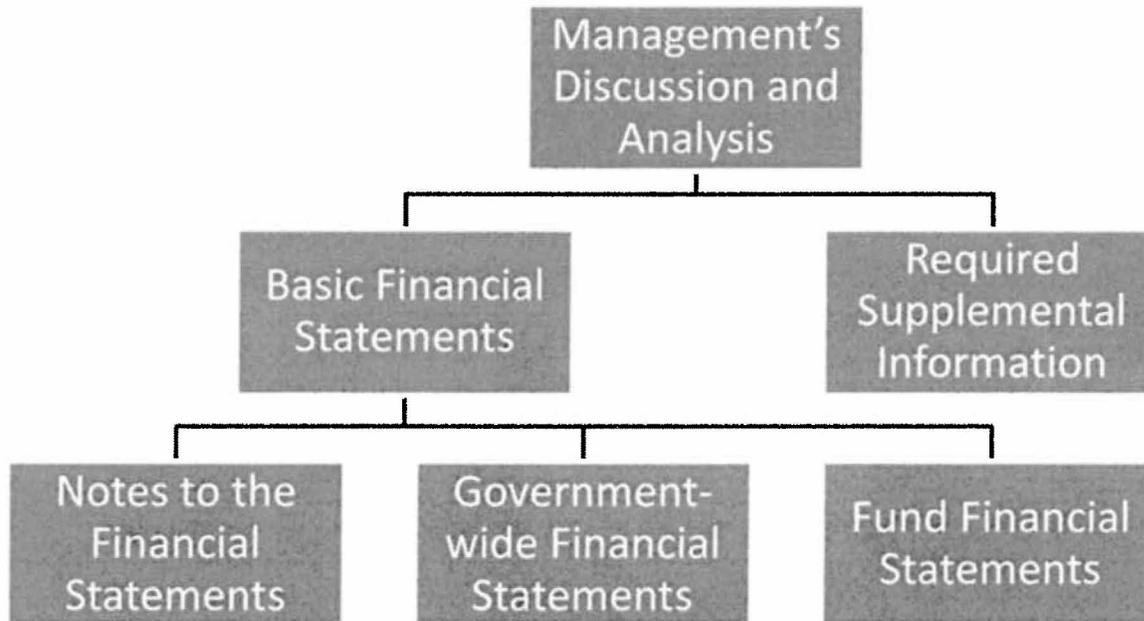
OVERVIEW OF THE FINANCIAL STATEMENTS

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	Governmental Funds	Fund Statements 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	8,311,319	7,649,413	351,535	406,164	8,662,855	8,055,577
Capital Assets	23,610,955	23,189,722	160,271	137,159	23,771,226	23,326,881
Total Assets	<u>31,922,275</u>	<u>30,839,135</u>	<u>511,806</u>	<u>543,323</u>	<u>32,434,081</u>	<u>31,382,458</u>
Deferred Outflows of Resources						
Pension Related Deferred Outflows	1,645,757	2,037,159			1,645,757	2,037,159
Deferred Charge on Refunding	20,000	15,000			20,000	15,000
Total Deferred Outflows of Resources	<u>1,665,757</u>	<u>2,052,159</u>			<u>1,665,757</u>	<u>2,052,159</u>
Total Assets and Deferred Outflows of Resources	<u>33,588,032</u>	<u>32,891,294</u>			<u>34,099,838</u>	<u>33,434,618</u>
Long-Term Debt Outstanding	17,072,431	15,795,745			17,072,431	15,795,745
Other Liabilities	757,450	854,356	35,808	40,785	793,259	895,141
Total Liabilities	<u>17,829,881</u>	<u>16,650,101</u>	<u>35,808</u>	<u>40,785</u>	<u>17,865,689</u>	<u>16,690,886</u>
Deferred Inflows of Resources						
Taxes Levied for Future Period	2,580,398	2,744,628			2,580,398	2,744,628
Pension Related Deferred Inflows	2,146,989	1,592,818			2,146,989	1,592,818
Total Deferred Inflows of Resources	<u>4,727,387</u>	<u>4,337,446</u>			<u>4,727,387</u>	<u>4,337,446</u>
Net Position:						
Net Investment in						
Capital Assets	7,496,942	8,495,613	160,271	137,159	7,657,212	8,632,772
Restricted	2,734,321	2,652,240			2,734,321	2,652,240
Unrestricted	799,501	755,894	315,717	365,379	1,115,218	1,121,274
Total Net Position	<u>11,030,764</u>	<u>11,903,747</u>	<u>475,988</u>	<u>502,539</u>	<u>11,506,751</u>	<u>12,406,286</u>
Beginning Net Position	8,306,254	11,030,764	451,675	475,988	8,757,929	11,506,751
Prior Period Adjustment	995,434	-			995,434	-
Beginning Adjusted Net Position	<u>9,301,688</u>	<u>11,030,764</u>			<u>9,753,363</u>	<u>11,506,751</u>
Increase (Decrease) in Net Position	<u>1,729,076</u>	<u>872,984</u>	<u>24,313</u>	<u>26,551</u>	<u>1,753,388</u>	<u>899,534</u>
Percentage of Increase (Decrease) in Net Position for 2015 and 2016.	<u>21%</u>	<u>8%</u>	<u>5%</u>	<u>6%</u>	<u>20%</u>	<u>8%</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 8% for governmental activities as a result of these changes. Net position for business-type activities increased by 6% due to an increase in A la Carte sales in the Food Service Fund.

Changes in Net Position

The School's total revenues (excluding special items) totaled \$11,318,392. (See Table 1) Approximately 56% of the School's revenue comes from property and other taxes, with another 31% 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)

Changes in Net Position

	Governmental		Business-Type		Total		% Change 2015-2016
	Activities		Activities				
	2015	2016	2015	2016	2015	2016	
Revenues							
Program Revenues							
Charges for Services	\$ 159,188	\$ 156,276	\$ 597,730	\$ 650,862	\$ 756,919	\$ 807,138	7%
Operating Grants and Contributions	561,858	571,803	171,459	154,443	733,317	726,245	-1%
Capital Grants and Contributions	97,248	114,370			97,248	114,370	18%
General Revenues							
Taxes	5,991,937	6,294,709			5,991,937	6,294,709	5%
Revenue State Sources	3,230,408	3,210,700	1,500		3,231,908	3,210,700	-1%
Unrestricted Investment Earnings	17,986	14,635	1,494	1,727	19,480	16,362	-16%
Other General Revenues	36,609	148,867			36,609	148,867	307%
Total Revenues	10,095,234	10,511,360	772,184	807,032	10,867,417	11,318,392	4%
Expenses							
Instruction	\$ 3,942,975	\$ 5,044,843			\$ 3,942,975	\$ 5,044,843	28%
Support Services	3,400,549	3,639,016			3,400,549	3,639,016	7%
Nonprogrammed Charges	182,279	112,126			182,279	112,126	-38%
Debt Service	451,586	478,128			451,586	478,128	6%
Cocurricular Activities	356,711	363,472			356,711	363,472	2%
Out of School Time			\$ 234,874	\$ 235,004	234,874	235,004	0%
Food Service			533,822	545,644	533,822	545,644	2%
Total Expenses	8,334,099	9,637,585	768,695	780,648	9,102,795	10,418,234	14%
Excess (Deficiency) Before							
Special Items and Transfers	1,761,134	873,775	3,488	26,383	1,764,622	900,158	-49%
Loss on Disposal of Capital Assets	(8,042)		(3,192)	(624)	(11,234)	(624)	
Transfers	(24,016)	(791)	24,016	791			
Increase (Decrease) in Net Position	\$ 1,729,076	\$ 872,983	\$ 24,313	\$ 26,551	\$ 1,753,388	\$ 899,534	-49%

Chart 1
Lennox School District 41-4
Sources of Revenue for Fiscal Year 2016

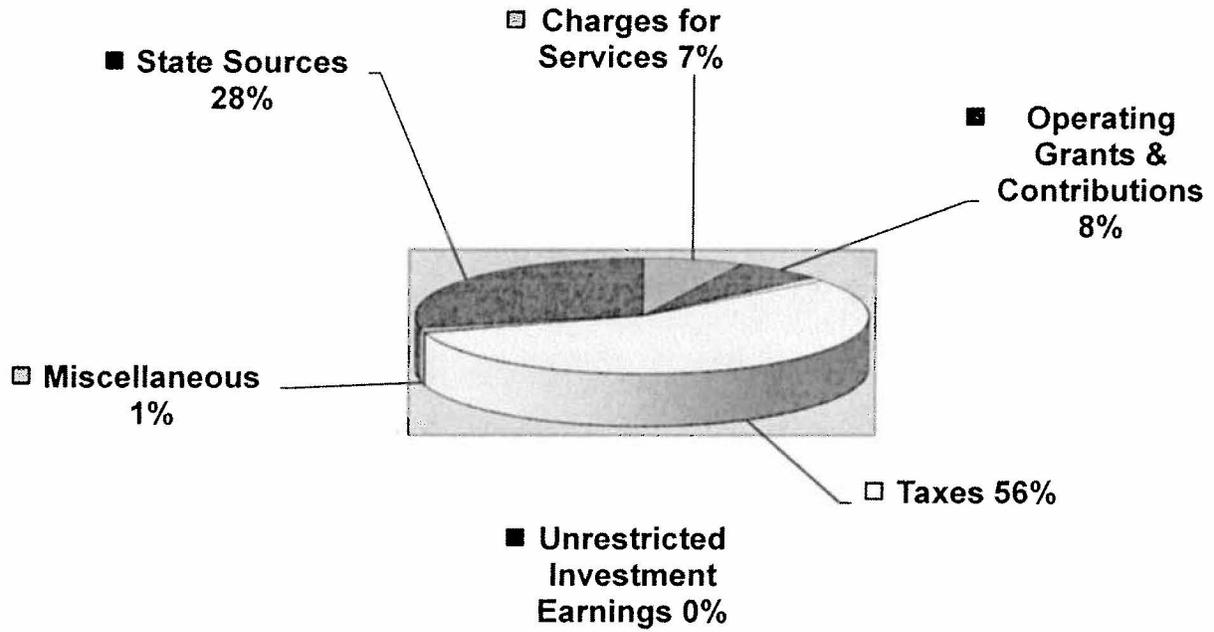
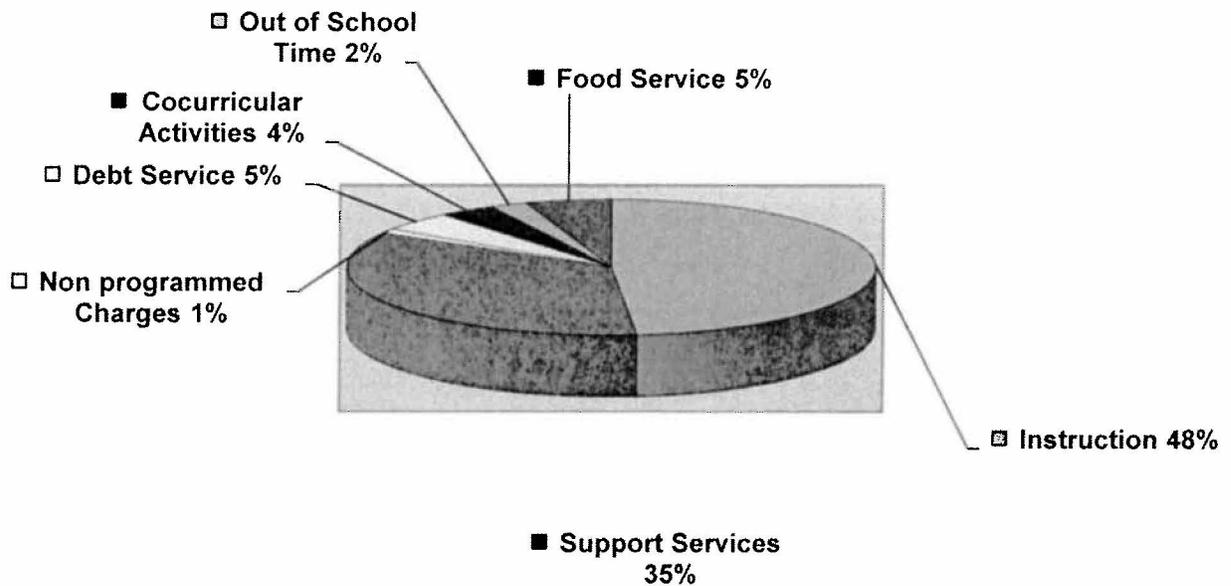


Chart 2
Lennox School District 41-4
Functional Expenses for Fiscal Year 2016



GOVERNMENTAL ACTIVITIES

Revenues for the governmental activities increased by approximately 4.1% due primarily to an increase in taxes paid because of the increase in school district property valuation. Expenses increased by 15.6% due largely to an increase to salaries and benefits, as well as hiring additional staff. Additionally, there was an increase in out-of-district placements in the Special Education Fund.

BUSINESS-TYPE ACTIVITIES

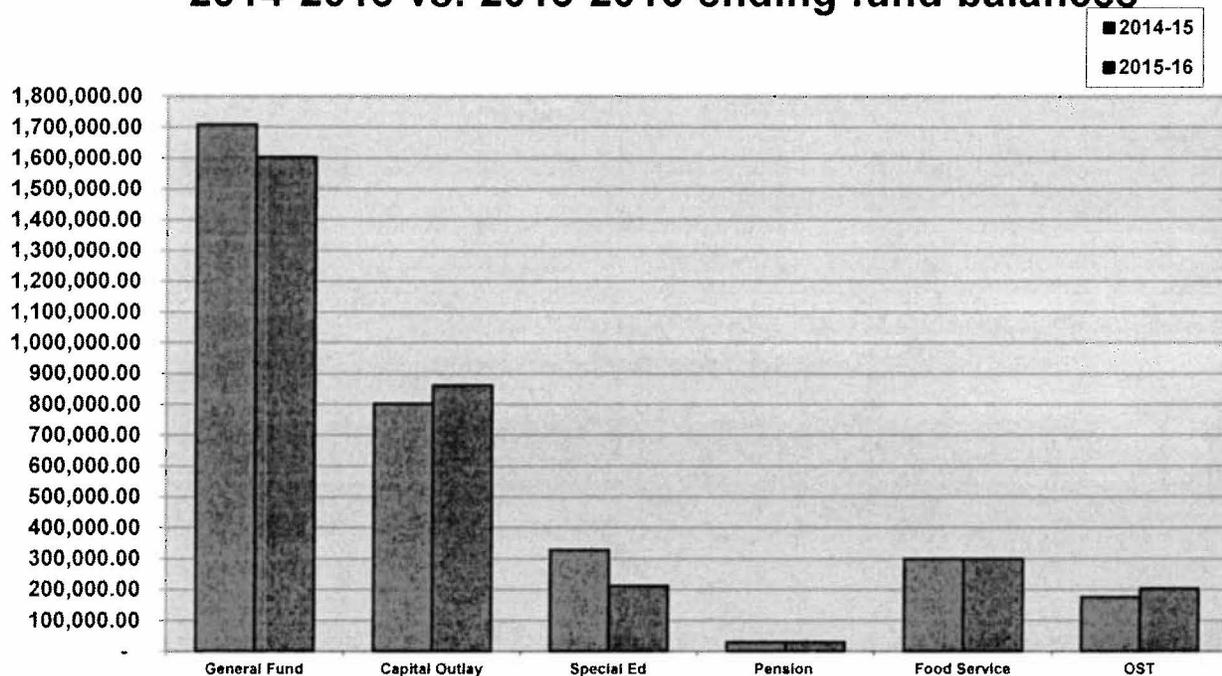
The School's food service fund revenues increased by 10.6% and expenses increased by 2.2%. The OST/Preschool program revenue increased by 6.4% and their expenses remained steady. Factors contributing to these results included:

- Food Service revenue increased due to an increase in A la Carte sales. This increase came about with a better understanding of the new Federal Guidelines requiring healthier choices and the introduction of new a la carte items. The increase in expenses was due to the increase in food purchased relating to the increase in A la Carte sales. The OST/preschool childcare revenue decreased due to a slight decrease in enrollment in the Totally Kids.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The Capital Outlay Fund, Pension 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 \$105,384.21 and Special Education Fund decreased by \$116,946.04. The changes in the different funds are explained in the two sections above.

2014-2015 vs. 2015-2016 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, 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 2016, the School had invested \$23,189,722 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 \$421,233 or approximately 1.8%, 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>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	
Land	\$ 445,534	\$ 445,534	\$	\$	\$
CWIP		66,149			66,149
Buildings	21,286,399	20,927,208			(359,191)
Improvements (PITO)	830,364	874,332			43,968
Machinery and Equipment	<u>1,048,658</u>	<u>876,499</u>	<u>160,271</u>	<u>137,159</u>	<u>(195,271)</u>
Total Capital Assets (Net)	\$ <u>23,610,955</u>	\$ <u>23,189,722</u>	\$ <u>160,271</u>	\$ <u>137,159</u>	\$ <u>(444,345)</u>

This year's major capital asset purchases consisted of the Lennox Elementary School partial roof replacement, LWC Junior High School drainage project, Lennox Elementary secure entrance, and the start of the LWC Intermediate School parking lot project.

LONG-TERM DEBT

At year-end the School had \$15,795,745 in Bonds Payable, Capital Outlay Certificates and other long-term obligations. This is a decrease of 7.48% 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
	2015	2016	2015	2016	2015-2016	2015-2016
Bonds Payable	\$ 8,130,000	\$ 7,285,000			\$ (845,000)	-10.39%
Capital Outlay Certificates	8,460,000	7,825,000			(635,000)	-7.51%
Early Retirement	231,709	241,292			9,583	4.14%
Computer Lease	0	208,376			208,376	100.00%
Notes Payable	89,714	59,809			(29,905)	-33.33%
Admin Accrued Leave	13,903	13,089			(814)	-5.86%
OPEB Liability	147,105	163,179			16,074	10.93%
Total Outstanding Debt and Obligations	\$ 17,072,431	\$ 15,795,745			\$ (1,276,686)	-7.48%

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

At the recommendation of the Blue Ribbon Task Force and Governor Dennis Daugaard, the 2016 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. Our target student-to-teacher ratio was 15 to 1 and our fall enrollment was 1,055.51 which was a 6 student increase over the prior year. 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.

Two requirements came with the new funding formula. A district must spend 85% of its increase in total need in FY 2017 on instructional salaries and benefits and a district's average teacher salary and benefit package must increase by 85% of the districts percentage increase of the local need. In order to comply with these two requirements, the District gave a \$4,800 increase to teacher salaries and covered a 5% increase to health insurance. These increases grew our average teacher salary and benefit package by 11.23%. All other staff were given a 3% increase to their salary and their health insurance increase was also covered. The District used \$250,000 of fund balance to finance the new requirements attached to the funding formula and to balance the general fund budget for the 2016-17 school year

Additionally, during the 2016 Legislative Session, there were changes made to both the capital outlay and pension fund levies. The new law affecting the capital outlay fund levy limits future

growth in the capital outlay fund tax collections. The maximum dollar amount that can be collected 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 0% and our current average growth percentage is 4.1%. This will produce an increase of \$68,967 in taxes that can be generated in the capital outlay fund. With the pension fund, the levy was abolished and was merged into general fund levy. No new additional taxes will be generated in the pension fund. Furthermore, preliminary valuation figures show that the School experienced an increase in total property valuation of \$619,866,634 or 11.35% from the prior year. This increases the amount of revenue generated from property taxes by approximately \$950 in the special education fund.

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. 5th Ave, P.O. Box 38, Lennox, SD 57039.

LENNOX SCHOOL DISTRICT NO. 41-4
STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	\$ 2,642,502.58	\$ 393,928.48	\$ 3,036,431.06
Investments	758,491.54		758,491.54
Taxes Receivable	2,811,319.24		2,811,319.24
Accounts Receivable	18,174.50	600.00	18,774.50
Internal Balances	(914.67)	914.67	
Due From Other Governments	288,836.72	830.16	289,666.88
Interest Receivable	2,478.09		2,478.09
Inventories		9,890.49	9,890.49
Net Pension Asset	1,079,496.71		1,079,496.71
Prepaid Expenses	49,028.66		49,028.66
Capital Assets:			
Land and Construction Work in Progress	511,683.28		511,683.28
Other Capital Assets, Net of Depreciation	22,678,038.47	137,159.49	22,815,197.96
TOTAL ASSETS	30,839,135.12	543,323.29	31,382,458.41
Deferred Outflows of Resources			
Pension Related Deferred Outflows	2,037,159.23		2,037,159.23
Deferred Charge on Refunding	15,000.00		15,000.00
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,052,159.23		2,052,159.23
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	32,891,294.35	543,323.29	33,434,617.64
LIABILITIES :			
Accounts Payable	194,944.67	3,290.56	198,235.23
Contracts Payable	523,421.73	19,612.91	543,034.64
Benefits Payable	135,989.70	6,803.70	142,793.40
Unearned Revenue		11,077.50	11,077.50
Noncurrent Liabilities:			
Due Within One Year	1,835,367.14		1,835,367.14
Due in More than One Year	13,960,377.59		13,960,377.59
TOTAL LIABILITIES	16,650,100.83	40,784.67	16,690,885.50
DEFERRED INFLOWS OF RESOURCES:			
Taxes levied for Future Period	2,744,628.20		2,744,628.20
Pension Related Deferred Inflows	1,592,818.05		1,592,818.05
TOTAL DEFERRED INFLOWS OF RESOURCES	4,337,446.25		4,337,446.25
NET POSITION:			
Net Investment in Capital Assets	8,495,612.68	137,159.49	8,632,772.17
Net Position Restricted for:			
Capital Outlay	668,988.24		668,988.24
Special Education	218,670.93		218,670.93
Pension	31,499.56		31,499.56
Debt Service	209,243.54		209,243.54
SDRS Pension Purposes	1,523,837.89		1,523,837.89
Unrestricted Net Position	755,894.43	365,379.13	1,121,273.56
TOTAL NET POSITION	\$ 11,903,747.27	\$ 502,538.62	\$ 12,406,285.89

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, 2016**

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
Primary Government:							
Governmental Activities:							
Instruction	\$ 5,044,842.78	\$	\$ 551,331.96	\$	\$ (4,493,510.82)	\$	\$ (4,493,510.82)
Support Services	3,639,016.06	98,457.52	20,470.92	57,995.65	(3,462,091.97)		(3,462,091.97)
Nonprogrammed Charges	112,126.28				(112,126.28)		(112,126.28)
*Interest on Long-term Debt	478,128.22			56,374.75	(421,753.47)		(421,753.47)
Cocurricular Activities	363,471.80	57,818.33			(305,653.47)		(305,653.47)
Total Governmental Activities	9,637,585.14	156,275.85	571,802.88	114,370.40	(8,795,136.01)		(8,795,136.01)
Business-type Activities:							
Food Service	545,644.36	393,118.65	150,780.86		(1,744.85)		(1,744.85)
After School Program	227,253.28	246,693.34	3,661.67		23,101.73		23,101.73
Driver's Education	7,750.80	11,050.00			3,299.20		3,299.20
Total Business-type Activities	780,648.44	650,861.99	154,442.53		24,656.08		24,656.08
Total Primary Government	\$ 10,418,233.58	\$ 807,137.84	\$ 726,245.41	\$ 114,370.40	(8,795,136.01)	24,656.08	(8,770,479.93)
*The District does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.		General Revenues:					
		Taxes:					
		Property Taxes					
		5,851,130.45					
		Utility Taxes					
		443,578.98					
		Revenue from State Sources:					
		State aid					
		3,210,699.64					
		Unrestricted Investment Earnings					
		14,634.70					
		Other General Revenues					
		148,867.14					
		Loss on Disposal of Capital Assets					
		(623.69)					
		Transfers					
		(791.40)					
		Total General Revenues, Losses, and Transfers					
		9,668,119.51					
		Change in Net Position					
		872,983.50					
		Net Position - Beginning					
		11,030,763.77					
		NET POSITION - ENDING					
		\$ 11,903,747.27					
		\$ 502,538.62					
		\$ 12,406,285.89					

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, 2016**

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	High School Bond Redemption Fund	Total Governmental Funds
ASSETS:						
Cash and Cash Equivalents	\$ 1,272,845.63	\$ 914,230.71	\$ 226,743.54	\$ 30,000.00	\$ 198,682.70	\$ 2,642,502.58
Investments	758,491.54					758,491.54
Taxes Receivable - Current	997,916.73	853,016.68	360,554.10	76,769.48	456,371.21	2,744,628.20
Taxes Receivable - Delinquent	30,903.01	16,767.85	6,959.78	1,499.56	10,560.84	66,691.04
Accounts Receivable	1,766.54	16,407.96				18,174.50
Due from Other Governments	168,982.04		119,854.68			288,836.72
Interest Receivable on Investments	2,478.09					2,478.09
Prepaid Expenses	40,377.63		8,651.03			49,028.66
TOTAL ASSETS	<u>3,273,761.21</u>	<u>1,800,423.20</u>	<u>722,763.13</u>	<u>108,269.04</u>	<u>665,614.75</u>	<u>6,570,831.33</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:						
Liabilities:						
Accounts Payable	114,021.22	70,042.76	10,880.69			194,944.67
Contracts Payable	417,390.07		106,031.66			523,421.73
Due to Other Fund	914.67					914.67
Payroll Deductions and Withholdings and Employer Matching Payable	109,363.95		26,625.75			135,989.70
Total Liabilities	<u>641,689.91</u>	<u>70,042.76</u>	<u>143,538.10</u>			<u>855,270.77</u>
Deferred Inflows of Resources:						
Taxes Levied for a Future Period	997,916.73	853,016.68	360,554.10	76,769.48	456,371.21	2,744,628.20
Unavailable Revenue-Property Taxes	30,903.01	16,767.85	6,959.78	1,499.56	10,560.84	66,691.04
Total Deferred Inflows of Resources	<u>1,028,819.74</u>	<u>869,784.53</u>	<u>367,513.88</u>	<u>78,269.04</u>	<u>466,932.05</u>	<u>2,811,319.24</u>
Fund Balances:						
Nonspendable	40,377.63		8,651.03			49,028.66
Restricted		860,595.91	203,060.12	30,000.00	198,682.70	1,292,338.73
Assigned	257,728.10					257,728.10
Unassigned	1,305,145.83					1,305,145.83
Total Fund Balances	<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>
TOTAL LIABILITIES, DEFERRED INFLOWS FROM RESOURCES AND FUND BALANCES	<u>\$ 3,273,761.21</u>	<u>\$ 1,800,423.20</u>	<u>\$ 722,763.13</u>	<u>\$ 108,269.04</u>	<u>\$ 665,614.75</u>	<u>\$ 6,570,831.33</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, 2016

Total Fund Balances - Governmental Funds \$ 2,904,241.32

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	\$ 29,954,892.96	
Accumulated Depreciation is	<u>(6,765,171.21)</u>	23,189,721.75

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

General Obligation Bonds	(7,285,000.00)	
Capital Outlay Certificates	(7,825,000.00)	
Early Retirement	(241,292.32)	
Accrued Leave	(13,088.82)	
Other Long Term Notes	(59,809.07)	
Financing Aquisition Leases	(208,375.52)	
Other Post-Employment Benefits	<u>(163,179.00)</u>	(15,795,744.73)

Net Pension Asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds. 1,079,496.71

Pension related deferred outflows are components of pension asset and therefore are not reported in the funds. 2,037,159.23

Pension related deferred inflows are components of pension liability and therefore are not reported in the funds. (1,592,818.05)

Assets, such as taxes receivable (delinquent) that are not available to pay for current period expenditures, are deferred in the funds. 66,691.04

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: 15,000.00

Net Position - Governmental Funds \$11,903,747.27

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, 2016

	<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>
Revenues:						
Revenue from Local Sources:						
Taxes:						
Ad Valorem Taxes	\$ 2,052,304.18	\$ 1,824,261.41	\$ 753,946.99	\$ 160,969.75	\$ 992,487.00	\$ 5,783,969.33
Prior Years' Ad Valorem Taxes	20,739.56	10,782.42	8,341.00	1,062.27	7,206.67	48,131.92
Utility Taxes	443,578.98					443,578.98
Penalties and Interest on Taxes	6,907.28	3,492.85	1,416.91	343.20	2,002.06	14,162.30
Earnings on Investments and Deposits	8,247.50	2,278.18	1,246.89	416.18	2,445.95	14,634.70
Cocurricular Activities:						
Admissions	48,244.30					48,244.30
Rentals	470.00					470.00
Other Pupil Activity Income	9,104.03					9,104.03
Other Revenue from Local Sources:						
Rentals	2,633.00					2,633.00
Contributions and Donations	4,353.00	53,642.65				57,995.65
Services Provided Other LEA's	8,689.58					8,689.58
Charges for Services			11,464.99			11,464.99
Other	26,102.08	13,907.96				40,010.04
Revenue from Intermediate Sources:						
County Sources:						
County Apportionment	35,749.50					35,749.50
Revenue from State Sources:						
Grants-in-Aid:						
Unrestricted Grants-in-Aid	3,210,699.64					3,210,699.64
Restricted Grants-in-Aid			211,127.00			211,127.00
Other State Revenue	20,470.92					20,470.92
Revenue from Federal Sources:						
Grants-in-Aid:						
Restricted Grants-in-Aid Received from Federal Government Through the State	131,797.96		208,407.00			340,204.96
Other Federal Revenue		56,374.75				56,374.75
Total Revenue	<u>6,030,091.51</u>	<u>1,964,740.22</u>	<u>1,195,950.78</u>	<u>162,791.40</u>	<u>1,004,141.68</u>	<u>10,357,715.59</u>

Expenditures:					
Instruction:					
Regular Programs:					
	Elementary	1,621,532.31	323,414.01	73,620.00	2,018,566.32
	Middle/Junior High	446,718.43	8,724.99	18,000.00	473,443.42
	High School	879,579.07	406,531.86	36,300.00	1,322,410.93
Special Programs:					
	Programs for Special Education			886,345.98	886,345.98
	Educationally Deprived	92,143.32			92,143.32
Support Services:					
Pupils:					
	Guidance	181,332.41			181,332.41
	Health	52,035.41			52,035.41
	Psychological			70,065.74	70,065.74
	Speech Pathology Services			146,390.69	146,390.69
	Student Therapy Services			71,443.01	71,443.01
Support Services - Instructional Staff:					
	Improvement of Instruction	65,387.84			65,387.84
	Educational Media	250,906.69	16,692.60	6,000.00	273,599.29
Support Services - General Administration:					
	Board of Education	49,793.58			49,793.58
	Executive Administration	138,581.61		6,200.00	144,781.61
Support Services - School Administration:					
	Office of the Principal	527,089.59			527,089.59
Support Services - Business:					
	Fiscal Services	181,298.61	2,190.85	6,500.00	189,989.46
	Operation and Maintenance of Plant	922,867.16	242,077.92	7,255.22	1,172,200.30
	Pupil Transportation	324,148.10	696.88	8,500.00	333,344.98
	Food Services		2,461.91		2,461.91
Support Services - Central Information:					
	Information	360.00			360.00
	Staff	5,675.69			5,675.69
Support Services - Special Education:					
	Administrative Costs			117,609.56	117,609.56
	Transportation Costs			19,794.95	19,794.95
Nonprogrammed Charges					
	Early Retirement	102,543.15			102,543.15
Debt Services					
			1,121,400.55	991,157.50	2,112,558.05

LENNOX SCHOOL DISTRICT NO. 41-4
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General</u> <u>Fund</u>	<u>Capital</u> <u>Outlay</u> <u>Fund</u>	<u>Special</u> <u>Education</u> <u>Fund</u>	<u>Pension</u> <u>Fund</u>	<u>High School</u> <u>Bond</u> <u>Redemption</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Cocurricular Activities:						
Male Activities	72,054.33	12,581.76				84,636.09
Female Activities	42,162.84	273.00				42,435.84
Transportation	20,167.01					20,167.01
Combined Activities	167,830.04	7,536.09				175,366.13
Capital Outlay		166,729.69				166,729.69
Total Expenditures	<u>6,144,207.19</u>	<u>2,311,312.11</u>	<u>1,311,649.93</u>	<u>162,375.22</u>	<u>991,157.50</u>	<u>10,920,701.95</u>
Excess of Revenue Over (Under) Expenditures	<u>(114,115.68)</u>	<u>(346,571.89)</u>	<u>(115,699.15)</u>	<u>416.18</u>	<u>12,984.18</u>	<u>(562,986.36)</u>
20 Other Financing Sources (Uses):						
Transfers In	7,356.87					7,356.87
Transfers Out		(2,263.25)	(1,246.89)	(416.18)	(2,445.95)	(6,372.27)
Proceeds of Long-term Debt Issued		1,730,331.31				1,730,331.31
Sale of Surplus Property	1,374.60	69,100.00				70,474.60
Payment to Refunded Debt Escrow Agent		(1,392,430.50)				(1,392,430.50)
Total Other Financing Sources (Uses)	<u>8,731.47</u>	<u>404,737.56</u>	<u>(1,246.89)</u>	<u>(416.18)</u>	<u>(2,445.95)</u>	<u>409,360.01</u>
Net Change in Fund Balances	(105,384.21)	58,165.67	(116,946.04)	(0.00)	10,538.23	(153,626.35)
Fund Balance - Beginning	<u>1,708,635.77</u>	<u>802,430.24</u>	<u>328,657.19</u>	<u>30,000.00</u>	<u>188,144.47</u>	<u>3,057,867.67</u>
FUND BALANCE - ENDING	<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>

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, 2016**

Net Change in Fund Balances - Total Governmental Funds \$ (153,626.35)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital depreciation expense exceeds capital outlays expense in the period is :

Capital Outlay	\$ 166,729.69	
Depreciation Expense	<u>(587,963.14)</u>	(421,233.45)

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	845,000.00	
Capital Outlay Certificates	2,045,000.00	
Financing (Acquisition) Leases	111,955.79	
Other Long Term Notes	<u>29,904.54</u>	3,031,860.33

The issuance of long-term debt is an other financing source in the fund statements but an increase in long-term liabilities on the government wide statements.

Capital Outlay Certificates	(1,410,000.00)	
Financing (Acquisition) Leases	<u>(320,331.31)</u>	(1,730,331.31)

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.

4,866.90

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.

Discount on Debt Issue	<u>(5,000.00)</u>	(5,000.00)
------------------------	-------------------	------------

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	814.02	
Other Post Employment Benefits	(16,074.00)	
Early Retirement Benefits	<u>(9,583.13)</u>	(24,843.11)

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

171,290.49

Change in Net Position of Governmental Activities \$ 872,983.50

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, 2016

	Enterprise Funds		
	Food Service Fund	OST/Preschool Fund	Total
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 167,417.75	\$ 226,510.73	\$ 393,928.48
Accounts Receivable		600.00	600.00
Due from Other Governments		830.16	830.16
Due from Other Funds	914.67		914.67
Inventory of Supplies	650.05		650.05
Inventory of Stores Purchased for Resale	9,240.44		9,240.44
Total Current Assets	<u>178,222.91</u>	<u>227,940.89</u>	<u>406,163.80</u>
Capital Assets:			
Machinery and Equipment	367,471.57		367,471.57
Less: Accumulated Depreciation	<u>(230,312.08)</u>		<u>(230,312.08)</u>
Total Noncurrent Assets	<u>137,159.49</u>		<u>137,159.49</u>
TOTAL ASSETS	<u>315,382.40</u>	<u>227,940.89</u>	<u>543,323.29</u>
LIABILITIES:			
Current Liabilities:			
Accounts Payable	540.40	2,750.16	3,290.56
Contracts Payable	157.50	19,455.41	19,612.91
Payroll Deductions and Withholdings and Employer Matching Payable	4,920.09	1,883.61	6,803.70
Deposits Payable	<u>10,120.25</u>	<u>957.25</u>	<u>11,077.50</u>
Total Current Liabilities	<u>15,738.24</u>	<u>25,046.43</u>	<u>40,784.67</u>
NET POSITION:			
Net Investment in Capital Assets	137,159.49		137,159.49
Unrestricted Net Position	<u>162,484.67</u>	<u>202,894.46</u>	<u>365,379.13</u>
Total Net Position	<u>\$ 299,644.16</u>	<u>\$ 202,894.46</u>	<u>\$ 502,538.62</u>

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, 2016

	Enterprise Funds		
	<u>Food Service Fund</u>	<u>OST/Preschool Fund</u>	<u>Total</u>
Operating Revenue:			
Preschool Tuition	\$	\$ 76,569.94	\$ 76,569.94
Sales To Pupils	243,584.30	3,499.40	247,083.70
Sales To Adults	4,068.50		4,068.50
A la Carte	130,375.60		130,375.60
Childcare		162,909.00	162,909.00
Other	15,090.25	14,765.00	29,855.25
Total Operating Revenue	<u>393,118.65</u>	<u>257,743.34</u>	<u>650,861.99</u>
Operating Expenses:			
Food Service:			
Salaries	175,301.63	175,774.37	351,076.00
Employee Benefits	62,779.34	31,973.07	94,752.41
Purchased Services	12,574.91	2,422.65	14,997.56
Supplies	13,651.07	12,250.80	25,901.87
Cost of Sales-Purchased Food	222,643.49	12,583.19	235,226.68
Cost of Sales-Donated Food	29,912.73		29,912.73
Miscellaneous	4,517.50		4,517.50
Depreciation-Local Funds	24,263.69		24,263.69
Total Operating Expenses	<u>545,644.36</u>	<u>235,004.08</u>	<u>780,648.44</u>
Operating Income (Loss)	<u>(152,525.71)</u>	<u>22,739.26</u>	<u>(129,786.45)</u>
Nonoperating Revenue (Expense):			
Local Sources:			
Investment Earnings	742.51	984.60	1,727.11
Loss on Disposal of Capital Assets	(623.69)		(623.69)
State Sources:			
Cash Reimbursements	3,213.70		3,213.70
Federal Sources:			
Cash Reimbursements	117,654.43	3,661.67	121,316.10
Donated Food	29,912.73		29,912.73
Total Nonoperating Revenue (Expense)	<u>150,899.68</u>	<u>4,646.27</u>	<u>155,545.95</u>
Income (Loss) Before Transfers and Contributions	<u>(1,626.03)</u>	<u>27,385.53</u>	<u>25,759.50</u>
Capital Contributions	1,776.00		1,776.00
Transfers (Out)		(984.60)	(984.60)
Change in Net Position	<u>149.97</u>	<u>26,400.93</u>	<u>26,550.90</u>
Net Position - Beginning	<u>299,494.19</u>	<u>176,493.53</u>	<u>475,987.72</u>
NET POSITION - ENDING	<u>\$ 299,644.16</u>	<u>\$ 202,894.46</u>	<u>\$ 502,538.62</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, 2016**

	Enterprise Funds		
	Food Service Fund	OST/Preschool Fund	Total
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 395,554.25	\$ 256,627.90	\$ 652,182.15
Payments to Suppliers	(238,563.16)	(26,385.03)	(264,948.19)
Payments to Employees	(238,417.76)	(205,015.78)	(443,433.54)
Other Operating Cash Payments	(4,709.51)		(4,709.51)
Net Cash Provided (Used) by Operating Activities	<u>(86,136.18)</u>	<u>25,227.09</u>	<u>(60,909.09)</u>
Cash Flows from Noncapital Financing Activities:			
Operating Subsidies	120,868.13	3,661.67	124,529.80
Transfers		(984.60)	(984.60)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>120,868.13</u>	<u>2,677.07</u>	<u>123,545.20</u>
Cash Flows from Investing Activities:			
Interest Earnings	<u>742.51</u>	<u>984.60</u>	<u>1,727.11</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 35,474.46</u>	<u>\$ 28,888.76</u>	<u>\$ 64,363.22</u>
Cash and Cash Equivalents at Beginning of Year	\$ 131,943.29	\$ 197,621.97	\$ 329,565.26
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>167,417.75</u>	<u>226,510.73</u>	<u>393,928.48</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 35,474.46</u>	<u>\$ 28,888.76</u>	<u>\$ 64,363.22</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	\$ (152,525.71)	\$ 22,739.26	\$ (129,786.45)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	24,263.69		24,263.69
Value of Commodities Used	29,912.73		29,912.73
Change in Assets and Liabilities:			
Accounts Receivable		(600.00)	(600.00)
Due from Government		131.11	131.11
Due from Other Fund	(192.01)		(192.01)
Prepaid Expenses		193.45	193.45
Inventories	10,201.97		10,201.97
Accounts Payable	104.34	678.16	782.50
Contracts and Benefits Payable	(336.79)	2,731.66	2,394.87
Deposits Payable	<u>2,435.60</u>	<u>(646.55)</u>	<u>1,789.05</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (86,136.18)</u>	<u>\$ 25,227.09</u>	<u>\$ (60,909.09)</u>
Noncash Investing, Capital and Financing Activities:			
Value of Commodities Received	\$ 29,912.73		
Loss on Disposal of Capital Assets	(623.69)		

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, 2016

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS:		
Cash and Cash Equivalents	\$ 32,463.82	\$ 86,352.77
Accounts Receivable	<u> </u>	<u>5,158.69</u>
TOTAL ASSETS	<u>32,463.82</u>	<u>91,511.46</u>
 LIABILITIES:		
Accounts Payable	<u> </u>	4,665.41
Amounts Held for Others	<u> </u>	<u>86,846.05</u>
Total Liabilities	<u> </u>	<u>\$ 91,511.46</u>
 NET POSITION		
Held in Trust for Scholarships	<u>\$ 32,463.82</u>	

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, 2016**

	<u>Private-Purpose Trust Funds</u>
ADDITIONS:	
Contributions and Donations	\$ 275.00
Interest on Investments	<u>487.97</u>
Total Additions	<u>762.97</u>
DEDUCTIONS:	
Trust Deductions for Scholarships	<u>750.00</u>
Total Deductions	<u>750.00</u>
Change in Net Position	12.97
Net Position - Beginning	<u>32,450.85</u>
NET POSITION - ENDING	<u><u>\$ 32,463.82</u></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, 2016 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, 2016 balance of capital assets for governmental activities includes approximately 1.65 percent for which costs were determined by estimates of the original cost. These estimated original costs were established by appraisals. The total June 30, 2016 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, capital outlay certificates payable, early retirement payable, 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 places 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 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, 2016

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Total Governmental Funds
Fund Balance:						
Nonspendable:						
Prepaid Items	\$ 40,377.63	\$	\$ 8,651.03	\$	\$	\$ 49,028.66
Restricted for:						
Capital Outlay		860,595.91				860,595.91
Special Education			203,060.12			203,060.12
Pension				30,000.00		30,000.00
Debt Service					198,682.70	198,682.70
Assigned for:						
Unemployment	7,728.10					7,728.10
Next Year's Budget	250,000.00					250,000.00
Unassigned:	<u>1,305,145.83</u>					<u>1,305,145.83</u>
Total Fund Balances	<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>

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 6-30-16, the school districts investments consist of 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, 2016.

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, 2016 is as follows:

Primary Government	Balance June 30, 2015	Increases	Decrease	Balance June 30, 2016
Governmental Activities:				
Capital Assets, not depreciated:				
Land	\$ 445,534.14	\$	\$	\$ 445,534.14
Construction Work in Process		66,149.14		66,149.14
Total Capital Assets not depreciated	<u>445,534.14</u>	<u>66,149.14</u>		<u>511,683.28</u>
Capital Assets,				
Buildings	25,594,451.64			25,594,451.64
Improvements	1,222,084.64	90,236.36		1,312,321.00
Library Books	372,243.74	10,344.19		382,587.93
Machinery and Equipment	2,153,849.11			2,153,849.11
Total Being Depreciated	<u>29,342,629.13</u>	<u>100,580.55</u>		<u>29,443,209.68</u>
Less Accumulated Depreciation:				
Buildings	4,308,052.47	359,191.38		4,667,243.85
Improvements	391,720.51	46,268.52		437,989.03
Library Books	239,348.14	19,129.40		258,477.54
Machinery and Equipment	1,238,086.95	163,373.84		1,401,460.79
Total Accumulated Depreciation	<u>6,177,208.07</u>	<u>587,963.14</u>		<u>6,765,171.21</u>
Total Capital Assets, Being Depreciated, Net	<u>23,165,421.06</u>	<u>(487,382.59)</u>		<u>22,678,038.47</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 23,610,955.20</u>	<u>\$ (421,233.45)</u>	<u>\$</u>	<u>\$ 23,189,721.75</u>

**Depreciation Expense was charged to functions as follows:

Governmental Activities:	
Instruction	\$ 329,660.37
Support Services	217,436.04
Co-curricular Activities	40,866.73
Total Depreciation Expense-Governmental Activities	<u>\$ 587,963.14</u>

	Balance 06/30/15	Increases	Decreases	Balance 06/30/16
Business-type Activity				
Business-type Activity Capital Assets, Net				
Capital Assets, Being Depreciated:				
Machinery and Equipment	\$ 367,358.68	\$ 1,776.00	\$ (1,663.11)	\$ 367,471.57
Less Accumulated Depreciation:				
Machinery and Equipment	207,087.81	24,194.40	(970.13)	230,312.08
Total Business-type Activity Capital Assets, Net	<u>\$ 160,270.87</u>	<u>\$ (22,418.40)</u>	<u>\$ (692.98)</u>	<u>\$ 137,159.49</u>

**Depreciation expense was charged to functions as follows:

Food Service	<u>\$ 24,194.40</u>
--------------	---------------------

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

Project Name	Project Authorization	Expended thru 6/30/16	Committed
LWC IS Parking Lot & Entry Way	<u>\$ 292,331.50</u>	<u>\$ 66,149.14</u>	<u>\$ 226,182.36</u>

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016	Due within One Year
Primary Government:					
Governmental Activities:					
Capital Outlay Certificates	\$ 8,460,000.00	\$ 1,410,000.00	\$ (2,045,000.00)	\$ 7,825,000.00	\$ 695,000.00
General Obligation Bonds	8,130,000.00		(845,000.00)	7,285,000.00	895,000.00
Notes Payable and Assessments	89,713.61		(29,904.54)	59,809.07	29,904.54
Financing (Capital Acquisition) Leases		320,331.31	(111,955.79)	208,375.52	101,680.82
Early Retirement Payable	231,709.19	107,492.00	(97,908.87)	241,292.32	109,147.50
Compensated Absences	13,902.84	3,820.26	(4,634.28)	13,088.82	4,634.28
Other Post-Employment Benefits	147,105.00	53,606.00	(37,532.00)	163,179.00	
Total Governmental Activities	<u>\$ 17,072,430.64</u>	<u>\$ 1,895,249.57</u>	<u>\$ (3,171,935.48)</u>	<u>\$ 15,795,744.73</u>	<u>\$ 1,835,367.14</u>

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

During fiscal year 2016 the School District issued \$1,410,000 in refunding bonds with an average interest rate of .65 to 1.50 percent to refund the following:

Year Issued	Interest Rate	Unpaid principal at time of refunding
2010	.95 to 3.45%	\$ 1,220,000.00
2010	2.35 to 3.80%	190,000.00

The School District refunded the debt to reduce its total debt service payments over the next six years by \$51,214.28 and to obtain an economic gain of \$49,395.58.

The entire proceeds of the refunding issue in the amount of \$1,392,430.50 were deposited into an irrevocable trust with an escrow agent to provide for all future debt service requirements on the re-funded issue. As a result, the refunded issue is considered to be defeased and the liability for that issue has been removed from the financial statements of the School District.

Liabilities payable at June 30, 2016 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. \$ 7,285,000.00

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. 1,090,000.00

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. 3,250,000.00

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. 3,220,000.00

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. 265,000.00

Early Retirement Benefits:

Retirement benefits payable to participating employees; Semi-annual payments are made from the General Fund. 241,292.32

Compensated Absences:

Vested severance benefits liability to be paid from the General Fund. 13,088.82

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. 163,179.00

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 59,809.07

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 \$ 208,375.52

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, 2016 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
2017	\$ 695,000	\$ 287,343	\$ 895,000	\$ 137,953	\$ 101,681	\$ 10,275	\$ 109,147	\$ 29,905	\$ 1,830,733	\$ 435,571
2018	710,000	276,456	930,000	128,555	106,695	5,261	96,314	29,904	1,872,913	410,272
2019	690,000	263,315	980,000	116,000			35,831		1,705,831	379,315
2020	550,000	379,348	1,025,000	100,320					1,575,000	479,668
2021	560,000	356,905	1,085,000	80,845					1,645,000	437,750
2022-26	2,040,000	832,341	2,370,000	87,892					4,410,000	920,233
2027-31	1,850,000	342,246							1,850,000	342,246
2032-36	730,000	93,555							730,000	93,555
	<u>\$ 7,825,000</u>	<u>\$ 2,831,509</u>	<u>\$ 7,285,000</u>	<u>\$ 651,565</u>	<u>\$ 208,376</u>	<u>\$ 15,536</u>	<u>\$ 241,292</u>	<u>\$ 59,809</u>	<u>\$ 15,619,477</u>	<u>\$ 3,498,610</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	\$ 56,480
Interest on net OPEB obligation	4,413
Adjustment to annual required contribution	(7,287)
Annual OPEB cost (expense)	53,606
Contributions made	(37,532)
Increase in net OPEB obligation	16,074
Net OPEB obligation - beginning of year	147,105
Net OPEB obligation - end of year	<u>\$ 163,179</u>

The school district's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the preceding two years are as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
06/30/14	\$ 70,781	56.9%	\$ 134,258
06/30/15	52,833	75.7%	147,105
06/30/16	53,606	70.0%	163,179

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 - OPERATING LEASES

The District leases a postage meter and copier on a monthly lease. Payments are made from the Capital Outlay Fund. The following are the minimum payments on existing operating leases:

<u>Year</u>	<u>Copier Lease</u>
2017	\$ 30,819.12
	<u>\$ 30,819.12</u>

NOTE 10 - 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	\$ 668,988.24
Special Education Purposes	Law	218,670.93
Pension Purposes	Law	31,499.56
Debt Service Purposes	Debt Covenants	209,243.54
SDRS Pension Purposes	Law	<u>1,523,837.89</u>
Total Restricted Net Position:		<u>\$ 2,652,240.16</u>

NOTE 11 - INTERFUND TRANSFERS

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

<u>Transfer From:</u>	<u>Transfers to:</u>
	<u>General Fund</u>
Capital Outlay Fund	\$ 2,263.25
Special Education Fund	1,246.89
Pension Fund	416.18
High School Bond Redemption Fund	2,445.95
OST/Preschool Fund	<u>984.60</u>
	<u>\$ 7,356.87</u>

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

NOTE 12 - PENSION PLAN

Plan Information:

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in

SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

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

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

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2016, 2015, and 2014 were \$269,973.76, \$278,810.30, and \$269,973.74, respectively, equal to the required contributions each year.

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

At June 30, 2015, SDRS is 104.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the School District as of June 30, 2016 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 27,428,551.90
Less proportionate share of total pension assets	<u>26,349,055.19</u>
Proportionate share of net pension asset	<u>\$ 1,079,496.71</u>

At June 30 2016, the School District reported an asset of \$1,079,496.71 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015 and the total pension asset used to calculate the net pension asset was based on a projection of the School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the School District's proportion was .2545211%, which is an decrease of .27842% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School District recognized pension revenue of \$78,302.95. At June 30, 2016 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 221,031.86	\$
Changes in assumption	855,972.95	
Net difference between projected and actual earnings on pension plan investments	659,446.24	1,592,818.05
Changes in proportion and difference between District contributions and proportionate share of contributions	9,001.71	
District contributions subsequent to the measurement date	<u>291,706.47</u>	
TOTAL	<u>\$ 2,037,159.23</u>	<u>\$ 1,592,818.05</u>

\$291,706.47 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended June 30:	
2016	\$ 51,151.35
2017	51,151.35
2018	(137,611.11)
2019	<u>178,941.40</u>
TOTAL	<u>\$ 143,633.00</u>

Actuarial Assumptions:

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

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Investment Rate of Return	7.25 percent through 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, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	64.0%	4.7%
Fixed Income	26.0%	1.8%
Real Estate	8.0%	5.5%
Cash	<u>2.0%</u>	0.8%
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)	\$ 2,717,081.13	\$ (1,079,496.71)	\$ (4,175,278.98)

Pension Plan Fiduciary Net Position:

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

NOTE 13 - 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	17.9%
Brandon Valley	60.2%
West Central	21.9%

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, 2016, this joint venture had total assets of \$2,636,601.84, total liabilities of \$29,407.49, and net position of \$2,607,194.35 in the General and Special Education Funds.

NOTE 14 - 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, 2016, the school district managed its risks as follows:

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 \$7,728.10 for the payment of future unemployment benefits.

During the year ended June 30, 2016, no claims for unemployment benefits were paid. At June 30, 2016 no claims had been filed for unemployment benefits and non are anticipated in the next fiscal year.

NOTE 15 - 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 2016, 10 employees participated in the early retirement plan. The amount paid for such benefits during the year was \$97,908.87.

NOTE 16 - SIGNIFICANT CONTINGENCIES - LITIGATION

At June 30, 2016, 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, 2016**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance
	Original	Final		Positive (Negative)
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 2,005,210.00	\$ 2,005,210.00	\$ 2,052,304.18	\$ 47,094.18
Prior Years' Ad Valorem Taxes	20,000.00	20,000.00	20,739.56	739.56
Utility Taxes	420,000.00	420,000.00	443,578.98	23,578.98
Penalties and Interest on Taxes	10,000.00	10,000.00	6,907.28	(3,092.72)
Earnings on Investments and Deposits	10,000.00	10,000.00	8,247.50	(1,752.50)
Cocurricular Activities:				
Admissions	39,200.00	39,200.00	48,244.30	9,044.30
Rentals	500.00	500.00	470.00	(30.00)
Other Pupil Activity Income	8,600.00	8,600.00	9,104.03	504.03
Other Revenue from Local Sources:				
Rentals	1,000.00	1,000.00	2,633.00	1,633.00
Contributions and Donations		1,353.00	4,353.00	3,000.00
Charges for Services	15,000.00	15,000.00	8,689.58	(6,310.42)
Other Local Revenue	16,000.00	16,000.00	26,102.08	10,102.08
Revenue from Intermediate Sources:				
County Sources:				
County Apportionment	30,000.00	30,000.00	35,749.50	5,749.50
Revenue from State Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	3,254,205.00	3,254,205.00	3,210,699.64	(43,505.36)
Other State Revenue		9,544.12	20,470.92	10,926.80
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government Through the State	129,335.00	131,435.00	131,797.96	362.96
Total Revenue	<u>5,959,050.00</u>	<u>5,972,047.12</u>	<u>6,030,091.51</u>	<u>58,044.39</u>
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	1,249,834.00	1,252,734.00	1,621,532.31	(368,798.31)
Middle/Junior High	813,330.00	817,330.00	446,718.43	370,611.57
High School	870,613.00	881,513.00	879,579.07	1,933.93
Special Programs:				
Educationally Deprived	89,681.00	91,781.00	92,143.32	(362.32)
Support Services:				
Pupils:				
Guidance	174,900.00	184,444.12	181,332.41	3,111.71
Health	51,160.00	52,040.00	52,035.41	4.59

**REQUIRED SUPPLEMENTARY INFORMATION
LENNOX SCHOOL DISTRICT NO. 41-4
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Support Services - Instructional Staff:				
Improvement of Instruction	65,663.00	67,016.00	65,387.84	1,628.16
Educational Media	256,015.00	256,665.00	250,906.69	5,758.31
Support Services - General Administration:				
Board of Education	56,578.00	56,578.00	49,793.58	6,784.42
Executive Administration	141,790.00	141,790.00	138,581.61	3,208.39
Support Services - School Administration:				
Office of the Principal	521,730.00	527,130.00	527,089.59	40.41
Other	1,000.00	1,000.00		1,000.00
Support Services - Business:				
Fiscal Services	174,922.00	181,322.00	181,298.61	23.39
Operation and Maintenance of Plant	1,010,935.00	1,010,935.00	922,867.16	88,067.84
Pupil Transportation	381,387.00	381,387.00	324,148.10	57,238.90
Support Services - Central:				
Information	3,720.00	3,720.00	360.00	3,360.00
Staff	5,900.00	5,900.00	5,675.69	224.31
Nonprogrammed Charges:				
Payments to State - Unemployment	2,500.00	2,500.00		2,500.00
Early Retirement Payments	102,543.00	102,544.00	102,543.15	0.85
Cocurricular Activities:				
Male Activities	65,248.00	72,448.00	72,054.33	393.67
Female Activities	44,880.00	44,880.00	42,162.84	2,717.16
Transportation	19,652.00	20,202.00	20,167.01	34.99
Combined Activities	166,169.00	167,569.00	167,830.04	(261.04)
Total Expenditures	<u>6,270,150.00</u>	<u>6,323,428.12</u>	<u>6,144,207.19</u>	<u>179,220.93</u>
Excess of Revenue Over (Under)				
Expenditures	(311,100.00)	(351,381.00)	(114,115.68)	237,265.32
Other Financing Sources:				
Transfer In			7,356.87	7,356.87
Sale of Surplus Property			1,374.60	1,374.60
Total Other Financing Sources (Uses)			<u>8,731.47</u>	<u>8,731.47</u>
Net Change in Fund Balances	(311,100.00)	(351,381.00)	(105,384.21)	245,996.79
Fund Balance - Beginning	<u>1,708,635.77</u>	<u>1,708,635.77</u>	<u>1,708,635.77</u>	
FUND BALANCE - ENDING	<u>\$ 1,397,535.77</u>	<u>\$ 1,357,254.77</u>	<u>\$ 1,603,251.56</u>	<u>\$ 245,996.79</u>

REQUIRED SUPPLEMENTARY INFORMATION
LENNOX SCHOOL DISTRICT NO. 41-4
BUDGETARY COMPARISON SCHEDULE-BUDGETARY BASIS
CAPITAL OUTLAY FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<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>
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 1,740,058.00	\$ 1,740,058.00	\$ 1,824,261.41	\$ 84,203.41
Prior Years' Ad Valorem Taxes	3,000.00	3,000.00	10,782.42	7,782.42
Penalties and Interest on Taxes	2,000.00	2,000.00	3,492.85	1,492.85
Investment Earnings			2,278.18	2,278.18
Other Revenue from Local Sources:				
Contributions and Donations	37,500.00	53,642.65	53,642.65	
Other			13,907.96	13,907.96
Other Federal Revenue	56,000.00	56,000.00	56,374.75	374.75
Total Revenue	<u>1,838,558.00</u>	<u>1,854,700.65</u>	<u>1,964,740.22</u>	<u>110,039.57</u>
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	296,389.00	368,941.65	323,414.01	45,527.64
Middle School	44,394.00	44,394.00	8,724.99	35,669.01
High School	83,308.00	358,080.00	416,876.05	(58,796.05)
Support Services:				
Pupils:				
Health	500.00	500.00		500.00
Support Services - Instructional Staff:				
Educational Media	36,934.00	36,934.00	16,692.60	20,241.40
Support Services - General Administration:				
Executive Administration	500.00	500.00		500.00
Support Services - Business:				
Fiscal Services	3,200.00	3,200.00	2,190.85	1,009.15
Operation and Maintenance of Plant	321,313.00	398,563.00	398,463.42	99.58
Pupil Transportation	1,000.00	1,000.00	696.88	303.12
Food Services	2,000.00	2,500.00	2,461.91	38.09
Debt Service	1,100,395.00	1,121,464.50	1,121,400.55	63.95
Cocurricular Activities:				
Male Activities	11,100.00	12,750.00	12,581.76	168.24
Female Activities	2,000.00	2,000.00	273.00	1,727.00
Combined Activities	10,000.00	10,000.00	7,536.09	2,463.91
Total Expenditures	<u>1,913,033.00</u>	<u>2,360,827.15</u>	<u>2,311,312.11</u>	<u>49,515.04</u>
Excess Over (Under) Expenditure	(74,475.00)	(506,126.50)	(346,571.89)	159,554.61
Other Financing Sources (Uses):				
Transfers Out			(2,263.25)	(2,263.25)
Proceeds from Long-Term Liabilities		337,900.81	1,730,331.31	1,392,430.50
Payments to Refunded Debt			(1,392,430.50)	(1,392,430.50)
Sale of Surplus Property	74,475.00	74,475.00	69,100.00	(5,375.00)
Total Other Financing Sources (Uses)	<u>74,475.00</u>	<u>412,375.81</u>	<u>404,737.56</u>	<u>(7,638.25)</u>
Net Change in Fund Balance		(93,750.69)	58,165.67	151,916.36
Fund Balance - Beginning	<u>802,430.24</u>	<u>802,430.24</u>	<u>802,430.24</u>	
FUND BALANCE - ENDING	<u>\$ 802,430.24</u>	<u>\$ 708,679.55</u>	<u>\$ 860,595.91</u>	<u>\$ 151,916.36</u>

**REQUIRED SUPPLEMENTARY INFORMATION
 LENNOX SCHOOL DISTRICT NO. 41-4
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 SPECIAL EDUCATION FUND
 FOR THE YEAR ENDED JUNE 30, 2016**

	<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>
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 712,265.00	\$ 712,265.00	\$ 753,946.99	\$ 41,681.99
Prior Years' Ad Valorem Taxes	4,000.00	4,000.00	8,341.00	4,341.00
Penalties and Interest on Taxes	1,500.00	1,500.00	1,416.91	(83.09)
Investment Earnings			1,246.89	1,246.89
Other Revenue from Local Sources:				
Charges for Services	8,800.00	8,800.00	11,464.99	2,664.99
Revenue from State Sources:				
Restricted Grant in Aid	293,755.00	293,755.00	211,127.00	(82,628.00)
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government through State	<u>208,407.00</u>	<u>208,407.00</u>	<u>208,407.00</u>	
Total Revenue	<u>1,228,727.00</u>	<u>1,228,727.00</u>	<u>1,195,950.78</u>	<u>(32,776.22)</u>
Expenditures:				
Special Programs:				
Programs for Special Education	833,037.00	888,488.00	886,345.98	2,142.02
Support Services:				
Pupils:				
Psychological	69,640.00	70,090.00	70,065.74	24.26
Speech Pathology	145,790.00	146,590.00	146,390.69	199.31
Student Therapy Services	59,300.00	71,550.00	71,443.01	106.99
Support Services - Special Education:				
Administrative Costs	119,500.00	119,500.00	117,609.56	1,890.44
Transportation Costs	<u>20,920.00</u>	<u>20,920.00</u>	<u>19,794.95</u>	<u>1,125.05</u>
Total Expenditures	<u>1,248,187.00</u>	<u>1,317,138.00</u>	<u>1,311,649.93</u>	<u>5,488.07</u>
Excess of Revenue Over (Under) Expenditures	(19,460.00)	(88,411.00)	(115,699.15)	(27,288.15)
Other Financing Sources (Uses):				
Transfers Out			<u>(1,246.89)</u>	<u>(1,246.89)</u>
Net Change in Fund Balance	(19,460.00)	(88,411.00)	(116,946.04)	(28,535.04)
Fund Balance - Beginning	<u>328,657.19</u>	<u>328,657.19</u>	<u>328,657.19</u>	
FUND BALANCE - ENDING	<u>\$ 309,197.19</u>	<u>\$ 240,246.19</u>	<u>\$ 211,711.15</u>	<u>\$ (28,535.04)</u>

REQUIRED SUPPLEMENTARY INFORMATION
LENNOX SCHOOL DISTRICT NO. 41-4
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
PENSION FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<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>
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 150,683.00	\$ 150,683.00	\$ 160,969.75	\$ 10,286.75
Prior Year Taxes			1,062.27	1,062.27
Penalties and Interest on Taxes			343.20	343.20
Earnings on Investments and Deposits			416.18	416.18
Total Revenue	<u>150,683.00</u>	<u>150,683.00</u>	<u>162,791.40</u>	<u>12,108.40</u>
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	53,420.00	73,620.00	73,620.00	
Middle/Junior High	36,000.00	36,000.00	18,000.00	18,000.00
High School	37,060.00	37,060.00	36,300.00	760.00
Support Services:				
Instructional Staff				
Educational Media	6,000.00	6,000.00	6,000.00	
Support Services - General Administration:				
Executive Administration	6,010.00	6,200.00	6,200.00	
Support Services - Business:				
Fiscal Services	6,000.00	6,500.00	6,500.00	
Operation and Maintenance of Plant		7,256.00	7,255.22	0.78
Pupil Transportation	6,193.00	8,500.00	8,500.00	
Total Expenditures	<u>150,683.00</u>	<u>181,136.00</u>	<u>162,375.22</u>	<u>18,760.78</u>
Excess of Revenue Over (Under)				
Expenditures	0.00	(30,453.00)	416.18	30,869.18
Other Financing Sources (Uses):				
Transfers Out			(416.18)	(416.18)
Net Change in Fund Balances	0.00	(30,453.00)	(0.00)	30,453.00
Fund Balance - Beginning	<u>30,000.00</u>	<u>30,000.00</u>	<u>30,000.00</u>	
FUND BALANCE - ENDING	<u>\$ 30,000.00</u>	<u>\$ (453.00)</u>	<u>\$ 30,000.00</u>	<u>\$ 30,453.00</u>

REQUIRED SUPPLEMENTARY INFORMATION
LENNOX SCHOOL DISTRICT NO. 41-4
SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS
JUNE 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AL) - Unit Credit (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	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>
District's proportion of the net pension liability (asset)	0.2573053%	0.2545211%
District's proportionate share of net pension liability (asset)	\$ (1,853,779)	\$ (1,079,497)
District's covered-employee payroll	\$ 4,499,832	\$ 4,646,787
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-41.20%	-23.23%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107.3%	104.1%

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS
110 WEST MAIN – P.O. BOX 426
ELK POINT, SOUTH DAKOTA 57025

(605) 356-3374

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, 2016 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 2, 2016.

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 2016-001 to be a significant deficiency.

Compliance and Other Matters

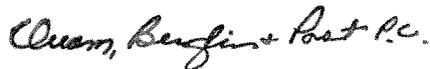
As part of obtaining reasonable assurance about whether Lennox School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on 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 2, 2016

**LENNOX SCHOOL DISTRICT NO. 41-4
SCHEDULE OF CURRENT AUDIT FINDINGS
JUNE 30, 2016**

PRIOR AUDIT FINDING:

Audit Finding Number 2015-001:

A material weakness 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 2016-001.

CURRENT AUDIT FINDING:

Internal Control-Related Findings-Significant Deficiency:

Audit Finding Number 2016-001:

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

305 West 5th Ave

P.O. Box 38

Lennox, South Dakota 57039-0038

Phone: (605) 647-2203, Option 8 Fax: (605) 647-2201

Web Address: www.lennox.k12.sd.us

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

Chad Conaway
 Superintendent
 Angela Arlt
 Business Manager
 Chad Allison
 LHS/LWC Junior High Principal
 Kory Williamson
 Asst. LHS/LWC Junior High Principal
 Darin Eich
 Lennox Elementary/LWC Intermediate
 Principal
 Becky Kuyper
 Asst. Lennox Elementary/LWC
 Intermediate Principal
 Dr. Kym Johnston
 Worthing Principal/District Curriculum
 Director
 Laura Welch
 Director of Student Services
 Rich Luther
 Activities Director

CORRECTIVE PLAN OF ACTION FOR THE YEAR ENDED JUNE 30, 2016

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. Alternate procedures have been implemented by Lennox School District to decrease the likelihood that financial data is adversely affected.

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